DEAL DOYENNE of Wall Street

ANU AIYENGAR heads J.P. Morgan's M&A business in North America. In late 2017, she spoke with Brunswick's **KATHERINE KIM** about the global deal landscape

From an early age, Anu Aiyengar vowed to work hard toward the pursuit of a fulfilling career. In her native land, India, that usually meant medicine or engineering. But out of Smith College, where she obtained a degree in Economics, she took a different path, joining J.P. Morgan in 1999 as an Associate in Mergers & Acquisitions. Today, she is Head of M&A North America.

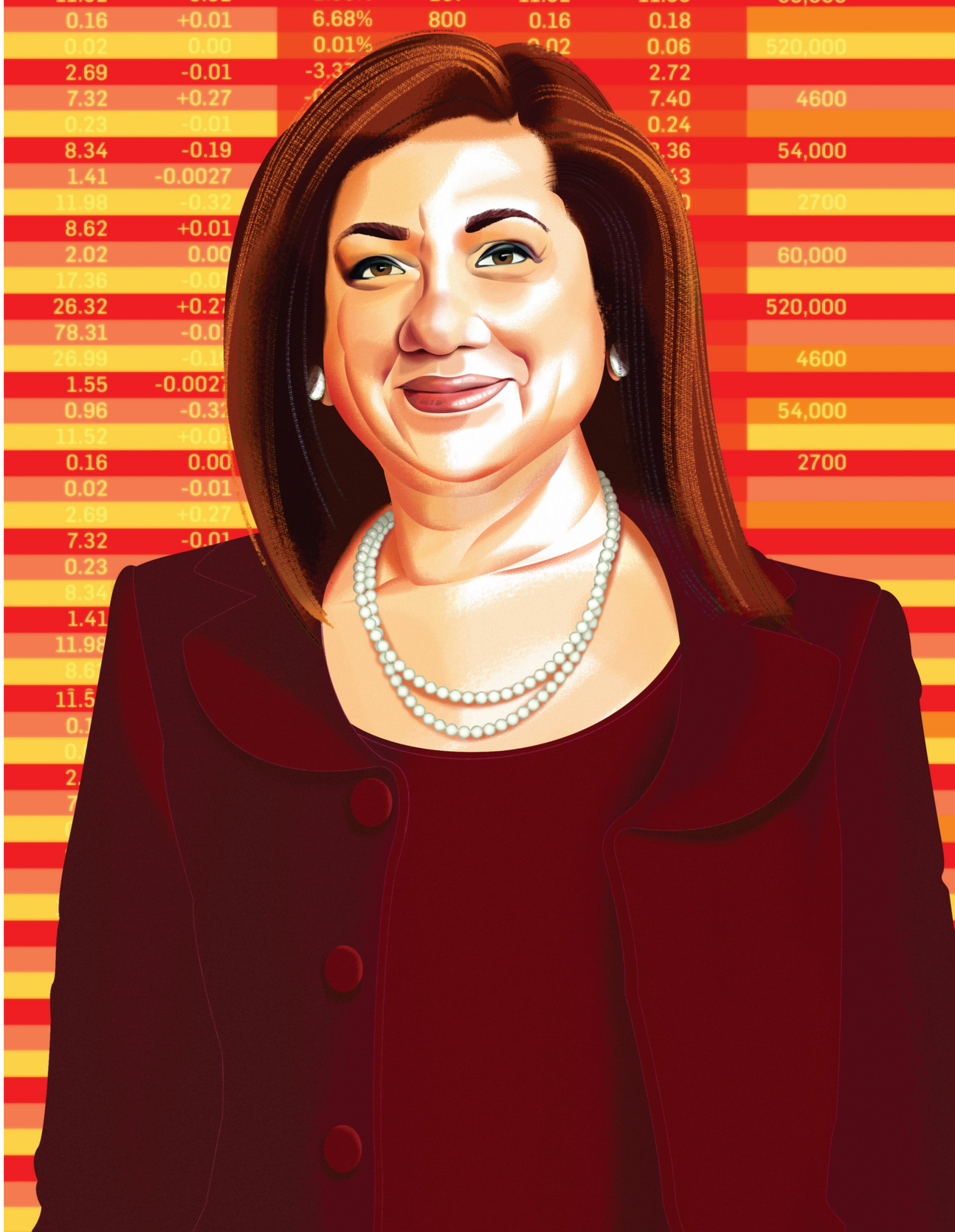
Did 2017 meet your M&A expectations?
After the US election in 2016, the market was exuberant with expectation that there would be meaningful regulatory reform. Our team tracks how many times the S&P 500 hit an all-time high, and the last time I checked it was something like 57 times in the first 11 months of 2017.

We had a Republican House, Republican Senate, Republican government, and a combination of very robust equity markets and low interest rates. All of that should have resulted in more M&A than you probably saw in 2017.

But having said that, I don't really agree with some of the headlines which say M&A has been really down. Because if you look at the number of deals over $250 million in size, it's been sort of flat. It's really the mega-deals or the over-$10 billion deals that have been down. And even then it's not massively down. Volume is down 6 percent off a pretty high year the previous year.

What is your outlook for 2018?
I think the big themes we saw in 2017 will continue in 2018. The elements of favorable equity markets, low volatility, and low interest rates should continue this year. If we are cooking up a recipe, three more ingredients would be tax reform, more clarity on the regulatory approval process and better timing.

The time that it takes to get a deal approved is increasing. In 2016, there was about $800 billion of withdrawn deals. In 2017 the amount was smaller but still large. And the ability to predict whether a particular deal will go through or not is less certain because it's unclear who all the players are and what the regulatory approval process would be like.



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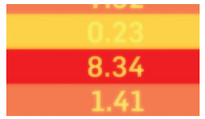

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And so those are two things you need because companies don't want to announce a deal and just be left out there. They want to know, if we announce a deal, will it close and how long is it going take? Because if you announce a deal and then have to withdraw it, that's not pleasant, there's a franchise damage to companies.

If you look at it from a seller's perspective, you're watching your stock price go up, up, up, up, up, to a price you haven't really seen before and maybe not even dreamt about. And you look at that and say, "So what should we do? Should we sit there and wait and say, 'OK, maybe it'll go more up more'? Or can I can deliver a certain value to the shareholders through a deal, or create a merger which is value creative?" Overall, I would say that potential sellers are not proactively saying, "Let me go run a sell-side process." However, they are being responsive to informal outreach and inbound expressions of interest.

What is your outlook for cross-border deals?
Again, there are a lot of headlines about how cross-border deal volume has come down. But 2017 is actually higher than 2015; 2016 was higher still, really driven by China. And China had come down in 2017 as they were going through their governmental process. Outside of that, cross-border has actually gone up. And that trend could continue, because we are at a unique moment in time when pretty much every part of the world is growing. It's not spectacular growth. But every region of the world is growing. And so in that environment– where you have an investor that is seeking growth, and all the regions in the world are growing – there is a desire to find growth in nontraditional places.

We're very bullish on cross-border and we think we are very well positioned to benefit from that, because we have both long-standing local relationships around the world and the heft to do cross-border deals which are harder and more complex to get done.

How much potential is there for tax reform to spur deals?
If my tax rate falls to 20 percent, my value will be a lot higher. That could be a factor in deciding whether I will do M&A. Why sell at this price? Or has the market already factored tax reform in the stock? The expectation of tax reform is part of the reason you've seen the equity markets rise. Now, having absolute confirmation that it's happening is better than expected to happen, you would think. But markets don't always work that way. Sometimes they trade better on expectation rather than on reality.

Boeing recently did a large share repurchase and its stock went up. Do you think other companies will be giving more cash to shareholders and will that take away from the M&A market?
Most of them are doing it from found cash. It's not – "Let me not do M&A and do this instead." I think there were times, not the current times, when people may have thought about it that way. But the investor today wants growth. And the buyback strategy doesn't spur growth.

Do you see tax inversions coming back under the Trump Administration?
No. If you have tax reform, and American businesses are allowed to be globally competitive, then what would be the need to pursue an inversion transaction?

Do clamors for protectionism in the West concern you?
To the contrary, in Europe, I think there's a real desire to develop pan-European leaders. That actually promotes a lot of Europe-to-Europe deals, and we've seen an increase in European targeted volume in M&A in 2017. In 2017, you saw deals happen across the borders of Spain, Italy, France, Germany. There is a sense in Europe that, if we don't do more pan-European deals, we'll get left behind. Some people say that Brexit has brought the EU closer together. When somebody decides to walk away from something, maybe the people who want to be in it appreciate the value of it more.

Are deals getting done any differently today than in the past?
More of the deals are happening in a highly negotiated way, with a buyer approaching a seller and saying, "I've thought about this. Does it make sense to put these companies together?" And sellers also seem more comfortable in processes which are less public, more contained, and more deliberate.

The process of getting a deal done has appropriately become very deliberate in terms of analysis, board involvement, evaluation, preparation – and making sure that your investor base understands it and isn't surprised. A board does so much work in evaluating a merger, the challenge is always how to communicate that thinking to the investor base. And that has become even more important as these deals are becoming pretty complex.

When an offer is spurned, are would-be acquirers any more or less willing today to take their offer directly to shareholders?
I think the willingness to speak directly to the target shareholders is probably higher. And there's often receptivity to that, you know, shareholders saying, "I will take that."

Shareholders today don't want you to say "no" without them knowing about it. There's an evolving awareness of shareholder activism, and it has matured a lot. Shareholder activists are no longer a block, no longer a particular type. It isn't always aggressive. Sometimes it's much more nuanced.

How are high stock prices and cheap debt impacting the private equity market?
The amount of money private equity has to put to work today is multiples of what it has been before. Nearly every fund is raising more than what they did previously. They may say, "I'm going to build a $5 billion fund," and end up with $7 billion. So there's a lot of money that the private equity firms have to put to work. At the same time, most private equity firms are doing much more than the narrow tradition of taking a company private or an LBO.

The breadth of funds they have allows them to get very creative. They have infrastructure funds, energy funds, growth-oriented funds, they have value-investing funds. They have long-dated funds which are a lot like pension funds. And those may be situations that have more stable cash flows and maybe less drama and less glamour around them.

How is technology influencing M&A?
Technology used to be covered as a standalone industry sector. But now companies in every industry are seeking out a better way to do their own business using technology. So you can call it convergence, you can call it the technology stripe – companies from all sectors are looking at "technology" deals. Industrial and retail companies are doing technology deals. Some examples are, Walmart buying Jet.com, PetSmart buying Chewy, Samsung buying Harman, and Roper buying Deltek, Target investing in Casper, Fossil doing Misfit, Unilever doing Dollar Shave Club and many more. These are all what you would previously thought of as separate sectors, but they're converging.

Over the last 24 months we have done a lot of cross-sector deals that came out of an initiative that we started about three years ago. For, I'd say the first year or so, we didn't have much to show for it. But in the last two years that has really changed and the above deals are a testament to this and we expect to see a lot more.

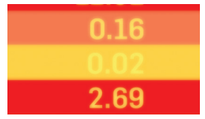
Why have family offices become more relevant to the M&A market?
Thanks to 2008 and the banking crisis, you now have a lot of ex-investment bankers and lawyers who work at all these family offices. They're all much more deal savvy, they all want to do deals.

That has brought into the market families that historically may have had the money to do this, but lacked the infrastructure and expertise. Now they all have the ability to do deals. You have large families who are helping other companies do deals. As a buyer, you could have a situation where you could issue stock to the target company, or alternatively issue it to this family who you know is going to be a stable shareholder, and then you could just buy this company for cash. Your dilution is maybe the same. But you are choosing your shareholder in a more thoughtful way.

When it comes to recruiting, is Wall Street still the place to be, or is it difficult to compete for talent with flashy startups?
I don't know about the broader Wall Street perspective, but when we go to campuses we still have standing-room only. What I do think has changed is that young people looking for a job are doing a lot more due diligence. They really want to understand, "What does this company stand for? Who are the people I'm going to be working with? How is this going to add value to me as a person? And how is it that I am going to make an impact on the world in this job?"

I think it's awesome for someone who is coming out as an undergrad to think about all these questions. We do have a larger purpose, a mission, and our CEO addresses it in his communications, and it's part of our culture. It's something these candidates can find online, and I do have 22-year-olds come in here and say, "I want to work for J.P. Morgan because of what you guys do for the community, for the environment, because of what you stand for." It's not, "Oh gosh, I need a job."

KATHERINE KIM is a Director in Brunswick's New York office, specializing in M&A and shareholder activism. She was formerly a Vice President at J.P. Morgan.



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ANU AIYENGAR

Anu Aiyengar is Head of M&A North America for J.P. Morgan. She has been with the firm since 1999, and has held multiple leadership roles. Aiyengar began her career as a Manager at American Express.