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What Will Biden Do? 1

After a trillion-dollar surge in the last half of a strange year, M&A awaits the arrival of a new administration. The more things change, the more they stay the same . . . or a swerve to the left?

The FT's Dealmakers Summit

Herewith selected discussions at the FT's 2020 conference of prominent investment bakers, fund managers, lawyers and other advisors.

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*The M&A Journal is published approximately every six weeks, with ten issues per volume. The sequence of issues is therefore tracked by volume and issue number, rather than by month.

M&A and President Biden

When you try to predict what President Biden's election might mean for M&A, not to mention the country and the world, the first question could well be who would want the job.

The United States Capitol was stormed and occupied by a mob trying to overturn the duly elected government, with the results affirmed by dozens of courts and many Republican election officials. Crowds now threaten state capitols across the country. The COVID death toll marches toward half a million. Hospitals are packed. ICUs are on the verge of being locked against the often fatally ill. Unemployment and closed storefronts are rampant. Russian hacks have just executed an invasive triumph. The Chinese are not at their most friendly. Climate change is upon us, threatening the survival of homo sapiens and the planet itself. All this with half the country's population pitted against the other and much of each camp spoiling for a fight.

Even the victors are already starting to quarrel over the spoils, like the Arab army in the film *Lawrence of Arabia* that overran Damascus only to squabble over which tribe would get to run the water department. The defeated are also divided against themselves, with one faction on the right eager to re-anoint their toppled king and the other terrified that he has already begun his restoration, or some as yet unknown reincarnation.

One answer to the question of who would want the job of president is someone with his own party celebrating its recent majority in the Congress. It had rapidly become a cliché to say that the Senate run-off race in Georgia will determine the fate of the next administration and perhaps the future of the country itself, if not the survival of the human species. Few were confident enough to predict victory for either side. Just before the vote, House Majority Whip James Clyburn himself, Democrat of South Carolina, said he felt President-Elect Biden had taken the right approach to the Georgia election by emphasizing that both his party's candidates would be loyal not to him so much as to the people of Georgia. However, Representative Clyburn warned that "South Carolina is still South Carolina and Georgia is still Georgia."

As the election approached, there were few polls comparing the support of the Democratic Party's Jon Ossoff and Reverend Raphael Warner and their opponents, Senators Kelly Loeffler and David Perdue. Now that it has gone the way of the Democrats, the question is whether Biden will fulfill the predictions of a parade of liberal horrors down Pennsylvania Avenue with progressivism unleashed, or

Biden ➔

"Stand back—I am retrieving a cardigan from the 'thrice-weekly Zoom happy hours' era."

Biden

continued

William Curtin III
Hogan Lovells

whether such concerns are unwarranted.

Amid all the ceaseless turmoil in the political world, what can M&A expect from the impending transfer of power in Washington, D.C., always a time of uncertainty? Bill Curtin, the Global Head of Mergers and Acquisitions at Hogan Lovells, suggests that dealmakers can certainly expect a change in tone, which might be welcome for everyone who has lived through the past four years, but are less likely to face a similar *volte-face* in the mechanics or policies governing the transaction business when the Biden team takes over. "There has been so much strongly held and strongly expressed emotion about who should occupy the White House and what should happen in the Senate," Mr. Curtin says, "but from an M&A perspective, the divide in substance is not as dramatic as the associated emotions."

The capital markets, he points out, have been well aware that Vice President Biden had a double-digit lead in the polls for months before he won the election. "Yet they roared on despite Biden's promise to increase operating corporate income tax from twenty-one percent to twenty-eight percent as well as his pledge to increase regulation. That is because those markets and the M&A marketplace in general have recognized that there would be a very significant difference between a Joe Biden presidency and an Elizabeth Warren presidency, and found reassurance in the more moderate sets of policy changes proposed by Biden."

Mr. Curtin says he has seen few if any intimations from the president-elect that he will turn away from the business policies of his predecessors. "Biden has said he will be tough on China. He has said that in his tax proposal there will be a penalty assessed on companies that domicile offshore. Sound familiar? The rhetoric is not very different from the way Trump has spoken about these issues."

Mr. Curtin points to two causes of both the equanimity among dealmakers and the optimism fueling the stock markets. "There is so much momentum within the corridors of M&A," Mr. Curtin says. "Companies, both public and private, have created healthy balance sheets, and they understand that whatever their sector—whether healthcare, transportation, the financial sector or another—they are essentially technology companies engaged in a quest to become more technologically nimble. So I think that these two pieces coupled together are why the capital markets have soared, and why C-suite executives continue to push forward and propel the non-organic form of growth which is M&A. There is not likely to be a setback in M&A just because the tax on corporate income is six or seven percent higher under Biden than it has been under Trump."

Still, Mr. Curtin says, there is no doubt that meaningful change lies just ahead, particularly given that the Democrats will control the legislative branch as well as the executive branch. "There will be more of a focus on environmental protection. There will be a wider array of regulations. There will be an increase in taxation at the corporate and personal income levels. There will be a push to get a major piece of infrastructure legislation through Congress," Mr. Curtin says. "But, even so, C-Suite executives and the capital markets are not viewing the change in administrations as seismic."

That confidence in continuity may evaporate now that the Democrats have the thinnest of majorities in both houses of Congress. Mr. Curtin believes if President Biden embraces the more revolutionary wing of the party and abandons his moderate approach. "Does he try to push up the corporate income tax over thirty percent, which takes corporate income tax into the neighborhood of France where it is thirty-four percent, or does he stay a bit more sober and propose a less precipitous rise to up to twenty-eight percent?" Mr. Curtin asks. "What does he do on long-term capital gains? If he is too aggressive on this, will there be a sell-off? If he joins forces with Nancy Pelosi, Elizabeth Warren and Chuck Schumer and that whole world, then the paradigm shifts. Then you risk taking the wind out of the sails of M&A."

Other eminent practitioners have similar fears. Among them is William Ackman, the founder and CEO of Pershing Square Asset Management. At the FT Dealmakers Summit before the run-off results, Mr. Ackman said M&A abhors extremes and is better positioned to do deals when government is constrained in equipoise. Balance and stability appeal to markets, he maintained. "But if the two seats in Georgia turn out to become Democratic, then I think that could be challenging for markets because of a fear of overreach on the part of President Biden and the Democratic Party." The two seats did just that. Time will tell if Mr. Ackman is right.

Those worried about dynamic change may find comfort in the fact that though the Democrats have taken the Senate the margin for either party in either chamber is still minis-

cule indeed. Any vote on Capitol Hill could turn into a deadlock or an agonizing photo-finish. Aaron Cutler, also a partner at Hogan Lovells in the firm's Government Relations and Public Affairs practice, served on the House Energy and Commerce Committee for four years, and then as a senior advisor for Policy and Outreach for House Majority Leader Eric Cantor (R-VA). As a veteran on Capitol Hill, he knows the forces of inertia that often constrain any move resembling revolutionary upheaval by any new administration. "Even though the Senate has flipped, even with the House with a Democratic majority, it's hard to get a lot done in your first year," he says. "President Obama did get healthcare passed and Dodd-Frank, along with a stimulus bill, but he was not able to get cap-and-trade. And don't forget, Obama had sixty votes for a while in the Senate until Senator Ted Kennedy passed away. If Biden is going to start with a big stimulus and increase tax rates, then what else are they going to be able to get done? It's going to tough slogging for Biden no matter what."

Trade deals will be particularly problematic, Mr. Cutler predicts. "I think folks believe that Trump was successful on the USMCA, the US/Mexico/Canada trade agreement, as well as his position with respect to China. I think Biden is definitely on defense on these questions. The historical issues that he's been tied to, such as NAFTA and TPP, those policies just aren't popular in this country."

However, dealmakers should brace themselves for more intense regulatory scrutiny, for one thing, Mr. Cutler maintains, as well as higher tax rates. "It's going to be more expensive to operate in a Biden administration than it has been under the Trump administration," he says. "I think folks are nervous about what tax rates will be from this White House now that the Senate has flipped. Also, the regulatory agencies will be a lot more aggressive under Biden and that can add costs and time to the M&A process, potentially hindering deals."

No one can claim that the new government will find anything easy. And yet, with the vaccine cavalry just about to crest the hills in our valley of death, with personal and corporate debt much lower than it was after the Great Recession, with an infrastructure bill possibly attracting support from both parties, all followed by mid-term elections during which the Biden team might be able to claim they have returned us to public safety and political integrity, what about the possibility of a Biden boom?

M&A is already leading the way, with what Freshfields notes was the biggest spike in history from a first half-year to the second. Freshfields, in its Q4 M&A report [see www.freshfields.us], says "the stage is set for an acquisition spree." Wrapping up 2020, the firm introduces its analysis with the following summary: "It should come as little surprise that deal-making in 2020 fell sharply year-on-year, with M&A down 18 per cent by value and 14 percent by volume from the previous 12 months."

The report cites some striking statistics: "[D]espite activity being the lowest since 2013, the second half of 2020 saw an unprecedented fightback. The 79 per cent uptick by value from H1 to H2 was the biggest half-year jump on record, driven by more than $1tn in deals announced in Q3 (only the sixth time in history that quarterly deal value has crossed this threshold)."

Matthew Herman, U.S. Managing Partner and Co-head of Global M&A at Freshfields, sees several dominant forces that are likely to drive deal flow in 2021: first and foremost, extraordinarily inexpensive and available debt financing for well-placed sponsors and corporate acquirors; second, the similarly rich troves of other M&A financing sources, principally rooted in SPACs and the additional equity (PIPE) and debt financing that often comes with a de-SPAC acquisition, all waiting to be mined.

Although SPACs have had a mixed history (principally post-de-SPAC stock performance) and there are those who are justifiably concerned at the potential for a bubble now, Mr. Herman points out that in 2020 more than $80 billion of SPAC IPO proceeds have been raised, which, when multiplied by expected ratios to take into account the additional financing that often comes with the de-SPAC transaction, amounts to more than a quarter trillion dollars of prospective M&A dry powder over the next couple of years.

Mr. Herman adds, "While it is certainly possible that there is some degree of froth in the SPAC IPO market, my old Wall Street mentor Laszlo Briny always said 'don't fight the tape' —and here you cannot ignore the reality of that amount of capital chasing M&A targets, competing against private equity sponsors and strong-balanced sheeted/high public stock price corporate buyers, (each of which likewise has a need to transact, if even for different base reasons)."

Third, Mr. Herman observes that the "enhanced pace of change, whether or not due to the pandemic, but certainly accelerated by it, will lead to the use of M&A as a Darwinian set of winners and losers across every vertical begins to evolve—whether in challenging industries or ones that have thrived during 2020." This, Mr.

Biden ➔

Aaron Cutler
Hogan Lovells

Matthew Herman
Freshfields

Biden

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Herman notes, will create secondary and tertiary M&A effects—ranging from enhanced regulatory scrutiny of both deals and corporate behavior to vertical cross-overs, where for example, technology is a part of every M&A strategy.

As for the general market conditions and their effect on M&A, public equity prices are at all-time highs. In such an environment, Mr. Herman notes. "Sellers of businesses look to those multiples to help drive the price talk, even in private deals. Buyers and sellers may need to use value-bridging devices like earnouts and CVRs to help allocate risk and bridge valuation gaps. We're likely to continue to see these as tools to address value divides that you might encounter."

Mr. Herman points to another piston about to start pumping deals: pent-up demand. "M&A participants that may have been hesitant about deal-making through 2020 because of an uncertain economy will have to start to transact. We've already started to see this across the world in the larger deals announced in November and December." Financing, a broader pool of potential buyers, deals coming to a boil after a long simmer, as well as a gleam in the eyes of board members and C-suite executives at newly attractive acquisitions—"all these things are real, and they will drive transactions" Mr. Herman says. "And as has been the case for some time now, for public companies, there will be investor pressure to use M&A to generate stronger multiples and returns."

But in any strong market, there are headwinds. "Everything is not perfectly rosy. There are no riskless home-runs," Mr. Herman is quick to point out. "We still need to see science and manufacturing produce a vaccine and therapy rollout that changes our behavior. We need to know more about what demand across all of our industries—for airplane seats, hotel rooms, commercial real estate, bricks and mort retail—looks like in the recovery. We know that whatever the aftermath of Brexit, the final chapter has not been written, so there's more uncertainty. And we have a new US administration about to enter the conversation." Big Tech is also under hot-light scrutiny, with those concerns, he notes, "coming from the U.S. federal government, state attorneys general, and it's coming from regulators outside of the US. All this intense focus is directed not only at transactions but at behavior."

The antitrust and regulatory landscape needs to be front of mind, Mr. Herman counsels, for all M&A participants. "Make sure you get your antitrust and regulatory story correct globally," he advises. "The frequency with which regulators across the world communicate with each other should not be underestimated, so you can't easily say 'black' to one regulator and then 'white' to another. There has to be consistency and thought around how you are explaining your deal and how you plan to accommodate remedies that might be warranted." Moreover, he adds, "our data has consistently shown that the period from sign to close has gotten longer not shorter, and we expect that trend to continue, as bold antitrust deal scrutiny continues."

M&A is on a global platform, now more than ever, where it is not only antitrust authorities but also the increasingly powerful and complex regulatory schemes governing foreign direct investment in countries across the world that can make M&A so challenging. "Most deals now are not single-country transactions and so they require a high level of skill and smarts," Mr. Herman maintains. "Advisors have to be that much more thoughtful, that much better at M&A in order to beat the intense competition for prized assets and to close deals with a minimal level of disruption."

To address the myriad challenges of these times, Mr. Herman suggests that advisors and their clients approach any transaction as if it were a hostile unsolicited M&A deal. "Come to the conversation," he says, "with everything fixed first. Have your antitrust remedy ready, if you need one in order to offer "hell or high water" regulatory efforts. And have your financing organized, with commitments from signing to the outside date so there is no gap. Give thought to treatment of other stakeholders – from employees to customers and suppliers. Have all the target's questions answered."

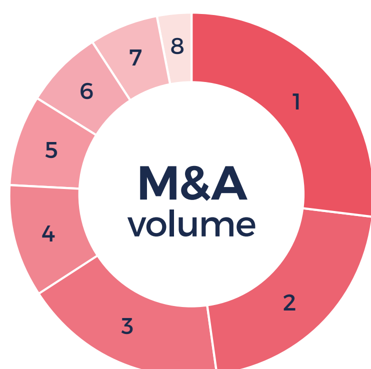
As the pandemic recedes, assuming it does, and a new administration settles in, will we see a repeat of the Roaring Twenties in life and in M&A? With all activity stifled for so long, we could indeed, answers Mr. Herman. "But remember," he says, "things ebb and flow, and we should not take anything as a given. There is no substitute for all of the hard work that M&A participants should put in, even in a bull market. After all, even The Roaring Twenties came to an end."

MA

Global M&A
YTD activity by sector

	Sector	Value $bn	%
1	TMT	942.3	31.22
2	Financials	435.0	14.41
3	Industrials and materials	387.0	12.82
4	Consumer*	367.0	12.16
5	Energy and power	299.3	9.91
6	Healthcare	265.0	8.78
7	Real estate	251.0	8.32
8	Infrastructure and transport	71.8	2.38
Total		**3,018.3**	**100**

* Includes retail



	Sector	Volume	%
1	TMT	11,872	27.35
2	Consumer*	9,087	20.93
3	Industrials and materials	7,933	18.27
4	Financials	4,460	10.27
5	Healthcare	3,531	8.13
6	Real estate	2,753	6.34
7	Energy and power	2,632	6.06
8	Infrastructure and transport	1,145	2.64
Total		**43,413**	**100**

* Includes retail

Source: Refinitiv | Data correct to 14 December 2020

Provided by Freshfields Bruckhaus Deringer LLP

Global M&A YTD – value and volume

	Global*	USA*†	Europe*†	Asia-Pacific*†
M&A value	$3,018.3bn	$1,215bn	$785bn	$830bn
M&A deal volume	43,413	10,893	11,970	15,856

Top 3 deals

	Global*		USA*†		Europe*†		Asia-Pacific*†	
1	IHS Markit/ S&P Global	$43.5bn	Alexion Pharmaceuticals/ AstraZeneca	$38.8bn	IHS Markit/ S&P Global	$43.5bn	China Gezhouba Group Co/China Energy Engineering Corp	$14.4bn
2	Arm /Nvidia	$40bn	Xilinx /Advanced Micro Devices	$34.6bn	Arm/Nvidia	$40bn	Nipsea/ Nippon Paint Holdings	$9.9bn
3	Alexion Pharmaceuticals/ AstraZeneca	$38.8bn	Slack Technologies/ Salesforce.com	$27.5bn	Sberbank Rossii/Russian National Wealth Fund	$33.9bn	Tesco Stores (Thailand)/ An investor group**	$9.9bn

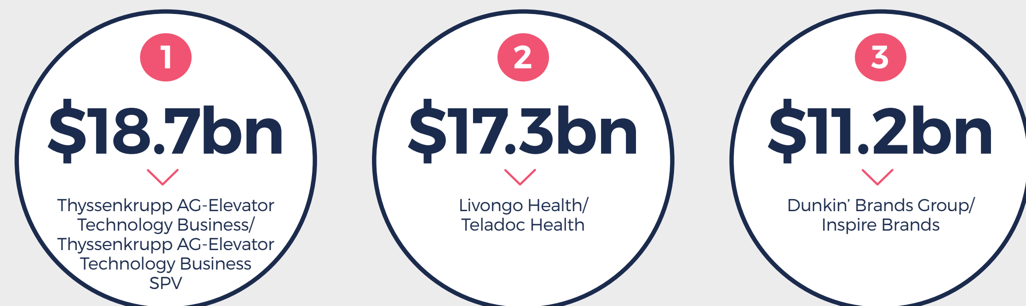
Inbound

Global: most targeted markets		USA: markets investing into US companies		Europe: markets investing into European companies		Asia-Pacific: markets investing into Asia-Pacific companies	
US 10,893 deals	$1,215bn	US 8,650 deals	$978bn	US 904 deals	$167bn	China 5,577 deals	$362bn
China 5,901 deals	$391bn	UK 237 deals	$57bn	UK 2,012 deals	$161bn	Japan 3,211 deals	$128bn
UK 2,580 deals	$278bn	Germany 73 deals	$42bn	France 1,042 deals	$86bn	South Korea 1,542 deals	$53bn

Outbound

Global: most acquisitive markets		USA: markets US companies are investing into		Europe: markets European companies are investing into		Asia-Pacific: markets Asia-Pacific companies are investing into	
US 10,481 deals	$1,232bn	US 8,650	$978bn	US 601 deals	$141bn	China 5,719 deals	$378bn
China 5,700 deals	$370bn	UK 314 deals	$119bn	UK 1,858 deals	$129bn	Japan 3,082 deals	$111bn
UK 2,465 deals	$237bn	India 99 deals	$15bn	France 944 deals	$99bn	South Korea 1,502 deals	$52bn

Financial sponsor M&A – top 3 deals with buyside financial sponsor involvement



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* Deal value includes net debt of target | † Includes domestic deals | Source: Refinitiv | Data correct to 14 December 2020
**An investor group comprising CP All PCL, Charoen Pokphand Holding Co Ltd, a unit of Charoen Pokphand Group Co Ltd, CP Retail Development Co Ltd and CP Merchandising Co Ltd

On the Election, COVID-19, M&A, SPACS, and Activism

William Ackman

CEO, Pershing Square Capital management

Interviewed by Ortenca Aliaj
M&A correspondent, Financial Times

Ms. Aliaj: Hi everyone, welcome to our first keynote of the day. I'm Ortenca Aliaj. I'm the M&A correspondent at the Financial Times. And I am very pleased to introduce Bill Ackman who is joining us for the Keynote. Bill probably needs no introduction but—

Mr. Ackman: Wait a second, just to fix my technology here. I can't see you, so it's really annoying. I can see your mouth on camera so I guess that's good enough.

Ms. Aliaj: Okay. If you maybe could flip the phone. Bill is the CEO of Pershing Square Capital Management, which runs over $10 billion. It's a London asset vehicle. And he also, this year launched a special purpose acquisition company, which if you don't know what they are, shame on you. You really should. But Bill raised $4 billion and earlier this year he, of course, made the news with a big hedge that ended up providing a $2.6 billion windfall, which he then ploughed back into the stock market. So it's probably fair to say, Bill, you've been pretty bullish on stocks from about March onwards.

[Note: Mr. Ackman anticipated governments would be forced to shut large swathes of their economies in order to curb the spread of coronavirus, leaving many indebted companies exposed. When that swiftly proved accurate, the value of the insurance ballooned and Pershing Square exited the trade in March, pocketing $2.6 billion in profits after having ony paid $27 million in premiums—Financial Times, 11/10/20.]

Mr. Ackman: That is true. And again, supreme apologies for all the technological challenges. I was not bullish on tech.

Ms. Aliaj: Yeah. So the first thing I want to get to is when we first offered you this keynote, the world was a little bit different. We had not heard yet who was going to be the president of the United States and we also had not yet had the announcement about a vaccine, which has clearly got the markets very excited. So we're keen to know how you were positioned going into that. Obviously, markets reacted pretty well to both. What do you think this means long term?

Mr. Ackman: Sure. So look I think, this has been one of the few years in my career where I think we've had pretty good visibility on what was to come and I think it continues. I think the next several months will probably be the most challenging in terms of the virus. I think the vaccine news is actually bearish for the next few months, because I think if anything it's going to make people think of it as less of a threat. I think people are going to take mask wearing less seriously. And I think more people will die in the next few months, unfortunately, than in the previous period. So I think it's going to be a depressing, challenging time. On the other hand, I do think the progress of technology, and biology, and biochemistry, and so on, will get us out of the mess.

But I think the timing is off. I think we have a vaccine that's come very, very quickly. We've

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Ackman

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got a very nice announcement from Pfizer and I assume we'll see others. But in terms of a deployable vaccine that creates herd immunity, I think it's next summer when we can start to feel good and safe. It's a mid-next-year timeframe. So I think that's the challenge for the next period just in terms of daily life.

In terms of markets, I share the view that I had early in March, at some point we can put the virus behind us. When you think about the value of a business, it's the present value of the cash the business generates over its lifetime. And hopefully that's 30, 40, 50 years, if you're buying the right knd of business. The strong dominant companies have managed through this period generally pretty and will come out of it even stronger. And so I think that's good for markets. And so we've been positioning basically to benefit from the market's recovery.

Ms. Aliaj: So we're not expecting another hedge announcement from you?

Mr. Ackman: Actually, just yesterday we put back on an investment graded credit hedge, not of the scale that we had in March, but at 49 basis points the market is saying that the world is an incredibly safe, good place, and everything expected to go right will go right. I'm long equities and still short investment grade credit and I feel very comfortable in that position.

Ms. Aliaj: Okay. That's fair enough. And just quickly, to political matters. I know you tweeted a couple of days back about President Trump basically conceding that he lost the race. Obviously, that hasn't happened. So are you prepared for uncertainty or do you think this is going to be more or less smooth sailing in terms of the political sphere rather than what we're facing COVID-wise?

Mr. Ackman: Look, I think Biden will be officially elected the next president of the United States. I think that is by far the likely outcome. I think you have to say, it's not a certainty, but I would say it's a very, very high probability event. And I think in light of where things stand in terms of the polls, et cetera, I think it would be good for the country for President Trump to exit gracefully. And I think, unfortunately, it does not look like it's going to happen, at least for the foreseeable future. You're already hearing the left side of the Democratic Party complaining a bit about potential members of President-elect Biden's cabinet so I think we're still set up for a fair amount of political divisiveness.

We still have a very important election in Georgia. I think the expectation—the markets have rallied for two reasons: one, because of the vaccine; but two because of the view that Biden is not going to be drawn to the left side of the party, that the Senate is going to remain Republican controlled, and that the voters sent a message that, "We want to as stay far away from socialism as possible." I think Nancy Pelosi's expectation was 20 more seats in the House for the Democrats. And I think it's in fact 10 fewer, numbers like those. So I think that kind of balance is something that is probably pretty appealing for markets, but if the two seats in Georgia turn out to become Democratic Senate seats, then I think that could be challenging for markets because of a fear of overreach on the part of President Biden and the Democratic Party. I think it's going to be interesting times, and I'm just hoping for a little bit more stability and peace.

Ms. Aliaj: It's certainly been interesting times for four years. Obviously, the announcement of the vaccine did have a huge impact on the markets. The impression I'm getting from you is that is short-lived, that this is a boost that you get because people are finally getting hope that at some point we're going to be over COVID but we actually have a long time to go.

Mr. Ackman: Let me be super clear. Again, I think that we are going to put the virus behind us and I think the announcement is a very positive one. I just think it will be behind us by the second half of next year not by the second half of next week. And in terms of markets and stocks, again, the value of a business is not what happens over the next few months. I think a lot of people are already, I think appropriately, looking beyond COVID to say, "What are the implications for a given company in the hospitality industry, for example?" So as long as companies have a balance sheet to enable them to survive this difficult time and I think the difficult time continues for the next six months, I think you could see a very robust recovery.

You've got several million dollars of savings that have accumulated just in the U.S. as people stay at home and don't spend a lot of money. You have still a very low interest rate environment. You'll have, I guess, the equivalent of animal spirits, when all of us who've been cooped up in our homes decide that it's time get out in many

ways. I'm sure you've made a list already of the places that you intend to go, or the people you intend to see. And I think you're going to see a boom in travel, eating out, people wanting to live their lives to the fullest, coupled with unspent savings. I think you could see a very nice recovery. And I think in any case, regardless of a Republican controlled Senate or not, I don't think Biden will be advancing aggressive tax policy, until this country as well as the globe have come out of this global recession.

Ms. Aliaj: Let's move to Wall Street's favorite word at the moment, which is SPACs. You obviously, broke the record for the amount of money raised via SPAC with four billion. I think you said you had 12 billion in commitments. How are you approaching deal-making? How are you approaching finding a company, making sure that it's a good company, making sure that due diligence is done correctly? Tell us a little bit about that.

Mr. Ackman: Sure. So in terms of evaluiatng a business and doing due diligence, that's stuff we do every day. The difference in terms of how we're approaching the SPAC transaction is if we find a company that's interesting, then we just call a broker and we can buy the stock. That's our day job. In the world of SPACs, these are negotiated transactions and you have to have a willing seller and circumstances that make sense. So the good news is we're in a universe of one in terms of the scale of the companies that we're looking at. So if you're a 15, 20, 25, 50 billion dollar enterprise value private company, and you want to go public, your choices are an IPO or us. It’s not between an IPO or multiple SPACs.

What's going on in the SPAC world today is this: If you're a $500 million SPAC, banks are running what they call SPAC-offs. A company will hire a bank and get term sheets from 10 different SPACs and negotiate one against the other. Fundamentally, that makes it a difficult business. I think one of the reasons why we went for scale is we wanted to be the sole solution for someone who wants to raise a large amount of capital. With $4 billion in the space, Pershing Square has committed a billion minimum and as much as $3 billion, so we actually have five to seven billion of equity to deploy with an intent to buy an interest, a minority interest, in a large cap private company.

We're talking to all the people you would expect that we would—large scale venture backed companies that are positioned to go public. We're talking to the large scale, private equity controlled companies. We're talking to companies that are owned by families or individuals. And we're also increasingly talking to big, publicly traded corporations that have either announced potential spinoff transactions or are contemplating separating out divisions because we're a very efficient, tax efficient way for them to take a subsidiary public and raise a fair amount of cash, and do that in a sponsored transaction where a large investor is weighing in for the business and the management team and the valuation. So that's what we're up to.

Ms. Aliaj: So how are you feeling about various stories that come out about you approaching AirBnB and Bloomberg, which was one that was obviously denied by being on the record, but there is now a ramped-up the interest in every company that you talk to.

Mr. Ackman: So we're doing our best to not comment on what companies we're speaking to and if the press is accurate or not accurate we're really not commenting. One of the benefits of doing a transaction with us through this vehicle is that unlike an IPO where first you file confidentially and word leaks out a day or two later, and then you file a prospectus, and then you've got several months before you end up going public. There's a lot of time for people to pick apart your business and call your former employees, et cetera. In our case, there will be no disclosure until a transaction is committed to. And I think that's a huge advantage. For many companies managing their brand, it's a much better approach than going public in a conventional manner. The preview to this conversation, where we began is I think we’re going to have a lot more volatility and volatile markets are not the kind of markets in which you want to go public.

If you're an enterprise software company, you were incredibly excited about going public about two weeks ago. Then all of a sudden, enterprise software or stay-at-home type technology companies are less interesting, NASDAQ is down a bunch, and people are excited about COVID turnaround stories. It's a very choppy world in which to try to take your company public and I think what we're trying to offer is just certainty. If we signed a confidentiality agreement today with a company and I got access to a data room, we could get to certainty in a month and then the deal would be announced, it would be a certainty, and it would close in 45 or 60 days. That's just a very different process than a typical IPO.

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Ms. Aliaj: So do you think that's the biggest benefit of a SPAC, that you can get the process done so much quicker than traditionally possible?

Mr. Ackman: No, I think the benefits are several-fold. One, you get the benefit of a lead investor doing due diligence on behalf of the public shareholders, putting their imprimatur on the business saying, "Hey, this is a great company. It's an excellent management team and it's a price that makes sense." Whereas in the typical IPO process, management has to sell themselves and they have to run around and raise money, and they have to ask people for money. So I think one benefit is just that that dynamic is much more attractive. The second thing in favor of our case is just scale, a $5 billion IPO is in the top four in the last 10 years in the US. It's Alibaba, Facebook, Uber, and then Pershing Square Capital Holdings, and that's the $5 billion-plus IPO universe. So the degree of difficulty to do a deal that size is quite high.

We offer instant scale. We set the valuation on day 30, as opposed to six or seven months from now. Start an IPO today and you hire bankers and then it's probably seven months before you price. And it's not until the last day that you know whether you get done, at what price, how much capital you raise, how it's going to go, whereas we can get to a very similar place in terms of achieving certainty in 30 days. So I think certainty, scale, the benefit of a lead investor setting a valuation, helping tell the story, and then because a SPAC is a merger, unlike IPOs where the SEC only allows you to talk about the past, in a SPAC you can describe all factors that were considered, you're required to describe all factors that were considered by the merged parties in the decision to go forward with the transaction. So you can talk about the future. You can talk about the pro forma impact of adjusting for COVID on the business, or if the company announced a cost-saving plan recently, you can talk about what the implications are, you can provide multi-year guidance for you how expect the business to grow. Some of the press describe SPACs as a way to go public and tell less about yourself and in fact the opposite is really the case. SPACs are structured to allow you to tell a lot more about your story.

Ms.Aliaj: Interesting. So to talk just a little bit about the structure for people who don't follow the SPAC world. These are very nuanced things and they work very differently. I'll let you explain your structure, but the general concept is that you launch a SPAC and for launching you pay a nominal fee, usually $25,000, and you get a 20 percent equity in the company, which is something that's called a founder's promo, but that's something that you've done away with. Can you go through that and why that was?

Mr. Ackman: Sure. So the reason why there are so many SPACs is because they're generally easy to raise the money and the sponsor makes a fortune for putting up very little. So as I like to say, "Incentives drive all human behavior." If you put $25,000 and raise a $400 million SPAC and get 100 million of common stock, that's a pretty good gig. And so that's why you see 100 SPACs or how ever many there are. The problem with that is that it doesn't set the right alignment of incentives for the shareholders. If someone is motivated, if someone can can turn $25,000 into 100 million by doing a deal what I can guarantee you is they're going to do a deal. Whether or not it's a good deal, however, affects the outcome for investors. So what we decided to do was approach this from the perspective of an investor. We're by far the largest investor in the vehicle, putting in a billion dollars, and we're looking for businesses we can own for a decade. That's a very different dynamic than someone who intends to raise 30 SPACs over the next three years. The last SPAC we did was nine years ago for Burger King Worldwide. It's now called Restaurant Brands. We're still a shareholder nine years later. It's been a 19 percent compound return over that period. We're looking for something similar. Where can we find a great business we can own for many, many years. So the compensation element to us wasn't important and therefore we were prepared to waive or give up the founders construct.The only thing we get, or our investors got, is the right to make a slightly more levered investment than the public shareholders. So we're investing a billion in a common stock and then we're investing $65 million in 10 year warrants on the target company that we can't sell for the first three years, and the warrants are struck at twenty percent of the money. So the package of common stock plus this 10 year warrant gives our investors more upside if we do a great job and more downside, if we do a bad job, and so the alignment is there.

When we explain the structure to IPO investors, what's interesting is you find that if you

design a very investor-friendly structure, you get an overwhelming response. That enabled us to pick a Who's Who of some of the best investors in the world, and some of the most desirable shareholders to have as shareholders in your company. So part of our marketing pitch—I'm going to talk to an investor this evening at five o'clock, a venture capitalist who controls a number of interesting companies—part of the pitch to him is going to be, "Look at the starting base of shareholders you will get by virtue of merging with us." And a lot of founders care about, and should care about, who their owners are.

Ms. Aliaj: Can I know who you're talking to?

Mr. Ackman: No.

Ms. Aliaj: Okay [*laughter*]. So I have a question from the audience which is interesting. It's not exactly what you do right now, but it's what you've done a little of in the past, which is activism. Daniel Loeb recently tweeted—I did not know that Daniel Loeb had Twitter!—he recently tweeted that we need to rethink the term "activist", because it still carries with it conotations of '80s raiders, into a term that suggests active shareholder engagement and collaboration with management for the long-term beneft of all shareholders. What's your view on that?

Mr. Ackman: I a hundred-percent agree and that's what we've always done. But occasionally we come across a management team where the management team is the problem. Collaborating with a bad management team is not the right approach. We've taken a fairly proactive approach in seeking board representation and replacing management, something we did at Canadian Pacific, the Canadian railroad, and something we did more recently at Chipotle. Chipotle was an extremely collaborative process, which is why the media didn't write anything about it. But if you go back and look four years ago, we put four directors on a board of eight directors and that new board chose a new CEO named Brian Niccol. He's really done a remarkable job transforming the company. And so look, I think today, absent being—well, even if you are an index fund—you should be an active owner of the companies you invest in. In fact, index funds arguably have more of an obligation by virtue of the number of votes they carry. I think every investor has an obligation to be actively engaged.

Because we invest capital on a super concentrated basis, we end up being one of the largest shareholders of most of the companies that we invest in and therefore we have an important seat at the table. But we let our CEOs run their companies and in the vast, vast majority of the cases, we are very, very happy shareholders supporting an outstanding management team. Kevin Johnson at Starbucks has done an incredible job managing through the pandemic. You look at what Brian Niccol has achieved at Chipotle and going through the list of our CEO, we're super proud of what they've accomplished. Life is easier for us if we don't have to run around running proxy contests. I hope never to have to run another contest, even though, I think that would bad for the media's eye ball generation, or whatever it is you guys do.

Ms. Aliaj: We don't even know [*laughter*]. So I just quickly want to go back to the hedging stuff. I know we reported on it extensively, it was obviously a very big bet and it could have cost you a lot of money if it went wrong—

Mr. Ackman: No.

[Note: Ms. Aliaj here is referring again to what she mentioned at the beginning of her interview with Mr. Ackman—the hedge he put on in late February betting that insurance policies would increase in value as indebted companies found themselves exposed when governments shut down large sectors of national economies. That is the transaction that made him the $2.6 billion that he then invested in equities. He told the Dealmakers Summit that because the markets had once again become complacent about the virus, he recently put on a similar hedge, 30 percent the size of the first one in late February. He notes below that despite all that has occurred since the first transaction, the same terms were offered on the second eight months later "as if there had never been a fire," as he puts it below.]

Ms. Aliaj: Sorry?

Mr. Ackman: Not true. Not true.

Ms. Aliaj: It wouldn't have cost you money if it went wrong?

Mr. Ackman: No. No, that's why it was such a—basically it was incredibly asymmetric. The amount we could lose was very small relative to the amount we could gain. And that's why it was—

Ms. Aliaj: In relative terms, yes. I was just going to say if things had stayed as they were

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and nothing had happened to credit spreads, then you would've essentially been paying out a monthly fee, no?

Mr. Ackman: Yes, but immaterial.

Ms. Aliaj: Immaterial. Okay. Fair enough. So it was pretty much a safe bet?

Mr. Ackman: It was a remarkably safe bet, actually. At the time, what was the probability that a pandemic, spreading around the globe where the only way to stop the virus is to shut down cities and economies, is not going to have an economic effect? I mean, that's how we looked at it. We said, look, it's basically a near certainty that this is going to have a fairly dramatic economic effect and so you take out insurance, and the fire, if you will, had already started down the street, so it was only a matter of time before it was going to get to us. The wind was blowing west and our house was going to be burning soon and so it made sense for us to buy an insurance policy on our home. What made it particularly interesting was that the policy was priced as if there hadn't been a fire in the neighborhood in a decade [since the Great Recession.]

Ms. Aliaj: Okay. So, is it fair to say that the bet was made because you were anticipating that there would be lockdown from coronavirus spreading.?

Mr. Ackman: Yes.

Ms. Aliaj: And so is that the same premise for the current hedge that you have on? For example, England has gone back into lockdown, do you anticipate that the U.S. might also have to go back into lockdown at some point, given the rates at which the cases are increasing?

Mr. Ackman: Yes. Look, I think what I'm saying is I hope we lose money on this latest hedge That would mean that we will have managed to get through the next period in a very, very effective way, that the Senate stays Republican controlled, that President Trump leaves the White House in a limousine or helicopter without an insurrection. Hopefully, we get more aggressive about using masks and social distancing. We're in the middle of a massive exponential growth in the spread of the virus right now, which can overwhelm the hospitals throughout the world, let alone in major American cities. We're in a pretty treacherous time generally, and yet what's fascinating is the same bet we put on eight months ago is available on the same terms as if there had never been a fire and on the probability that the world is going to be fine. I hope that's the case. I think there's a reasonably high expectation that we're going to have a vaccine widely distributed by sometime in the first half of next year, that the number of people dying is going to start declining at some point relatively soon. Businesses are going to recover. People are going to go back to their normal lives. So I think this is different from the hedge we put on last February when we thought it was a near certainty that things would get really, really ugly. And now it still offers the same asymmetry, and for an investor who is a 100 percent long equities, it's a nice insurance policy. I still buy insurance policies on my house, even though we think the probability for fire is low. So I think about it that way.

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How COVID-19 Will Change the World Economy

Martin Wolf
Chief Economics Commentator
Financial Times

I've entitled my presentation *How COVID-19 Will Change the World Economy*. The use of the word "will" is a bit brave. Perhaps "may" would be better, given the range of uncertainties. I'm basically going to try and assess what we know about what's happened and some of the implications that are clear. First of all, we'll look at what's happened in the first few months. This is less than a year now. We really weren't clear what was going on until the beginning of 2020 and its implications, of course, outside China really didn't become clear for another month or two. So it's really very few months. So I'm going to start by talking about what's actually happened, or at least some of the big things, and then proceed to some of the longer-term implications beyond COVID-19.

So let's just talk about the first months. The first point I think to make is this truly is an unprecedented event. We've learned a great deal, some of it quite disturbing. By historical standards, this is really rather mild as pandemics go. I won't go into the history of pandemics, but the Spanish Flu that hit the world a little over 100 years ago killed—nobody knows precisely—somewhere between 50 and a 100 million people in a world which had a little bit more than a quarter of the population of today.

So far COVID-19 has killed a little over a million. It's killing people at this very moment, obviously all very tragic, at the rate of about one-and-a-half million a year. People expect that we might get it under control to some extent this coming year and the year after that with the vaccine. And so it will be incredibly much less bad as a disease, as a pandemic, than the Spanish Flu, let alone the Black Death or anything like that.

But its economic impact has been unprecedented as far as we know, because we now have the resources and the means to close large parts of our economy down. And it's this contrast, a relatively mild pandemic, not all that fatal, and its colossal economic impact, which is a warning for the future and also has great implications for what's happening now. It has had unequal impacts across multiple dimensions. So far, it's been quite surprising, at least among the developed countries, that we're not seeing any clear trade-off between the economy and mortality. We're not finding that if you accept more deaths the economy does better. Rather, the opposite so far.

That's been quite educational and quite surprising in the debate we're having on future policy. So let's just start by looking at the economic collapse. The remarkable thing about 2020 is that a higher proportion of the world's economies are expected to be in recession, that is to say, have declining GDP this year, than any comparable event in the last 150 years, even including the Great Depression of the '30s. So it's been a truly comprehensive global negative economic shock, which is shattering. This is a true global event. The collapse in economic outputs because of COVID-19 has been much bigger and much more immediate and dramatic than the Great Recession. The contrasts are staggering. Even in China, instead of a growth rate of about 13 percent over that period, their growth is expected to be very mildly positive, a very tiny positive. So this is an extraordinarily deep recession.

What's more, COVID-19 has had particularly severe effects on minorities, on the young, and

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the less educated. The difference by age is not so striking, but in terms of ethnicity and education it's very striking. The main reason for that is that the people who are doing the jobs that are most face-to-face have been the ones that have been most damaged by the crisis. They tend to be relatively less educated people and and are typically from ethnic minorities. Of course, the young have certainly been pretty badly affected, much more badly affected economically in this pandemic than the old. Of course, the effect of the disease is the opposite. It's a disease of the old, which has particularly hit the young.

Over the first eight months of the crisis from March to October, according to the IMF, COVID-19 deaths per 100,000 population are highest among Belgium, Spain, the U.K., the U.S., Italy and Sweden. Economic growth expectations from the IMF show Taiwan at zero. China is very slightly positive. All the others are negative. But you can see, by and large, that the countries with the highest mortality—the relationship is weak—but they also tend to have relatively low growth forecasts. Even in the case of Sweden where, as we know, there wasn't a lockdown, the growth forecast is certainly better than Italy, U.K. and Spain, but it's worse than Norway and the example is much the same as Denmark. Denmark and Norway have much, much lower death rates. So we don't have a clear sign, but it appears as if we'd accepted higher mortality, our economies would be better off.

Let me look now at the longer term. I'm going to cover seven issues here fairly quickly: the likely economic losses and how long and deep the scarring will be; how the adoption of new technology has accelerated; the future of private indebtedness; the future of government; the future of international relations; the future of globalization; and the future and the challenge of the management of the global climate, the green challenge. This is not everything, but they're some of the major issues about the future.

The IMF's latest world economic outlook is quite intriguing. It shows that developed countries have been growing much more slowly than emerging economies. That's a consistent pattern. Low-income countries have been growing a little more slowly than emerging countries, and these are predominantly African countries, but faster than the advanced. Then back in January 2020, before anyone thought about COVID, the IMF forecast the same pattern, advanced countries growing rather slowly. The IMF now expects for the period 2020 to 2025 marked and permanent declines in growth. That is to say, crucially, there will not be a complete recovery in the IMF's view from the shock. Nobody really knows, but I think that's plausible. A crisis like this tends to have very long-term effects. So the probability is it will take many years before we fully recover the lost output that is associated with this crisis.

The second thing, of course, is this dramatic technological shift. This is year of the change in website businesses to Zoom, one of the best known probably of the platforms we are now all using. In April there was an explosion in the use of these platforms by about 2,000.00 percent and it's still running at 1,500 percent year-on-year. Quite suddenly we were jumped into the future. The technology was there for us to do so and we did. This adoption of new technologies triggered by crises is a very remarkable phenomenon. Of course, it has affected the patterns of work life, what we're doing just now, right now together, and it affects commuting, questions about the future of cities. How are we going to live? I would expect this shift to be, to some degree, permanent. We have jumped into the future. We've learned we can make it work.

The third thing I wanted to discuss, focusing on small and medium enterprises, is how companies are being forced to borrow a lot and they're going to emerge from this crisis with a hell of a lot more debt then they had when they went into it. Among the medium-size enterprises with interest coverage ratio below one, it was about 15 percent before COVID in 2020. This is expected to jump to 25 percent and then to 45 percent in 2021. So nearly half of all small and medium enterprises will have interest coverage ratio below one. And that looks pretty scary, doesn't it? That's just a way of underlining the fact that we're going to emerge from this with an awful lot of private debt. That debt overhang will be a burden. It will be difficult to reorganize and that's going to part of the scarring process I mentioned.

There was a famous remark by Ronald Reagan that the nine most terrifying words in the English language are, "I'm from the government and I'm here to help."

That was a watch word for 30-odd years of government and policy liberalization freeing the market by reducing government involvement. But since 2007 through 2009 and now the COVID-19 crisis, government is back in an enormous way. It rescued the financial system in 2007 to 2009 with immense government support and we're seeing the same thing on an even bigger

scale now. The IMF shows what happened in 2009 and 2020 to global government debt relative to GDP. That was a forecast, and it got to be roughly right. The fiscal response to this shock is much bigger—almost double—than it was to the financial crisis. It is enormous. I mean, they're going to be running fiscal deficits on average, across the world, of about 10 percent of GDP. The only other time this has ever happened before is in wartime. This is wartime finance on an extraordinary scale.

This chart shows the same thing. This is sovereign debt ratios relative to GDP and goes all the way back to 1880. The blue is the developed countries. The red is the emerging economies. And the basic point is that by 2021 they are both expected to be at record levels.

In the case of the developed countries, they are back to where they were just at the end of World War II, so there has been a huge increase in borrowing. You can see that for the First and Second World Wars and even for the emerging countries, you had the highest debt ratios ever. So we're ending it up with a hell of a lot of government debt. Fortunately, incredibly cheap, interest rates are extraordinarily low so it's probably bearable as long as the interest rates remain low and the maturities are long. But that's a big risk for the future. As I said, this just indicates one crucial interest rate, the real interest rate on US treasuries and, at the moment, the US Treasury real rate is negative minus one. So, the market is, as it were, with a lot of help from the Fed, paying the government to borrow. That makes these obviously frightening debt levels and debt ratios immensely much more bearable. Provided governments are sensible and borrow long term—very long term—the chances are this will be manageable because the debt service is so cheap, debt service ratios are generally very, very low, but we are going to emerge with debt ratios which we basically have not seen except, in the developed country case, since immediately after World War II so this is an extraordinary fact of the world.

A further, really important change is the pandemic has worsened the already fractious relationship between the US and China. We've accelerated the move, already underway, towards superpower conflict and reshaping of the world order back, in some ways, though very differently crucial ways to the world of rivalry between the US and the Soviet Union. China, of course, is much bigger, potentially a huge population, much more economically successful than the Soviet Union and much more integrated in the world. It's a much more complicated relationship, but it's clearly gotten very worse.

I don't think that the election of Joe Biden will change this fundamentally. He may change how it's handled. He may try to handle this in a more cooperative way with his allies, but this reality will shape the world in unpredictable and potentially very dangerous ways. There is an emerging bipartisan consensus in the US on the need to confront China across the board, and I think this is just as true, though different with the Democrats, who particularly will be much more concerned about human rights issues. The Uighurs, for example, Hong Kong, and will probably be just as concerned as the current administration over Taiwan.

A big question is the future of globalization. What's going to happen to world trade? And in here I distinguish real globalization of goods that involves movement to physical things across frontiers, and virtual globalization, what we can do with the platforms we're using now. So this is very striking, I think, from the World Trade Organization. The red line shows what the growth of world trade would have been if it had continued at the pre-financial crisis rate. And you can see it would have been enormous, but it's not what happened. After the financial crisis, partly because growth slowed at the world level and partly because trade growth slowed sharply relative to world output, instead of growing faster with output, we grew at roughly the same rate. We moved immediately to a completely different line, which is the blue line, and that's continued forward in the light blue dots.

Then we have this collapse, which you can see in the early COVID period. That's the dotted line just going down. And then the question is, "How will it recover?" At the moment we are seeing quite a decent recovery. It's not as bad as the pessimistic scenario that the FW2 put together two or three months ago, but we really don't know how far it will go back to where it was before. There is certainly a chance that it won't recover, even to rather poor post-financial crisis trend. That's just one of those big uncertainties.

A big aspect to this is what happens to the integration of supply chains. Between 2000 and 2007, before the crisis, there was a huge explosion relative to world GDP, and really, almost all of that was the integration of cross-border supply chains. A very large part of that in Europe, but also in Asia Pacific, you can see the components. The dark blue bit at the bottom is ordinary trade, and didn't really rise much relative to GDP.

Since 2007, global value chains have dis-integrated. And my strong expectation is that will be

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accelerated greatly by this crisis, but virtually the virtual integration that is possible through these platforms will proceed. That will raise profound questions about who manages, how tech companies operate, how virtual integration works. Will there be two regulatory areas, as it were a Western one and a Chinese one? Will there be three? It looks at the moment as though there might be European, and North American and a Chinese regulatory system for virtual integration.

Then finally, there's the key question of climate. This is a chart that I took from a column I had last week and it brings out the point that if you take medium climate sensitivity—which is, of course, these are models, we're not certain—there's a range you can see. There is an expectation that by 2030 you will intersect with the light blue line and we will have passed 1.5 degrees centigrade higher average temperature increase, every temperature increase, vis-à-vis the pre-industrial period. And that's the point at which scientists predict quite large destabilizing changes.

We've already seen this already, and that will continue on up. We're going to hit two degrees in the early 2030s, three degrees by about 2050 and on up. Most scientists seem to think this next decade is the crucial one. If we don't reverse the upward trend, we are going to live in this completely different world, and we will have moved there more quickly than, so far as we know, has happened before in Earth history. We don't have the details on that. So we have a really big climate change challenge and something really dramatic has to happen pretty soon if we're not going to be a long way up on that curve 20 years from now.

A key role in this managing of emissions will, of course, be China. China is the pink part. All of the growth in emissions is going to come from emerging countries. This is what business as usual might look like. The developed countries are becoming increasingly non-important, so what they do doesn't really matter so much except symbolically. The US will be important from that point of view. But the key question is, "Will we get a transformation in the emerging countries?" And that growth, which we're seeing here, will not happen. If that does happen, then we're going to move into a completely new world from the temperature point of view, in all probability.

So just to conclude, we don't know how the pandemic will end, but the virus itself may well be with us forever. The vaccine obviously looks a bit more promising after yesterday and that creates a new, huge new challenge, which is how do we get it across the entire globe? The pandemic has caused extraordinary economic devastation, which we hadn't really expected, and we were not very well prepared to manage it. The pandemic has clarified, accelerated or exacerbated pre-existing trends in the economy. It's done the same thing with technology.

It has immensely increased private indebtedness and government indebtedness. It's changed our politics. That's pretty obvious. I think the US election shows this. It's changed international relations. It's clearly hit globalization, and it has clarified climate changes, —there's a lot more discussion of building back green.

It really created a new world with some extraordinary challenges.

Arash Massoudi, *Financial Times*: Martin, I just have a couple of questions for you. We have a couple of minutes before we run out of time. I guess my first question is, having studied the financial crisis so closely and now being in the middle of this one and starting to get a bit of a picture of potentially how this is going to pan out, how do you rate the response of central banks and of the financial services industry with this crisis? Are you impressed? Was it excessive? Was this the right way to handle the credit crunch, as it were, that many companies faced?

Mr. Wolf: Yes, I think the authorities, by which I mean the monetary and fiscal authorities in the major countries, responded dramatically much more quickly than in the financial crisis. And for two reasons, I think. Well, three. One, they got used to the idea that that's what they should do because they've done it, I mean, it was only 12 years ago. It wasn't a blame issue. There was a strong feeling we mustn't bail out these terrible financiers in 2008. Well, nobody's to blame for the pandemic. Well, you can blame China a bit. People do, but basically it's an act of God, in some way. And third, the financial turmoil which hit in March was just so dramatic. It was just so dramatic. And they'd seen this play before and so they reacted with, essentially, all guns blazing.

I think this was absolutely the right thing to do. Indeed, it's horrifying to think what would have happened if they hadn't done this but given this is a large, real crisis, it's a real crisis in the true sense of being in the economy as well as being very real to people and very tragic. These

actions have consequences. Just the same way when you fight a war, you need to fight a war but it can be very, very costly, in every possible dimension, to fight a war. Including financial and monetary, financial, fiscal and it's perfectly arguable, for example, that the great inflation of the seventies was, in large part, a long lasting consequence, a long lived consequence of the debt accumulated in the Second World War. So, they were right to do it but it creates headaches.

Mr. Massoudi: Okay, we have about 90 seconds. I want to sneak in one further question which was, do you think that, just given the way systems respond to these things and for instance in the UK now, we're locked down for a month. And that means non-essential shops are closed, which inevitably means a transfer of consumer behavior to the online people like Amazon. Do you think we're going to emerge in a world where there's a greater tolerance of larger companies, which is deeply relevant to the group here today who look at consolidation? Do you think we're going to be suddenly less slightly scrutinizing on the antitrust front?

Mr. Wolf: I'd be surprised. The political consequences of this shock are, I think, very difficult to read, but I think the greater likelihood is that governments are back. There really aren't many libertarians left and people are alarmed and I think, as happened after the Second World War, they're likely to elect governments that do things. Now, they can't spend much more but there's already emerging a lot of suspicion at least of some of the big tech companies and that was already there before. About their power, their wealth, and of course, their centrality. They're so essential. So there's going to be an ambivalent relationship. We need these people, we want them to succeed. On the other hand, we don't want them to be too powerful.

I thought a very revealing moment was this big report from the House of Representatives on the tech industry, which came out just a couple of weeks ago. We've got Biden in the presidency. I expect the antitrust, anti big company, anti private power thing to remain quite strong in US and Europe. And, my God, you are seeing it in China with their stepping on Ant, which I think is symbolic of the same thing, but that doesn't mean, I think, that we're going to see... It will be more like the early 20th century antitrust movement. But I think the politics of business are going to be quite complicated and people doing deals will have to take that into account because we are no longer in the Reagan/Thatcher era. That just seems to be a matter of reality.

Mr. Massoudi: Okay, perfect. I think we need to leave it there but I really appreciate you going into such depth. It was a super interesting conversation.

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Talking Heads
U.S. Global M&A

Moderator: James Fontanella-Khan, U.S. Deals and Finance editor, Financial Times

Panelists: Ms. Anu Aiyengar, global co-head of M&A at J.P. Morgan; Mr. Michael Carr, global co-head of M&A at Goldman Sachs; Mr. Bradley Faris, partner at Latham & Watkins; Mr. Greg Weinberger, global head of M&A at Credit Suisse

James Fontanella-Khan: Welcome to everybody who's joined us from Asia, Europe, and in the US. I'm James Fontanella-Khan, I am the U.S. Deals and Corporate Finance Editor and the co-creator of Due Diligence with Arash Massoudi. I'm really happy today to have this panel looking at U.S. and global M&A and evaluating the fallout of the pandemic and the U.S. election with two big pieces of news there. To help us go through this we've got Anu Aiyengar, global co-head of M&A at J.P Morgan; Michael Carr, global co-head of M&A at Goldman Sachs; and we have Bradley Faris, partner and global co-chair of M&A at Latham & Watkins, the law firm, and Greg Weinberger, global head of M&A at Credit Suisse.

I'm just going to start by saying it's been a hell of a year. It's been a rollercoaster year for mergers and acquisitions. We came from a really strong 2019 and then suddenly by March everything came to a halt due to the pandemic. COVID disrupted and forced everybody to focus much more on shoring in cash, rather than executing deals. There were deals that were hanging that had been agreed before the pandemic and it wasn't certain if they were going to close or not. So there was very serious turmoil—when is COVID going to end and what will happen in the U.S. election. Then things picked up as things improved in the summer, but still the uncertainty remained.

Then when November came we got two very much clearer pieces of news. One is we have a new administration in the White House in the U.S., and on COVID, we've finally got some good news on this front with the announcement of a very strong vaccine from Pfizer and potentially others on the way. Things have again changed a lot. So, I'd really like to start with Anu, if I may, but I'm going to extend this first question to everybody on our panel and it is: What is the outlook for many? Should we expect an M&A resurgence? How does this affect the overall picture of dealmaking? Anu.

Anu Aiyengar: Hello, James. You picked the right word. It has been an unbelievable rollercoaster. In fact collectively the people on this screen can define what it feels like to have just been on a rollercoaster ride. And a bit of that continues. There has been a dramatic reduction of uncertainty. So, in some ways, if you look at historically, the correlation of M&A markets to election years, there has not been any material correlation. However, there is a significant correlation to uncertainty and willingness of companies to enter into a new M&A transaction. And that dramatic reduction of uncertainty that we currently have bodes very well.

Some of the drivers of M&A, in terms of low-cost of debt and robustness of equity markets, they are not new news. But the confidence level that people have now is in many ways based on an expectation that not much is going to be dif-

ferent, in terms of either the regulatory approval or the tax regime. These expectations help reduce uncertainty and increase confidence. The last point I'll make is investors continuing to value and reward growth also adds to the confidence level in the board rooms.

The one detractor is a continuing concern around cross-border. There may be a bit more focus on domestic versus cross-border activity, which is what we have seen in the last three to four months. It will be interesting to see whether that continues to move forward next year, as well.

Mr. Fontanella-Khan: Excellent. Thanks a lot for that, Anu. I was going to go to Bradley next. Same question—what is your outlook?

Bradley Faris: Thanks, James. Obviously, I agree with Anu. There does seem to be significant opportunity for M&A coming into 2021 and we feel quite bullish about that. There'll still be some bumps in the road. But what I focus on is really three things. One is the U.S. election result. Not just the stability of the new administration, but also the prospect of a moderating counterbalance in the Senate that appears to be likely to continue to remain in Republican hands, so that suggests some moderation. We'll see in January.

The vaccine news, in and of itself, is positive. But I think also there is now the expectation that there will be a more focused U.S. federal response to mitigating the virus and hopefully that, coupled with the opportunity for vaccines. will create the perception of a light at the end of the tunnel. And then lastly, there has now been a second round of COVID relief. It could provide some fiscal stimulus that might provide additional support for market and M&A activity.

Mr. Fontanella-Khan: Excellent, thank you. Michael, you're next on my list.

Michael Carr: I go back a little bit to the beginning of this year, and I know that's a painful to think about right now. But, if we go back and look at what happened, it was a 2019 market until March. Everything shut down in March, all of the companies who basically said, "Look we're not going to do any M&A, but boy we're going to spend all of our time and money making sure our balance sheets are strong and that we have the liquidity that we need." That got us through to about the middle of the year and if you remember, in July there was an incredible explosion of M&A. It was a little bit of a burst, if you will. Which, to me, I think we got a very good sense of what probably could happen once the market metabolized and got to a place where people can actually take some risk and put money to work.

I think that's what's going to happen, I think that if the Republicans do keep the Senate, I think it's going to be particularly pronounced. Not because any one of those players are geniuses, it's just the fact that when the market is seized up like this politically, the markets really like that. They like it simply because it gives people a sense of stasis, if you will, to get from here to where we're going to go next. So, to me, this nine-to-12-month journey has been incredible and there's some important lessons that come from that. Not just because of the pandemic itself, but in terms of how money people are using their time and effort to grow. Just as Anu talked about, growth is really what's something that we've seen. And like I said, you saw a burst of that in July and early August and all of that then got shut down because we ran into the federal elections that were going on at that point.

Mr. Fontanella-Khan: Michael, before I move on to Greg, you mentioned that you learned a lot of key lessons. What do you think was the most important lesson, the biggest take-away from these last nine-to-12 months?

Mr. Carr: Well, I was shocked at the degree of capital—and I talked about this at the beginning of my remarks—in terms of how companies were so concerned about how do you deal (a) with a crisis like this, and (b), their response to that was, "I've got to make sure my balance sheet and my liquidity is either one, two, three, four, five." And that's what all the board of directors wanted to see. In times of uncertainty, people shut down M&A to some degree and to a great degree, they look at their balance sheet to make sure whatever could happen and that's really a function of the 2010 disaster that we all lived through, as well. So to me, it's interesting how it gets bifurcated.

Mr. Fontanella-Khan: Absolutely, that is indeed very interesting. Greg, what is your outlook given the changes in the environment we live in?

Greg Weinberger: I think that the world has changed a lot in the last couple of weeks, for the reasons we've said, both what looks like a reasonably effective vaccine, at least in initial test rates is higher than the flu vaccine that's widely distributed, and, of course, the presidential elec-

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tion. When you put them together, it's actually kind of interesting. It looks, on the one hand, like perhaps we have a light at the end of the tunnel from coronavirus with the vaccine. On the other hand, the president-elect has stated he's putting some fairly heavily lockdown-oriented people on his advisory committee. Similarly, we do have stability, perhaps, in the political situation and a resolution, but we don't know exactly who's going to run the various departments. For those who think back to the Obama administration, and the M&A trend coming out of the crisis, there was actually a historic division between market performance and M&A volumes, and a separation and divorce of the correlation that historically applied.

So, I actually think a lot depends on whether or not the Republican Senate holds, but also which way the various cabinet departments are headed, and the regulatory environment that's reestablished. As a lot of people have commented, M&A is driven by confidence levels and certainty of outlook. Folks who are worried about their own P&L and certainly their own liquidity are unlikely to be taking on the additional risk represented by acquiring a company, integrating a company, the market risk associated with it. If there is an uncertain regulatory environment, there would be probably be some industry winners and some industry losers. But the time period for regulations to be raised, discussed, and approved can create uncertainty that can actually dampen the M&A environment and militate against the recovery coming out of the COVID environment from an M&A standpoint. So, that's really what I think the next hurdle is.

Mr. Fontanella-Khan: Absolutely. So you've actually helped me transition to the next question, which is about the Biden administration. As Greg said, we still don't know who's going to be a member of it. But he did mention his unease about the COVID taskforce. There are voices who are in favor of potentially locking down the country again, just to fight the pandemic more decisively. But I'd be keen to hear, Anu, from your perspective, given the fact that we do have a potential split between the presidency and Senate, will that mean more checks and balance that will help sustain a certain status quo going ahead? What's your reaction to the change in the White House?

Ms. Aiyengar: I think the balance is one that the market certainly seems to be predicting and seems to like. Messaging which would move one direction or the other will probably have a detrimental effect just from a market perspective because the market seems to like the direction—we'll find out what happens—but the market does seem to like the direction of that check and balance. It's hard to predict exactly what all of the positions would be, what the outlook of all of the people will be in those positions. But what is interesting to me, is if you look at the four-year period of the second term of the Obama administration or the last four years. And you look at all the different metrics, the total amount of M&A volume, the number of deals over 10 billion, the type of currency mix that you use, the number of deals that got announced and didn't close the number of deals that did not receive a DOJ or FTC approval. It's fairly identical during the two four-year time periods, with one exception—Chinese buyer/U.S. target, and a change in CFIUS rules.

Outside of that, there is a remarkable similarity to the data, backward looking data. Now obviously, backward looking data doesn't mean forward looking data. But it was interesting to see that, and the CFIUS rules and the focus on that especially as companies have gone through experiencing some of the frustrations with having a global supply chain. And thinking about a Plan B associated with that, and how do you solve that? Do you solve that organically or do you solve that through M&A? That will also be one of the themes in the next four years that you look at. But more specifically, who sits in what role will also drive some of the sentiment. But it was interesting to see that most of the metrics outside of China/US were remarkably consistent under two different administrations.

Mr. Fontanella-Khan: Yeah, I mean I think we do forget that one of the top years for deal-making was 2015 and Obama was the president then. I remember at the time when there was a sense that Trump might become president, there were a lot of fears that actually it would be bad for M&A, it would be bad for the markets, and in reality, neither was true. M&A did fairly well, definitely historically, there were all-time highs and most of the market boomed.

But I might be a bit more specific and I'll ask Michael this, on taxation. Biden has talked about raising the corporate tax rate, potentially back to 28 percent. Obviously, Trump lowered it aggressively to 15 and that helped a lot of U.S. companies re-shore to the US. Are we going to see

a comeback of tax inversions, potentially under this administration if taxes do go up?

Mr. Carr: Well, it's a big 'if,' number one, and number two, let me just say, I am certainly not a tax expert or a legislative expert by any stretch of the imagination. But when I listen to all of the discussion going around the place, I think a couple of things. Number one, Joe Biden was a guy in the Senate for the vast majority of his career, number one. Number two, he's somebody who can work across the aisle. And if you want to get to tax reform, it's going to take the Republicans. They're going to be part of this whether we all like it or not, that's just the way it's going to be. And I think a lot of this is going to be very thoughtful with a lot of discussion around it and I think it's not going to be as acrimonious as it certainly has been with the last president.

So that's thing one, thing two if we can think a little bit more about the regulatory piece, if that's okay. I think it shadows the regulatory piece. If you think about the tax regime and you think about the regulatory piece, they go together and the behaviors that both parties engage in that. I think people are going to be happily surprised, I think, with respect to more smoother waters to be able to get their transactions done and to be in a position where they have some ability to look down the road in one year, five years, et cetera, et cetera.

So, to me, I think Biden had to be very, very aggressive during the campaign. And I think at his heart, he's a guy who wants to get things done together. And to me, that's I think a very positive outcome and I think in particular with Republicans standing in the Senate, if in fact that does play out, to me, those are two pieces of chemistry that I think a lot of people are going to be pretty happy about. I can't tell you when M&A is going to come back and the aggressiveness, if you look at what's going on in the Justice Department and what they're thinking about, particularly in the big tech companies. To me, that's going to be something that's going to trail the folks in tech-land. I would say Trump clearly was involved in some of that, but at the same time at the Justice Department, they're all lifers, if you will, and this is something that they've been aggressively prosecuting for a long period of time. So, to me, that's also a little bit of a warning sign for what's going to happen in big technology. And obviously if you look at the top five to seven largest market caps right now, they're all technology companies. So, we're going to have to watch that.

Mr. Fontanella-Khan: Absolutely. So, Bradley, maybe you could talk about this. Do you think there may be a big change with this administration or a return to greatly normality with career DOJ people doing their job as usual?

Bradley Faris: Typically, I would have said that a Democratic administration would be more aggressive on antitrust than a Republican administration. So, I guess we'll find out because certainly those tech companies have been a focus. I would expect that to continue to some extent. But that process has been perhaps more difficult in the last few years than you would have expected in a Republican administration. So there may be a continuation of that.

Also, if I could pivot quickly to the CIFIUS process. I expect the CIFIUS process to continue, as well, in terms of the status quo because although there was certainly disagreement about the rhetoric that the Trump administration has used toward China and the way in which they have conducted their trade wars, the tariff wars. I think there's a bipartisan concern that animates the CIFIUS process, relative to China in terms of protection of intellectual property and U.S. technology. Notwithstanding the perception that that process has been politicized, we've always viewed it as an administrative process that's true to the procedures and the standards that have been established for CFIUS. So I expect that process to continue and to continue to create impediments for Chinese buyers into the U.S., notwithstanding that the rhetoric that we have seen and experienced for the last four years will certainly change and I think will be reduced. So we shouldn't expect a return of Chinese deals any time soon. I'm interested in the rest of the panel's views, but I think Chinese deals will continue to be difficult, at least certainly as to sensitive technologies and intellectual property.

Mr. Fontanella-Khan: Absolutely, I'd be curious to hear what the others have to say. I have been following the TikTok situation very closely, which was a very anomalous situation by any standards, but for all the rhetoric and the bombastic things that Trump said, I think you're right that there was a general agreement both on the Democrat and the Republican side that there was an issue of national security, but how do you deal with it is . . . well, usually CIFIUS is quite secretive and Trump seemed to be happy to blast it on Twitter. But that was just a matter of style. The substance remained somewhat similar.

Before actually digging into Trump, there's

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one thing I wanted to ask Greg. You worked on a ton of energy deals. We've seen yesterday a lot of energy stocks rallying. A lot of them have been hit by a number of issues beyond COVID, but also energy prices going down because of the tiff between Saudi Arabia and Russia. Is this an opportunity, you think, for a bit more activity in this sector? We've seen quite a few deals already in this space. Should we expect more?

Mr. Weinberger: Prior to COVID and prior to a massive increase in supply that started just before COVID, that came out of OPEC starting to reach agreement on supply levels, the energy industry was facing some severe challenges. COVID made those challenges worse by destroying demand for oil and gas and in many investors' minds the demand destruction that we saw during COVID is a bit of a foreshadowing of demand destruction that we'll see from energy transition or by consumer choice, by improved technology, or by regulation. So a lot of investors are looking through this period to the longer-term environment of lower overall demand. Which probably leads to a reluctance on the parts of markets to capitalize the good kinds of oil and gas into stock prices. That dynamic by and large is what's driving the M&A deals that we've seen recently. There are different flavors of it. So even as the stock prices went up on some positive news about a COVID vaccine, it's really not a panacea for the ills of the industry and the concerns on investors' minds. It's a positive fact because it presages the possibility that if COVID goes away, economic activities should improve and that should lead to increased demand for all kinds of products, including oil and gas. So that's what I think you saw there.

Mr. Fontanella-Khan: Absolutely. Michael, do you have any views on energy deals? I know you followed a lot of deals in that space, too.

Mr. Carr: You and I have talked about this together from time to time. I think this is pretty clear to everybody who participates in this market. There is a surplus of oil and gas, number one. Number two, you have a surplus of companies and the only way that these companies can actually get their stocks moving is to merge with other players. They tend to be MOE-ish, if you will. And what's happening is the two companies get together and they strip out all of the expense of the target and so you get the same kind of asset of balance that you have, but at the same time a bunch of costs come out of the system. And again, it's odd simply because people do this as a way to kickstart their stock and it's just a function of folks getting out of the marketplace, taking costs out, and waiting for things to get better. But right now, if you don't do that, you're probably going to have an activist on your heels because they're looking for that kind behavior because that's what they're looking for.

I've never seen an industry like this before in terms of this is how they're going to continue to prosecute the changes they have to make because basically what all of them, in my opinion, they've all decided that this is the way to go and there's this dating game going on between all of them and you saw the flurry over the last two or three months. It's been extraordinary. It's simply to make sure that they're trying to balance with the oil and gas itself, with the management teams, and the numbers of companies that we have left. So, it's pretty extraordinary movements that a lot of people I think could learn from.

Mr. Fontanella-Khan: Absolutely. You mentioned activism and I'm going to come back to that in a second. Before that, I wanted to go to Anu and get your opinion. You worked on a ton of humongous deals in consumer industries and financial services industries, just to name a few. Is there any sector where we might see a greater amount of activity in the months to come?

Ms. Aiyengar: The themes, sector-wise, continue to be healthcare and tech over the last few years. As Mike and Greg just said, I think after a dry spell in energy for about 18 months, suddenly you saw a whole flurry of activity. And often times, you see one deal in a particular sector, especially when the dynamics are the type that might be just a spike, you do see follow-up deals, you see a similar flurry of follow-on deals because you don't want to be the last man standing. Also, whether it's in the energy industry or in any other sector, you want to be wary of a competitor who is able not just to take out costs but also to reinvest in the target. In some of the other sectors, it has come from either growth-oriented investment, many in healthcare, or you have the financial ability to invest and supercharge a particular new concept or technology. That then puts the onus on all the other competitors to say how am I going to react to this and what am I going to do in order to have the investment. You've seen that, whether that has been in the asset management space or in

the consumer space. You've seen a lot of deals that have been motivated by either new concepts requiring capital for growth or more well-established companies that have the capital but require the innovation in order to drive growth. Those have been happy marriages.

One of the concerns for why those don't happen is the question of culture, which is so hard to do and especially in a zoom environment, even harder to do, to try to figure out whether there is that cultural fit for those deals to happen. And to me, that's actually—you asked earlier what has been one of the biggest lessons out of this environment, and it's the fact that you can do an M&A deal from start to finish in this environment. But they're hard. The ability for people to be in rooms together to actually figure out whether there is that human chemistry in order to make things happen, whether there is that cultural fit, that should enable many of the conversations that have begun but couldn't get to fruition because if you didn't know each other before, it's much harder to figure that out in this environment. So I'm optimistic about that element, as well in some of those industry sectors.

Mr. Fontanella-Khan: We've talked in the past about how do you bridge the value gap in these situations? There's been a lot of dislocation. How do you figure that out because expectations often don't really align anymore.

Ms. Aiyengar: Yes. And probably last year, there were moments in time when you have the same concern in terms of meeting of the minds. And in an odd way, some of the deals that you saw happen in the third quarter of this year were much more buyers proactively going to targets that they've always wanted. Not trying to look for the cheap deal but paying out for a quality asset. And that dynamic has helped. The second dynamic that has helped is, especially in the energy sector, maybe realism and acceptance of what it is that you need to do. Which again, some of this could have happened in the last 18 months but you saw seven or eight deals all happen together at the same time. And the third is the drive for capital and growth. A combination. That has also helped companies get more comfortable to say, "Okay, I can keep waiting for that higher valuation." But whether that's the VC community, saying that now may be a good time for me to actually do this or whether that is the acquiror saying, "Okay, maybe now I'm paying a very full price that today looks like it may be overpaying, but over time will actually show that this is value enhancing." And equity investors have rewarded the companies for doing that.

So you have seen deals at pretty high premiums which traditionally you may have said because of that premium, obviously the acquiror's stock price must go down. But the reaction of the investors has been more nuanced, which is a healthy trend for an M&A market. Because you want the investors to actually look at a deal, understand the deal, and then react to it. The emphasis on growth that investors have had and the willingness of an acquiror paying up to buy a quality asset which gives you growth has also been constructive. Having said all that, where there is a discrepancy between the seller's and the buyer's expectations, stock deals you may say should help with some of that and you've seen some of it, but really not as much. It's been seen in some of the big deals that have gone stock-for-stock, but there is still more use of cash because, first, how much liquidity and cash is there on a company's balance sheet, and second, the cost of debt. And so once you go to that land, you do need a meeting of the minds between seller and buyer. And the removal of uncertainty, I'm hopeful that helps as well.

Mr. Fontanella-Khan: Absolutely. One thing on COVID, Bradley, this is really for you from a legal perspective. We saw a lot of deals that were signed before the pandemic exploded that then got into a bit of difficulty closing because of a value gap. The value of those assets obviously in many sectors was hit. We've seen buyers having severe buyer's remorse syndrome trying to get out of these deals. Most of those deals eventually settled, usually at slightly lower prices. What I wanted to ask you is given that everybody was looking at the fine print, the covenants and the MAC clauses, so are we going to see these tightened up further or do you think there isn't going to be a big change because they worked in this situation?

Mr. Faris: Well, most of the contracts that were litigated and resulted in re-negotiation didn't have specific language on a pandemic or COVID in particular. But we're seeing now in the market, and it's pretty widespread, very express treatment of COVID risk, both in the material adverse change clauses as well as the business covenants, and other aspects of the contract. So I don't expect that to change as long as COVID's in memory we're probably going to be dealing with it. When we come out of it, I expect generally contracts will require the buyers to assume those risks. And buyers are in a position to do that

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because they can look back on what happened in the spring of 2020 during the shutdowns and they can have at least some sense of what the risk is that they're assuming, were we to go back to that place. Hopefully, we won't. I think it's here to stay for as long as the legal teams have any memory of the past nine months.

Mr. Fontanella-Khan: One thing that we've noticed over the last nine months is that activists have somewhat disappeared from the scene for a while. I think it was probably harsh for some of them, especially during the March period when they usually come out with their proxy statements to go after boards as they usually do. But, from my reporting and talking to people in the market, there is a sense that it won't be the same in 2021. What's your view? Should we expect a comeback of activists in the next couple of months? Greg, do you want to start?

Mr. Weinberger: Sure. Absolutely. Activism declined at the onset of the financial crisis, it declined at the onset of the COVID crisis, and in fact when you think about the timing of when COVID hit relative to shareholder vote season, there was a spectacular number of settlements. From specific situations that I was involved and talking to various folks, I think in many places, activist and board realize that there is a bigger crisis at hand other than fighting over a given board seat or a specific policy when a company has liquidity problems and potential viability problems, so resolutions were pretty quickly negotiated in many cases that might not have been otherwise. And new campaigns did not begin. Some of the activists themselves have portfolio challenges in the market downdraft that also led to a diminution of activist activity. But from everything we've seen, it'll come running back through this up-coming proxy season.

Mr. Fontanella-Khan: Is there any sector you think that might be at more risk than others from activists coming in vis-à-vis the pandemic?

Mr. Weinberger: I actually don't think there's going to be a whole lot specific to the pandemic. There may be some arguments made about how management bungled something or other as part of a claim, but I actually doubt there will be very many truly pandemic-driven activist campaigns. I think more likely, you'll see a reversion to the kind of typical claims that activists have been making about allocation of capital, redeployment of assets, balance sheet activism, M&A activism, just the whole pot pouri of issues that activists go for. Pandemic responsiveness may be thrown in as another argument.

Mr. Fontanella-Khan: Absolutely. Michael do you have any thoughts on a return of activism in 2021?

Mr. Carr: Yeah, I think that the observation is right that a lot of these players have to protect their balance sheets and not just their balance sheets but also their portfolios. That takes a lot of time and that causes a lot of stress in the system. One of the things that we're seeing over and over again now is we're seeing private equity firms start to act like activists and activists start to play like PE firms. To me, it's just capital joining up with capital. You're seeing a lot of folks, particularly in private equity, who are being pretty aggressive. A lot of this doesn't come out in the press, but there's a number of places they show up and they have a toehold of two to three to four percent suddenly. They're under five percent, so they've been aggressive with management teams. That's surprising to me, but nonetheless I think most of their guidelines in their portfolios are changing pretty rapidly.

I don't know that there's going to be, as Greg talked about, a streak in a particular industry group. I think it's more idiosyncratic to folks who have stubbed their toes or made some mistakes. But that will attract again both the same shareholder activists as well as some of the aggressive folks in private equity land. And I think that's going to go on for a long period of time because if you step away from what all the nomenclature is, a lot of these folks have the same formula. I think that's going to congeal and it's already started. So we'll see what happens but I think it's less about who's going to do it, more about how are you going to get it done.

Mr. Fontanella-Khan: Bradley. Same question for you on activism and then I'm going to ask you a few questions coming from my audience. We don't have much time left, this has been great. Go, Bradley.

Mr. Faris: I agree with what's just been said. I do expect activism to come back. One thing I think could be interesting. There were a number of, just call them early settlements in March. Those are often up for renewal in March, they're one-year settlements. So, it'll be interesting to see

whether either the activists thought he or she settled too quickly and too easily or the companies felt that way and there's an effort to renegotiate and whether that'll be a successful renegotiation or turn more hostile. I think that'll be interesting to observe as we go into 2021.

Mr. Fontanella-Khan: Excellent. So, there's one question from one of our viewers about financing. I think it's kind of the back of what you were saying earlier, Anu. He says, basically, in this kind of environment, the structure of our finances is going to change. Are we going to see more high-yield issuance? Is there a greater appetite for yield versus stock and cash? How is the financing of deals going to change in this environment? Anu?

Ms. Aiyengar: As I said before, I think a lot of companies have a lot of cash on their balance sheets because of the reaction that many companies had in the middle of March. Often that was pulling down the playbook from 2008 to 2010 time period. Some of the CFOs and people in finance were on the same teams during that time so they say, "This is what worked and I'm going to do the same now," or it is just that in times of uncertainty, you want to have more capital and liquidity. Whatever was the motivation, the amount of cash on the balance sheets of S&P 500 companies is at a very high level. So you've got to think of all that cash and on top of that any financing. Financing has not been the reason any M&A deal has not gotten done. Valuation has been a bigger issue than financing.

If I can make a point related to your previous activism question?

Mr. Fontanella-Khan: Please do.

Ms. Aiyengar: I agree with Mike on the melding lines between all the different sources of capital. In addition to private equity and activism, you have multi-strategy funds who are activists. So one arm is activist, another arm is not. Likewise, you have private equity firms who do minority deals, growth capital, infrastructure funds, and traditional private equity. And you add to that the LPs who are doing direct investments and I'm very impressed that we are on a M&A panel and we haven't said the word SPAC until now. That has been an added element as well, because you have many people from all of these other pools of capital all raising SPACs and SPACs becoming a very relevant part of the M&A market as well. And that goes in to financing as well because a company can think about selling itself to a strategic going IPO or doing a SPAC deal, which is in some ways a combination of the two.

Mr. Fontanella-Khan: We've seen a ton of them. Is this a fad? Is this the COVID fad or are they here to stay? Anu first and then Michael.

Ms. Aiyengar: I'll be quick. I don't think it is related to COVID. I think it is a bit more that the SPAC technology has evolved and the current version—whatever that is, 2.0, 2.5, 3.0, I've heard various versions—the current version is different. The investor base in a SPAC and an IPO are not really different, one versus the other. It's the opportunity for due diligence, projections, and the ability to monetize a higher percentage than you can in an IPO, as well as in some cases the willingness for a higher degree of leverage to be supported. And lastly, I'd say because there are so many SPACs, it has become competitive for them to do a deal and there has been more of a willingness to redo some of the terms at the back end, in terms of the warrant economics and promotes, which has also facilitated deals getting done. It will be interesting to see the hundred-plus SPACs all of whom are hoping to get a deal done in the next 18 to 24 months. My expectation is the technology around SPACs will continue to evolve and some of these will close without doing a deal and some of them will do a deal.

Mr. Fontanella-Khan: So we're running out of time. The same question about SPAC's to Michael and then I'd like you to all think about one tip for our viewers on deal making in the COVID era. What's a tip you learned of how you do a deal differently from when you would have done it before.

Mr. Carr: Perfect, so I would say in the last 10 years, SPACs have really changed, and I think one of the reasons that they're getting so much notoriety as well as activity is all the terms that they have to abide by are much better than they had been over the last 10 years. Usually in the last several years, somebody's going to get harmed in these things. It's a little bit of a merry-go-ground, it just depends on who's got the most leverage, but right now I think there's a balance among all of the constituencies and therefore it's a much more interesting opportunity for the folks who have put these on the table. And the incredible amount of activity around this, I think is going to last for a while. And I'm not smart enough to know when and how, but it does feel like all

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the players around the system have found an equilibrium where everybody wins in their part of the game.

Mr. Fontanella-Khan: Excellent. Thank you, so we're definitely over our time. So I'd love it if each of you would give a telegraphic tip on deals in the COVID era. Bradley, you go first.

Mr. Faris: I don't know if I have a tip so much as an observation but what I found is that the use of zoom and video conferencing has humanized the engagement with all of the transaction counterparties, advisors, and our clients. And I think that's really unique and kind of special and it's going to continue. Just seeing people's cats in the background and children running in. That's a new feature of our work and in some ways it's enjoyable.

Mr. Carr: Particularly if your children have to come in to fix the machine. [*laughter*]

Mr. Fontanella-Khan: Do you have any fun tip or story, Greg on dealmaking in the zoom era?

Mr. Weinberger: Actually, more from our trader's side, as we were all going back to the office and I was talking to friends that were headed in, most of them less because of firm policy and more because they were, as one put it, tired of fighting with their three teenage daughters for band-width at home. It was just too difficult. [*laughter*]

Mr. Fontanella-Khan: Absolutely. Michael, any last few words on this topic?

Mr. Carr: The thing that I want to talk about is financing, which has been an important part of this discussion and one of the things I've noticed about the recovery in the markets from March until now. In March there was a big stock-for-stock deal and Anu talked about this a little bit. That was bold, but effective. You saw stock-for-stock deals for a while and then about June, you saw some hybrids of both cash and stock. And now, we're back to almost pure cash, pure capital, and so it's amazing to watch how the market just metabolizes all of this. It figures out what is the cheapest cost of capital and that's done very well. There are always three phases that have appeared in the last nine months. You always see the one who sticks their neck out and says, "We're going to go now because we have the capital and it has to be the lowest cost of capital." To me, it's quite incredible to watch it and it's one of the bricks in the wall that has really helped us get through this part of the equation.

Mr. Fontanella-Khan: Thank you, Michael. Anu, any last tips on dealmaking in the COVID era?

Ms. Aiyengar: I'd say strategy matters because for most people who are able to act, they have their strategic plan. The question—"If I could do something, what would be the companies that I would go after"—that has already been well thought out and mapped out. There is the popular saying that goes, culture eats strategy for lunch. Culture matters even more. Where there was a cultural fit and people knew each other from before, it was possible to make things happen in a remote environment. Even if you had the strategy right, if you couldn't find that cultural fit for whatever reason, whether that is because you couldn't get together in person, or you didn't cultivate the relationships before, that has become harder. So, both strategy and culture are very important.

Mr. Fontanella-Khan: Thank you everyone very much. Anu, Michael, Bradley, Greg, this was fantastic.

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Survive or Expand
Europe M&A

Moderator: Mr. Arash Massoudi, Corporate Finance and Deals editor, Financial Times

Panelists: Mr. Hernan Cristerna, executive chairman of Global M&A at J.P. Morgan; Ms. Alison Harding-Jones, vice chair of EMEA BCMA and head of EMEA M&A at Citi; Mr. Henrik Johnsson, co-head of the Investment Bank, Europe and co-head of Global Capital Markets at Deutsche Bank; Mr. Sam Newhouse, partner at Latham & Watkins.

Arash Massoudi: This session is going to be on Europe and European M&A and I'm thrilled to be joined by four leaders in that space of advisory and investment banking services in the European market. Before I introduce them, I just want to set up the context. Obviously, it's been a strange year for M&A. We had a slowdown, markedly, after the crisis really hit its worst parts in March and April, only to have a sort of snap back in deal-making which, though the dealmakers may have predicted it, I don't think many people, even in my industry, expected it to happen so rapidly. And so, in this session we'll discuss what are the sort of opportunities coming out of COVID, what are the lessons learned and what are some of the thoughts about where we're headed in the European market on the topic of mergers and acquisitions and whether the fundamentals driving a lot of this will change or accelerate.

With that, I'd like to introduce our speakers. We have Hernan Cristerna, he's the executive chairman of global M&A at JP Morgan; Alison Harding-Jones, she is vice-chair of EMEA BCMA and Head of EMEA M&A at Citi. Henrik Johnsson, Co-head of Investment Banking at Deutsche Bank for EMEA; and Sam Newhouse, who's a partner at Latham & Watkins. All four of them are based in London. I know all of them and they are fabulous. Hernan, I want to come to you to sort of set the stage in terms of where we are and where we are headed in your mind, in terms of the European market and European competitiveness in the global landscape.

Hernan Cristerna: Sure, and thank you very much for having me, Arash. The first thing I'd like to say is that I think there is logic that the consequences of this pandemic actually accelerate M&A activity. I think that consumers, I believe, are going to become more value conscious. There's going to be less discretionary spending. I think that we are going to see an acceleration in digitalization, where companies have to make more investments in technology. I think supply chains are going to become more regional and more costly, and there's also going to be greater credit scrutiny.

I think that all of that is conducive to scale, and emblematic of the benefits of scale, and that is facilitated by M&A. I think that we have seen that logic, the evidence of this logic, in the performance of the market in 2020. I think that the first half of the year was one where corporates were building the foundations with the balance sheets. But it's interesting to note that at the halfway point of this year, global M&A volumes were down 50 percent, led by North America's, which was down about 60 percent, and EMEA, which was down 25 percent.

You fast forward to where we are today, and that minus 50 globally is now minus 17. Minus 60 in North America is minus 30. Minus 25 in EMEA is minus 14. But what also really interests me is the difference between North America and Europe. If you look at the actual volumes in trillions of dollars or billions of dollars, on the difference between North America and EMEA, right now, it is approximately $300 billion dollars.

When you look back at what's been happening in the market over the last two years, the gap between North America volumes and EMEA volumes in 2017 was $600 billion. In 2018, it was $700 billion. In 2019, it was $800 billion. That gap between North America and Europe has been widening, and I have been outspoken at different public forums, that European corporates needed

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to react, and if this trend were to continue, there's a real threat to the competitiveness of European companies being taken away by US corporates.

If you simply look at the deals behind that surge of activity, particularly in North America between 2018 and 2019, they were led by intra-US, transformational with a capital T, transactions. BMS-Celgene, $100 billion dollars. AbbVie-Allergan, $87 billion dollars. Occidental-Anadarko, $56 billion dollars. UTX-Raytheon, $36 billion dollars. And I can just go on and on. And throughout that period, the response in Europe was curious, I would describe it as an internal reorganization deal around Aramco/SABIC, $69 billion, fine. Then, I can think of E.ON Energy, $54 billion. You drop down to about $29 billion. Maybe AXA-XL Insurance, which was $15 billion, and then it just drops off.

The difference in activity was massive. And then, what I think happened, and I think this was a landmark event, was Europe started thinking about the logic of creating strong European companies. Siemens and Alstom tried to combine in what I thought was a very logical deal with the support of the French government, with the support of the German government, and lo and behold, that deal was blocked. I think that acted as a catalyst for a lot of companies saying, "How is this possible?" and "There is logic and we do need European companies to become larger and stronger."

And I think that initially led to some deals coming to the fore. I remember LSE/Refinitiv was in the summer of '19. FCA started doing the Renault deal in the summer. They ultimately agreed the PSA deal at the end of 2019. And then, we've seen what's underlying the current volumes in Europe, this great amount of European deals, the '02 Virgin Media deal, Siemens with Varian, the Adevinta deal on eBay Classifieds. And even more importantly, what I see as a start of a trend towards creating European champions.

You think of what's happening in the financial sector, the combination, the announced combination of Caixa with Bankia, Intesa with UBI. In the payment sector, SIA and Nexi, now with Nets. Euronext with Borsa Italiana. So I do think that there is a trend toward increasing activity from European corporates, the logic of creation of European champions, and I am encouraged that European corporates are reacting and engaging in transforming deals and encouraged that the market is buying into the logic of the creation of these European champions. I dare say that I'm also encouraged that regulators will take a more long-term view on the benefits of some of these deals to European consumers. I'll stop there.

Mr. Massoudi: Okay. No, that's super helpful. And if I can just add that it's been striking because part of your team has been sharing with me over the last year or two where European companies ranked by market cap over time, comparing it to 20 years ago or 10 years ago versus where they are today, and it's striking, the extent to which they've fallen off the top 50. At the FT in May or June, we ran a visual explainer looking at which companies were the biggest beneficiaries of the COVID market reaction. And it was striking the extent to which Europe and especially the UK were left out of that. It was really U.S. and Chinese growth-oriented businesses. And if I was thinking about industrial strategy from a European standpoint, I'd be very terrified looking at that, in terms of what the market thinks is the future.

Alison, I'm going to come to you. Can you give a sense of what you are talking to clients about now and what you are observing in terms of the advisory that they are requiring and what are the top lines of what you're trying to communicate to them in terms of where we are headed and what they need to think about?

Alison Harding-Jones: Yeah, so let's just go and revisit a little bit of the backdrop first, because I think it's important to put it in context. As you rightly said at the very beginning, Arash, it was only a few of the dealmakers that predicted this surge in activity. And I think we saw that COVID, that the way out of COVID for most companies was going to be M&A. COVID was clearly a big shock in the very short-term in terms of the consequences and the demands on liquidity and the share price reactions. But actually, I think very quickly, the corporates understood that they needed to react and adapt to whatever the changed world looked like and prepare for the future in a much faster way than I think we would have anticipated. That has caused an inordinate amount of activity. If you went back a year ago, I think deal makers in Europe would have said, "We are crazy busy coming into the early part of this year." It all fell off. Lots of stuff suspended and then it started picking up in June and July.

The drivers of that, I think, to me, are simple, right? Number one, there is a reemergence of some of the transactions that have been sus-

pended. Number two, COVID has meant that, actually, exactly what Hernan said. Size, scale, critical mass, ability to drive growth both at the top line and at the profit line is very, very important. I would say we are busier than we've ever been. I'm sure the fellow bankers on this call will echo that. And really, this is very, very broad based. It is across sectors, it is across geographies, and it is the companies who've performed extremely well, let's put those broadly into the tech and the healthcare space, who've got very strong currency, using that to execute transactions at a rapid pace. Whether that is to fill in current gaps, whether that is to fill in geographies, whether that is to secure partnerships, it's a very, very broad range of things. And then, I think at the other end of the spectrum, the companies that have been hardest hit recognizing that there is a need for consolidation.

We are giving advice to an inordinate amount of our clients at the moment, in terms of what the options are and how you can structure transactions, primarily using equity. I think it's important to note that what COVID has also proven is that companies do not want, and investors do not want companies to have too much leverage on their balance sheets. We're very focused on share-driven transactions, primarily. Certainly on a within-Europe basis. And there is just a huge amount of activity going on.

And then, you layer into that, of course, the private equity wall of money that we've all been talking about for years. And I also see a huge amount of activity coming from the private equity buyers. I think that is particularly relevant on the midsize companies in the UK, but also in some other of the European geographies. I reckon, I think this has been a moment in time when we've seen deals that have long been talked about, such as the Veolia-Suez transaction, finally making some progress.

This has really accelerated the activity levels. I think for those of our clients who have conviction and strong management and can be nimble, they've really, really moved forward in a surge to get deals done. I think we've seen so far, the tip of the iceberg, and I am expecting that as we go into the first and second quarter next year, this will move into even larger transformational transactions for European companies. It's a very, very busy time and a fascinating time, because I don't think when we were sitting here last week of March all thinking, "What on earth is happening here?" that we would have predicted this would come so fast. But it has been a huge accelerator and I think it will transform the landscape in Europe over the course of the next few years.

Mr. Massoudi: One of the reasons obviously for that has been the relative health of financing markets. And so, I thought it would be good to bring Henrik in here. It was a subject of our earlier presentation by Martin Wolf, who said that he felt central banks did a very good job managing the crisis and had learned from some lessons of before. Can you give us a sense of how financing markets have developed during the crisis and how companies reacted and give a sense of where we are now?

Henrik Johnsson: Yeah, I think it dovetails very well with what Alison just said and also Hernan about the reduction in M&A activity that happened immediately post-COVID. I think what everyone did on the corporate side, large cap or small cap, was first of all, reassess the health of their own business and worry about financial viability with sales declining, all their employees having to work from home, and so on. That obviously stopped a lot of the strategic transactions that people were working on.

I think what banks were able to do at that point was to essentially provide emergency liquidity lines. That was the number one request that we had. And I'm sure everyone else on this call had as well. "Forget about the strategy. Right now, I just need to go to my board and say, 'I have ample liquidity to survive and I don't know what's going to happen now.'"

As you said in your introduction, clearly that changed very quickly. And I think central banks are really the major driver. I agree that the consolidation as a reaction to COVID is very important. But all of this is only really possible because of the amount of central bank liquidity that's flooding into the market. That's what's driving valuations. And so, what companies were able to do with the issue, first of all, they developed emergency lines from their banks, typically. But then, the DCM markets were extremely robust, much faster than anyone thought.

If you compare it to the 2008-2009 crisis, you had four months when no one could issue any debt of any kind, really. In Europe, at least, that lasted about a week. And then, all of a sudden, you had issuers out there bolstering their liquidity. And I think that's one of the reasons why activity is so high right now, which is, we've had about $1.2 billion of issuance in Europe so far this year. Corporates are up about 20 percent, but that hasn't been for acquisitions. It's been cash, in some cases to pay down short-term debt. And I think that's putting companies in the position

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where, whether through equity or other means, they're just able to be aquisitive in response to the market.

I think looking forward though, clearly entering into a sort of second phase of COVID, there's still a lot of uncertainty out there. But I think it's different than what we saw in March. Because now, many more of our clients see the opportunities rather than just the threats. And that's why I agree with the two previous speakers. I think M&A activity in 2021 is going to be very big. And it's going to be very broad-based across many sectors.

Mr. Massoudi: Got it, yeah. And that's exactly I think the key point, which is that the availability of all kinds of different financing has been the kind of cornerstone of this recovery. Sam, coming to you. If you had asked me in January or February where we were in the M&A cycle, I would've said, "It's been six years, it's tailed off a little bit in Europe, driven mostly by the US in the previous years. But generally, it's been a secular kind of uptick in M&A at really, really healthy levels from an investment banking perspective for many years. And at some point, this was bound to slow down." Do you still think that's a fair view now? Or where are we now in the M&A cycle? Has there been a reset?

Sam Newhouse: Yes, so it's a great question. My view is, if you had asked me 18 months ago, I think I and many other people, I'll admit it, were very comfortably calling the top of the cycle, effectively, to say, we were getting up to a point where valuations were relatively high. Deals were running away very quickly, and you were thinking, "Are we there? Is this the end?" But I agree with all of the previous panelists, which is, I think this has caused a major reset. I think companies are re-evaluating their strategy. I think they are re-evaluating which business lines are important to them. And similarly on the flip side, you have some companies who are looking at their balance sheets and working out, "Well, we need to transact and we need to move." I think we're entering into a new phase, the start of a new cycle, which will, with the credit that we've talked about already, enable a re-configuration of many of Europe's large and midsize companies. I think we're at an interesting and exciting phase in that.

Mr. Massoudi: I was going to say, do you think there's a sectoral bias in this world? Or is it broad?

Mr. Newhouse: My personal view is we are cross-sector. And I think in a way, holistically looking at an M&A cycle as a whole is probably a slightly outdated concept. I think different sectors are going through their own different phases. They've got different timing. They've got different valuations associated with them. And they're all moving at different speeds. I think we've obviously seen pharma, tech, have a massive boom over the last few months. They might slow down as vaccine use or whatever it is comes through. Others are perhaps people who have been waiting in the wings—whether that's sports, travel, or hospitality—they will now start thinking, "Hold on, we can see the glint of light coming back here and now is the time to execute and take advantage of potentially low pricing with sectors which are going to go to flow back." So I actually think we're sector neutral. I think many of those sectors will proceed at their own paces. Something like 2008 is not what we're on the lookout for at the moment.

Mr. Massoudi: Would you characterize some of the activity we've already seen—and obviously, you can't speak to your future deals, but you probably have a sense of them. Would you characterize it as the strong buying the relatively weaker or is it the strong and the strong coming together? What's the kind of relationship between the buyer and the seller?

Mr. Newhouse: I would put it in a number of different categories. I think, as Alison already mentioned, we've seen deals that perhaps people have looked at a while ago, dusted down because they make more sense now and people can see the benefits of both sides. I think we've seen the strong deciding that they're going to repurpose. We've seen boards, we've been involved with boards who are sitting, looking hard at well, what actually is our core business and where do we see ourselves driving in the future? And maybe deciding that even relatively robust parts of their business, they're happy to carve out and see go to a new home.

And we've also seen companies that are hit hard by the pandemic saying, "We need to shore up our balance sheets. We've done what we can in the equity markets. We've done what we can in the debt markets, but that's not going to be enough for the repayments and our debt profile going forward, so we need to sell and reshape." I think we've got all sorts in the mix, and that is

what produces, and I think will produce, a huge upswing, a continued upswing in M&A over the next Q1, Q2 and into next year.

Mr. Massoudi: All right, thanks Sam. Hernan, coming back to you, one of the big trends in the last three years in Europe has been the emergence of activism as a major line of corporate advisory and defense for many of the firms here as well. Do you have a sense of how the pulse and nature of activism is going to change in light of the crisis? It's probably not a good time to be pushing someone to do things at the expense of their employees or the things that typically come with shareholder maximization may be less in vogue in a period of high global sensitivity. Do you have any specific thoughts on how the activism landscape will change?

Mr. Cristerna: I think that in our experience, there is a more subtle approach. I agree with the thesis that in this environment, it is more difficult to aggressively challenge companies to break up or pursue major strategic initiatives, although, I think that will come, consistent with this thesis that we've all been discussing in terms of the importance of scale and being on the front foot. Two things that I've noticed: one I've noticed and one that I suspect. The one that I suspect is that I think that through particularly the second quarter, activists have used low entry values to build any number of stakes where they have real convictions. I do think that it is possible and I suspect that activists have low entry prices in a number of companies that they have conviction of what's what.

What I think is more interesting, and I have noticed this, is that there is a new, subtle approach which goes as follows: "We want to engage constructively with you. Let's exchange information. Let me understand your business. I'm not going to do anything publicly. But I think that you can do better. And we should talk about what kind of targets you should have in terms of top line, in terms of profitability, et cetera."

And I think that it's a tricky time for corporates, because I think there is fatigue and frustration in dealing with activists. And I think that it's very easy to fall for the trick of "in order to avoid a massive dispute with activists, I am going to engage and I'm going to agree." Because also, a lot of corporates like the idea they can do better. Like the idea of buying into nice, optimistic targets.

The problem is when you don't hit those targets. And without talking about anything that is recent, this is exactly what happened to GE, right? On the day, Jeff Immelt was great friends with Nelson Peltz at Trian, they engaged constructively, jointly. Trian had a view that GE could do much better. They jointly agreed that they should go public with any number of what proved to be very aggressive, very rosy targets. And guess what happens? The inability of GE to hit those targets led not just to the dismissal of Jeff Immelt, but also to the dismissal of John Flannery. It took away two successive CEOs and then that ultimately led to the breakup of GE. I just think that there is a subtle and if you like to say, elegant approach from activists that I worry about, which is engaging seemingly proactively, trying to challenge companies to have unrealistic targets, which by the way, leads often to a nice pop up in the share prices, some nice capital gains. And then listen, if those targets are met, everybody wins. If they're not, that becomes the agent, that becomes the way of having change.

Mr. Massoudi: That's super fascinating. Thank you for sharing. And that's a lot to think about because it was definitely becoming one of the main topics we were writing about here and all of a sudden, it does seem to me to have gone much quieter with rare exceptions, so it's interesting to hear how it's going on behind closed doors in a slightly different way. But we'll definitely keep a lookout for that.

Alison, coming to you, this question of valuation keeps coming up and when I asked Patrick Healy about it on our previous panel, he said, "This question of are we overpaying? Is the market too frothy?" has been the dominant question of his 27-year career in private equity. It's nothing new for him. But surely, we have reached the point where the market is very frothy and you need to have even more conviction if you're going to do a P2P type transaction. But what are you finding with respect to the tenor of conversations with private equity buyers in this market in Europe?

Ms. Harding-Jones: I think the premium for growth now is probably higher than it's ever been, right? And so, people are chasing growth and willing to pay a very high price for it. I think we've seen boards generally being very robust in turning private equity away. There has been a little bit of a ping-pong game going on with this going-in/being-sent-back, et cetera. However, yesterday, markets moved meaningfully again. The private equity guys, I think, when they're looking at the business plan, they need to have the conviction and the ability for that growth to

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continue to be there through the cycle of their investment and that exit. And that is a very, very key point when private equity are assessing value, right? It's what do I need to pay today to win it? And if I look at how I exit this and the assumptions I make and the multiple when I can achieve that exit in whatever form that is, is that something that's going to deliver my returns?

What I tend to see is that where you have really high quality companies, really high growth and proven growth, particularly resilient through the COVID period, the price that people are willing to pay for that is very, very, very high. And they are willing to get conviction and they are willing to sit in front of their investment committees and I think be very bullish and very confident on their expectations of an exit. I think that will continue. I think that will continue because I think the growth is becoming more difficult to find. If you went back to where we started at the very beginning and you sort of thought about where the activity was, and I think it was Hernan who talked about more in the U.S., less in Europe. A lot of that was driven by the fact that the U.S. growth was simply better than what was going on in Europe, right?

This is now being segmented into a number of verticals. And some of these high tech, high growth companies have just run away at the moment, right? But I do think I'm seeing really polarized reactions to opportunities. High growth, huge competition, willing to almost pay very, very high multiples to secure that and get the conviction that they will be able to continue to deliver that growth through the cycle of their investment. Anything other than that, is much, much harder to get a decent offer on the table for.

And there are a lot of quiet, bilateral discussions happening in the background versus what you would've ordinarily seen as much frothier auction processes. That's my perspective. I think the private equity guys, as we all know, have got a huge amount of money to invest and they want to invest that behind something where they have conviction. They have got to make their returns and growth is the top of that agenda for them.

Mr. Massoudi: Henrik, coming to you on this topic. What are the trends in LBO financing? And will we see a lot more of these P2Ps going forward?

Mr. Johnsson: I think the gap in valuations of different sectors is going to continue. And I think when I talk to private equity individuals, many of them are trying to strategically understand what parts of human behavior are going to fundamentally change as a reaction to COVID and what's going to go back to normal? And I think what Alison said about tech—tech and healthcare have been a huge beneficiary of COVID. But I'd say, you need to be a little bit careful not to just project the latest week in COVID too far into the future. As we can see, you can get a vaccine and suddenly people think everything's going back to normal. That's what the market did yesterday. Then there's typically a little bit of a sobering up when people realize, maybe this is going to take longer, and then we have strong economic impact.

I think going back to the same parallel as I've talked about with corporates earlier. Immediately when COVID hit, no one did anything. It was all about, "What's my existing portfolio company doing now? How can I reduce the cash-run rate as low as I can to survive?" And from a bank's point of view, there were quite a few underwritten transactions at that point, as well, TKE probably being the most prominent here in Europe. And so, I think financing also dried up pretty much for sponsors, certainly into June, not that they were that interested in acquisitions at that time.

Since then, markets have risen massively on the upside. Right now, you can probably count on the fingers of one hand the number of transactions that haven't syndicated that were pre-COVID. And similarly to corporates, sponsors have plenty of financing if they choose to pursue targets. The hard part for them is, where do I go? Do I chase these high-value kind of, I don't want to say obvious bets, but the ones that you're probably not going to get fired for since you're buying something that's doing really well, or, do you go deep value? And I think it's a little bit early for people to go deep value, even though you can probably convince yourself that people will still travel on airplanes, they'll still want to go see their friends, they'll still want to go shopping. It's just the question of when does that kind of behavior go back to normal.

I think one interesting thing specifically about the high valuations is that the returns need to come from somewhere and regulation in Europe is going to block leverage chasing the equity valuations. Again, it's a function of people trying to buy growth, and obviously central bank liquidity. What we're also seeing, which is an emerging trend, is that there is conventional financing that caps out at around seven times in Europe. And then, after that there is intermediate pieces of

capital coming in either PIK form, or preferred equity being provided by specialist providers, and that's what's really allowing sponsors to pay that last multiple for high growth, because they're able to get high-teens-type-return debt which they would never have got pre-crisis, and that makes their IRRs work even if they're paying a big multiple for growth.

Mr. Massoudi: Can I ask a follow-up? This is something I think a lot about. And Sam, I'm coming to you next. Henrik, there were a lot excesses, I think, in the pre-COVID market, and a lot of toppy behavior going on in the market. Maybe that got a bit of a scare in March but it has largely recovered, and now if anything the message from central banks is, "Take more risk in this environment." Do you worry at all that the sort of excesses of the market got bailed out here and that in a way we were probably having a somewhat healthy reckoning, even though it was a global pandemic scare. Do you worry that there weren't enough lessons learned from the toppy behavior before COVID, or is it all okay?

Mr. Johnsson: Well, just like sponsor dry powder, this is a conversation that we've been having for many years. Central banks aren't trying to encourage people to take risks. What they're trying to do is respond to a public health crisis and make sure that we don't see mass unemployment and civil unrest. I think they're doing that very well. What the danger is from my perspective is the Japanification of the European economy. It's related to the lack of M&A and efficiencies. What's happening is that a lot of the sort of proverbial zombie companies are being kept alive and that means that we're not seeing the reallocation of people or capital in the way that you would want to see in order to drive future growth. The economy is effectively being frozen all across Europe and unfortunately, I think, if we take a step back and think about European macro, that's probably going to have repercussions where short-term laudable goals have been achieved at the expense of an efficient, growing economy. And that's going to store up problems for the future, for sure.

Mr. Massoudi: Okay, that's super interesting. Sam, coming to you. I wanted to ask a slightly different question about the nature of dealmaking. In a pre-COVID world, due diligence, and a lot of the things that lawyers in particular focus on, was a very hands on process. Obviously, there would've been some virtual aspects to it. But how is due diligence and "diligencing" a potential target or completing a transaction, working on contracts, making sure you've actually looked under the hood of whatever you're buying, how has that changed and how have you advised clients to manage that?

Mr. Newhouse: I think there are a couple of points to this. The first is, it's interesting, when we talk about P2Ps, I always think there's a fundamentally pragmatic point as to why at the moment there are good things to look at. That's because much of the information is available publicly and people are used to doing those deals with less access to diligence and management than they may otherwise get. I think that's been an interesting, just really fundamental, pragmatic piece of why, obviously valuation being the key driver, why they've come into the fore.

On your question in terms of private M&A, I think there has been no doubt that it's been quite difficult. But then actually, people have navigated it relatively well. I think we have found that in terms of just basic diligence, it's been possible to do it all. It's just taken longer and required more tenacity to get through it all. But I think people have actually found that both sellers have been flexible where they wanted to be and capable of delivering information and helping buyers sort through it. Buyers equally have been able to mobilize teams to run through it.

Where I do think we've had more of a problem is around execution where I think there are many deals where people have been discussing pushing them forward. In a pre-COVID world, people were getting in a room and sorting out points and resolving through them in a sort of quick and pragmatic spirit. They were able to create the relationships that you often need for the larger transactions. That's been more challenging. It's a testament to the appetites for dealmaking that so many are crossing the line because the hundreds of hours on Zoom every day going through the nuts and bolts of various documentation is relatively wearing stuff. But people have adapted well and they're doing it. I think in answer to your question, deals are taking longer. And that's not just because of the diligence, that's because of macro issues, as well, around increased FDI, the increased need to go out and make sure you've got stakeholder buy in, et cetera. But actually, in terms of execution capability, it's all there and people are being very versatile and flexible.

Mr. Massoudi: All right, that's great. If I can come to Hernan. Questions have come in about some of your earlier comments around European

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continued

activity. One of the first question is as follows: "Do you think we'll begin to see cross-border M&A activity in the European financial sector or will this be confined to payments and to some extent banking but not to other verticals within the financial services space?"

Mr. Cristerna: I think there's probably a cascading order. I think that I would expect and we are seeing a lot of consolidation in the payment space. I mentioned earlier, within Italy, the SIA-Nexi deal. Now, Nexi is actually trying to do a deal with Nets in the Nordic region. I think that I would expect continued activity in payments. I think that we have seen unexpected contingency activity in the insurance sector. I think banking is the toughest, right? But part of the reason why it's the toughest is because there's still a lot of opportunity to do in-market local consolidation. We spoke earlier about the Bankia-Caixa deal in Spain, so I think that there are plenty of opportunities and that might be the first stop to do deals in country and then that eventually will lead the way to more cross-border. I don't discount that cross-border is possible, but I think that there are many more obvious and clear opportunities in banking locally. But I do think that insurance and particularly payments, it's going to continue to be very active.

Mr. Massoudi: Henrik, coming to you on this point around banking and financial services. Obviously, the capital markets are key to the health of the banks, generally. Are you seeing any signs of distress? They all seem pretty healthy, so is this an opportunity for them to be aggressive or is it just fundamentally with yields so low, life is painful for them?

Mr. Johnsson: Well, I think what Hernan said about European consolidation being important in a global context is probably truer for the bank sector than almost any other sector. The problem is, in terms of the question that we've been asked online, I agree, banking is the last one and that's because it's really regulatory hurdles that prevent cross-border banking M&A. It makes strategic sense for everyone but it’s very difficult to cut costs. And in fact, there's some dis-synergies because scale means tighter regulation, so I think it's going to take a few more years before you see any really large cross-border bank mergers in Europe.

With regards to the health of the banking sector, I think the problem that we have, and this is common across all banks and deposit taking institutions, is massive amounts of in-flows in deposits. With negative rates here, that's creating a drag on profitability. And that isn't solved necessarily by M&A, either. And again, it comes down to the fact that it's a very strange recession we have because you see GDP declines all over Europe, but financial markets are very strong because there's so much cash both from the central bank but also from individuals who aren't out there spending money. And so, cash is everywhere and again, that just shows how important it is to try to buy growth.

Mr. Massoudi: Yeah, that makes sense. I guess it's logical, but it's perverse that this crisis is the crisis of everyone saving too much money and not spending it to keep a lot of businesses going, as it were. Alison, coming to you, I'm not sure if everyone watching will know, but you spent some time in Asia before you took up this new role at Citi. Do you think it's a story of European companies needing to look only within Europe for the future and for growth or do they need to be tapping into the U.S. market and the Asia market a lot more in order to secure their future? Is that part of your conversations or is that not really a feature?

Ms. Harding-Jones: No. But I think the big European corporates need to go and invest for growth wherever that may be. Clearly, they need to do it in a balanced way, and they need to be cautious about the local implications depending on the market they're looking at. But I wouldn't say that they're purely looking domestically in Europe as that’s simply not the case, right? The big corporates need to invest in growth. I think what we have seen, over the course of the last three or four years, is that the amount of cross-border activity has come down meaningfully, whether it's U.S. coming into Europe, whether that's Europe going out. M&A has become a little bit more domestically focused within the large regions. That's partly a function I think of the geopolitics that are going on. Let's see if the changes in the U.S. will drive that in a different direction. And of course, what you've also seen is the fact that China, which was very, very active in '15, '16, has almost completely gone away right now. Not entirely, but almost completely gone away. Look, I think I'm hopeful for more EMEA outbound, I'm hopeful for more U.S. inbound into EMEA. I'm wary of whether the Asia inbound into EMEA will increase in

the very, very short-term, because I just think there are many, many factors driving that, which are more linked to domestic issues there versus what's happening here in Europe.

Mr. Massoudi: All right, thank you. Sam, I wanted to come to you and ask you about the space I know you know very well, which is the energy space. It's really been fascinating to watch activity and how markets have responded. What we're seeing now is utilities and green energy-orientated companies surge and surpass in some cases the market values of historically the dominant energy companies in Europe who are publicly talking about remaking themselves quite dramatically. This is in stark contrast to the U.S where many of the established energy companies are just doubling down and doing all kinds of M&A within the sector and largely haven't had too dissimilar a share price performance than their European counterparts. We are talking about transformation. Can you give us a sense of the energy space because, I think this will be one of the most fascinating stories to watch in the next two to three years, how these larger European corporates in that space behave.

Mr. Newhouse: Absolutely. I think you've hit the nail on the head in terms of a decoupling of the two approaches. Europe and the European energy majors I think are in a very interesting place. Clearly, there's a huge amount of ESG pressure to reshape, transform and effectively push towards carbon neutrality, which most have already come out and declared they'll do in various time frames. If they're to achieve that, I think M&A is going to be the most likely, or probably the only route forward to do that because, they are such radical shifts in a proposition that they'll need to very quickly move out of conventional hydrocarbons and move into the renewable space. But we started seeing that with some large transactions already—BP buying wind in North America. You can look at quite a lot of the gas transactions that have happened in the same way, as well.

I think M&A is going to drive clearly out of that. We've clearly seen a huge drop in demand for oil and gas during the course of COVID. That I suspect will come back with the debates around whether we've seen peak oil and peak pricing likely to continue. I also personally think there will continue to be a big focus for the existing hydrocarbons on gas because that's where clearly the cleaner option comes from. I think we'll see companies continue to focus on reshaping their portfolios based around that. But the thing to watch, as you rightly say, will be whether a drop in demand for conventional hydrocarbons means that we have forced all companies to go out looking for those renewables to effectively top up their revenues and growth. I think it's going to be fascinating over the next few years as that reshapes itself.

Mr. Massoudi: It's probably too early to speculate, but even when we were preparing for the panel recently, it would have been difficult to foresee that there would be some positive news with respect to a vaccine and the sort of subsequent reaction in the market, including in the oil space. Do you think when we talk about how COVID accelerated changes in the economy, do you think equally if we come out of COVID quicker than expected, that acceleration slows down and it buys people time or has the train left the station, as it were, and it's really a race for who can get to the future first?

Mr. Newhouse: I think it's a very good question. I think that's the question on everyone's lips. Are the changes we've seen over the last six months here to stay or are we actually going to in six months' time, slip back into patterns that the world was working on previously? My personal view is I think many of the changes are here to stay. I think the acceleration in a lot of different sectors, whether that be energy, whether that be on the tech front, whether that be elsewhere, have actually moved beyond the tipping point to be able to reverse out of them. I do think on the other hand, others will come back. It's a personal view but as to travel, hospitality, et cetera, I think it’s a question of when and not if people will start moving around, going back on planes and the like. Coming back to your question on the energy sector, it has clearly gone through a difficult time—a triple hit in terms of COVID, price wars, and ESG. I think when people start to move around again and the economy ramps back up, I think there will be large utilization and those companies will find a significant amount of strength again as they go into the future.

Mr. Massoudi: That's definitely one section of the economy I'm going to be paying very close attention to. I want to thank Hernan, Alison, Henrik and Sam. Thank you to this group.

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THE INDEPENDENT REPORT ON DEALS AND DEALMAKERS

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Despite Qualms, Dealmakers Plunge on After a Complicated Trillion Dollar Year

"It's like fine wine. You should just enjoy it."

With M&A transforming global business, dealmakers are racing from transaction to transaction, but they still can't help puzzling over how long it can all last. Will the stock market crash? Will interest rates rise? Will liquidity evaporate? Will Asia topple the market? Will some other political crisis spoil the party? Will corporations run out of targets? Or will it all end just because nothing lasts forever?

The year 1997 was without question the year of the unexpected: the eclipse of cash as the ruler of deals; the wide spread of multiples between target and acquiror; the spread of hostile bids in Europe; the emergence of a real estate company as the new owner of venerable ITT; WorldCom's sudden power in telecommunications; and, above all, the pandemic of transactions across virtually every sector of the economy. "You see consolidation in industry after industry. One or two pebbles roll down the hill. People snap to attention. Before long, you have a landslide," says Michael Carr, co-head of M&A at Salomon. Adds Gerald Rosenfeld, head of investment banking at Lazard Frères: "Huge waves of consolidation are washing over industry after industry at the same time. It's pretty staggering. And that won't stop. The continuation of this massive consolidation will be the story of 1998."

Cravath's Alan Stephenson points to another unusual feature of 1997, one he has rarely seen in his 27 years in M&A. Typically, when a corporation would announce a major acquisition involving substantial dilution to existing stockholders, the acquiror's stock price would drop. "It was frequently the case that the acquiror's stock price would be off five to ten percent, in part because of arb activity," he says. "Now, we see many large deals where the stock of the acquiror actually goes up. When business executives see others doing these bet-your-company deals and their stock goes up, they say, 'Why shouldn't I be doing these transactions?'"

Bringing comfort to those who worry about a sudden slump is the sudden discovery of such hitherto virgin territory as real estate M&A. High technology deals are also likely to roil on. Says one prominent investment banker: "There are companies out there in high tech that I've never heard of doing billion dollar deals." Insurance is yet another vast landscape waiting for the dealmakers to arrive at its shores. "I think we will see a wave of consolidation in the insurance industry. That could be the next area to catch fire," predicts Casey Cogut, head of the M&A practice group at Simpson Thacher & Bartlett. "It is now where banks were five to six years ago." Adds Mr. Rosenfeld of Lazard: "The insurance world has been ignored. It will break out soon."

Of the forty-five senior dealmakers interviewed for this article, twenty-one believe that even if the stock market were to go down—

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