GLOBAL M&A-SCAPES

PETER TAGUE, WHO'S BEEN WORKING ON DEALS FOR more than three decades, is especially focused on the geopolitics of cross-border deals these days. "It matters in M&A in a way that it hasn't historically," he says. • Tague was Co-Head of Citigroup's Global Mergers & Acquisitions group from 2012 to 2018. During that time, Citi advised on more than 1,100 deals with a combined value in excess of $2.7 trillion, according to data from Acuris (formerly Mergermarket) and Thomson Reuters. • In late 2017, when megadeals such as Broadcom-Qualcomm, Disney-21st Century Fox, and CVS-Aetna Health were closing out another strong year for M&A, Brunswick met Tague in Citi's office in west Manhattan. The room boasted a clear view of the glimmering Hudson. Off in the distance, small but unmistakable, stood the Statue of Liberty. We spoke about the global M&A landscape, though our conversation often returned to geopolitics. • "Today, it's increasingly common for us to have at least one government entity with a seat at the table; and, often, more than one playing an integral role in a transaction," says Tague. "But, as someone who worked on the Dubai Ports World transaction in 2006, it's clear this sense of nationalism and protectionism in a deal context isn't entirely new, either." • Tague is a voracious reader, with

PETER TAGUE, former head of one of the largest M&A advisory groups on Wall Street, shares his global outlook with Brunswick's **EDWARD STEPHENS**

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the voluminous knowledge you expect from a leader of one of Wall Street's largest cross-border advisory businesses. His daily online intake includes *The Wall Street Journal* and Stratfor, a geopolitical news platform, and has recently expanded: "I'm spending a lot more time reading blogs and newsletters around the hedge fund activist activity," he says. Still, he manages to sneak in non-M&A themed material as well. When we spoke, he had just finished Yuval Noah Harari's acclaimed non-fiction work, *Sapiens: A Brief History of Humankind*.

But he stresses that the strength of his team at Citi means he doesn't need to know all the answers himself. "I'm very fortunate that I have 25 Managing Directors sitting next to my office and when I ask any one of them a specific question," Tague says, "they'll probably be smarter and better-read and more thoughtful about it than I was."

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Though we spoke at length about the myriad challenges facing dealmakers today, Tague remains fundamentally optimistic about the future of M&A. Yes, there are new obstacles to be overcome today, but he says that every era has had its own set of challenges.

"What our industry has demonstrated time and time again," he says, "is that, wherever the lines get drawn, however the rules get written, we will work within the constraints that we're given, and we will provide creative, value-adding solutions within those constraints."

What advice do you lead with when talking to boards and CEOs?

If boards stay focused on strategy and their shareholders, they're going to end up in the right spot. You won't necessarily always get a deal done, but you'll end up in the right spot. So we always start with a defensible strategic rationale for the transaction itself. If the deal can't pass muster on its own merit, then let's all set down our pencils and get on with something else. If that strategic merit is based on dominating a particular sector, well, we can put the brakes on because every nation has some version of antitrust regulations. But the subtler issues of national security or currency controls, the nuanced questions of market definition around antitrust – those take real work to understand. It probably doesn't take me very long to identify a North Korean buyer of US nuclear power assets as being a non-starter. But there are a host of transactions that I see every day that are far more debatable and far less black and white than that.

How often do these debates result in deals not going forward?

It happened this morning, actually. I have a foreign client looking at an asset in the US. I shared that there are challenges around that asset's ownership that make getting a deal done less likely. And the asset quality itself would require an enormous investment to bring it to the same standard as my client's existing operations. So, I basically said, "I'm in the deal-doing business. If you tell me that you really want to give this a go, we'll think hard about it. But my advice to you is: let's look for the next opportunity." And they agreed.

There are very few right and wrong answers to the questions we get asked. We occasionally get asked a simple question like, "How did you calculate the weighted-average cost of capital in this discounted cash flow?" That's pretty rare. Not a lot of boards are really spending their time asking that question. Nor should they be. More often, we get complicated questions with no right or wrong answer, where it's a question of judgment. And 30 years of experience gives me the basis for some level of judgment. But it also has taught me that I'm as fallible as the next guy.

2017 was a strong year for M&A. How much of that was driven by cross-border transactions?

It was a strong year, both in terms of volume and number of transactions. But cross-border deals are down. If we stripped out Broadcom, which had a massively distorting effect by the sheer size of it – and there are some complexities depending on how you define Broadcom's domicile – then in terms of volume, cross-border activity was down in every single market other than transatlantic.

One of the biggest reasons is that cross-border activity tends to revolve around larger transactions that bump up against regulatory issues that in-market, domestic deals sometimes don't. And those issues can run the gamut from antitrust to national security concerns to questions of taxation or employment. It can get complicated pretty quickly. Investment Canada, for instance, considers different things than CFIUS [the Committee on Foreign Investment in the United States] does.

The challenges involved in cross-border deal-making have always been present, to some extent, but it's certainly been building.

Are there landmark transactions that have contributed to this tide of opposition?

There are certain, narrow regulations that you might associate with a reaction to a transaction. But in most cases, there were probably a number of transactions that accumulated into a reaction.

For example, increasingly stringent controls have been put on Chinese companies doing outbound M&A by the countries where the target companies reside. That could be CFIUS in the US, but it could just as easily be the UK or Germany. But there are also restrictions on capital flows out of China that have been put on Chinese acquirers by SAFE, the Chinese regulatory body.

> "The notion of M&A being a permanent part of a company's corporate tool kit is now firmly embedded in business culture on a global basis"

There probably were some specific Chinese outbound transactions that triggered a reaction. A few companies got a bit ahead of themselves on deals that would have made less strategic sense, and were more about getting deals done than getting smart deals done.

What are the other cross-border deal issues you're seeing today?

They broadly fall into three buckets. One, money, which boils down to investment, taxes and employment. Two, national security, which is obvious enough. And three, antitrust.

There's also a fourth bucket, about proper operatorship. This applies when you have an industry-centric regulator – in energy or nuclear power, for instance. Those regulators are still concerned with national interests, just pursued around a particular industry. But that fourth bucket tends to be more fragmented. The first three are written at a national level and tend to apply at a national level. Additionally, we're much more conscious than we used to be about how the political messaging on very large transactions is going to read. And that doesn't matter what market we're in. In an environment where the internet has given everybody a megaphone, I think it has become much harder to ignore the local politics of any particular transaction.

Do you have a sense of how CFIUS is going to look under the Trump administration?

There is obviously regulation in place today affecting a large number of transactions – there's a record backlog of deals pending CFIUS approval. The volume of transactions being referred to CFIUS is also at an all-time high. How CFIUS approvals have changed or will change under the current administration is still unclear.

There are two quite similar versions of new CFIUS regulation that have been put forward in Congress at this point. It is not clear what the timing is or what ultimately those bills will look like. But it has become more difficult to get transactions done in the US for certain foreign buyers, and it will likely become still more so.

But I'm still optimistic: it's unusual to find something that is just, on its face, impossible to see work. Those transactions tend to never get to CFIUS because they're so obvious.

What are the most common frustrations for your clients facing CFIUS review?

One is its relative opacity. When it comes to issues of national security, however, as a US citizen, I'm happy for that opacity. That goes to the heart of the issue, which is national security.

All of us, as citizens, are concerned about defending our own country – that's not true for just the US. And I don't think, as an M&A banker, that it's my job to start instructing countries on where the bounds of their national security interests lie. However, it is my job to try on behalf of my clients to make sure that we are coloring within the lines, and that we are maximizing their interest within the scope of what is legal and permissible.

Are you seeing a CFIUS-style approach become more popular across Europe?

Absolutely. Many Western European countries have moved from a historic scrutiny of cross-

border transactions related more to investment and antitrust, to concerns more in the national security arena. At a populist level, the trends across the continent are toward more of a nationalist agenda. But we're seeing some encouraging signs. The Siemens-Alstom rail transaction announced recently was a cross-border deal that was clearly supported by the French and German governments and has an enormous amount of industrial merit to it.

When we start seeing European governments being more proactive about making their industrial base more sound, with good-quality strategic deal-making regardless of location, and having the governments themselves help those companies through the process, that's massively encouraging. I hope we see more of it.

Globally, a similar narrative seems to emerge: deals are facing unprecedented scrutiny. Are you optimistic about meeting these challenges?
There's no question. I am bullish in a fundamental way about M&A because the market continues to value growth and our clients are increasingly sophisticated. The notion of M&A being a permanent part of a company's corporate tool kit is now firmly embedded in business culture on a global basis.

There are some markets, one could argue, which are still relatively nascent, but for the most part, M&A is seen as an important tool for value creation.

It's not the answer to everything. But it is something that every prudent board and management team is thinking about all the time, not as a once-every-10-years event, but as a matter of course.

Yes, there are more challenges today – but there were more challenges five years ago than there were five years before that, and corporate transaction activity has overcome those issues.

I have a great deal of optimism that that will continue to be true: the landscape will become more difficult, and we'll rise to the occasion.

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PETER TAGUE

From 2012 to 2018, Peter Tague was Co-Head of Global M&A Business at Citigroup where he served as Managing Director of Citigroup Global Markets Limited (formerly, Schroder Salomon Smith Barney). He had been with Citigroup since 1994.

"Furthermore, both parties agree that all deal communications will take place within the so-called 'confidentiality bubble.'"

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