A "Goldilocks" Period of Deals

An Interview with
James B. Lee Jr., Vice Chairman, JPMorgan Chase & Co.


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EDITORS' NOTE *In 1975, Jimmy Lee joined Chemical Bank and worked in a variety of specialty lending businesses until 1980, when he founded and ran Chemical Bank's merchant bank in Australia. Lee is widely credited as the architect of the modern syndicated loan market. In 1982, he founded and started the bank's syndicated loan group in New York, which constituted the origins of the investment banking business at Chemical and later Chase Manhattan Bank. Lee ran the investment bank until the merger with J.P. Morgan & Co. in 2001. Earlier, following Chemical's merger with Manufacturers Hanover, Lee founded the bank's high yield business, which was the company's first public securities business, therefore competing directly with Wall Street for the first time since Glass-Steagall was enacted. At the same time, he built the bank's coverage of private equity firms and its mergers and acquisitions business. Later, he led the acquisition of Hambrecht & Quist (H&Q), which was the bank's first public equity business. Along the way, he recruited several talented executives to help him lead this effort, many of whom are still with the company in positions of leadership. This integrated approach to loans, bonds, equity, and M&A created "one-stop shopping," which pioneered today's industry standard for investment banking. Lee received a B.A. from Williams College in 1975, where he double majored in Economics and Art History.*

COMPANY BRIEF *JPMorgan Chase & Co. (www.jpmorganchase.com) is a leading global financial services firm with assets of $2.4 trillion and operations in more than 60 countries. The firm is a leader in investment banking, financial services for consumers and small business, commercial banking, financial transaction processing, asset management, and private equity.*

How have things changed when it comes to how acquisition transactions are done?

Today, we're entering a "Goldilocks" period of deals, meaning a lot of factors are just right for companies looking to make big strategic moves.

When the NBC, Heinz, and Virgin Media deals were announced earlier this year, it set the stage for other boards to start taking action on what are some fundamental challenges that companies face today. You just saw two more of those big moves with the recent Verizon and Nokia deals.

Borrowing capacity for companies is at an all-time high; interest rates are still historically low; cash balances are at an all-time high; investors are looking for growth and equities trump fixed income as a place to put your money right now.

What hasn't been part of the narrative is the distinction investors are making between earnings per share and revenue growth. After looking at first quarter earnings of companies this year, it's clear that most did a pretty good job of meeting or exceeding EPS estimates and expectations. Even if they met EPS targets, many companies got punished if they showed flat or lower-than-expected revenue.

Also interesting is how acquirer stocks have been going up upon announcement, which is not the norm. The notion is that companies need more top-line growth and doing the right deal can become more valuable immediately. These two things coupled with the flush liquidity and low interest rates have led to some big deals – and could lead to more.

Activity is up for the first time since the crisis and I expect it will stay up and remain global. I believe we will see some more really big deals in this environment over the next year.

What are other trends in the M&A business?

Another big trend is shareholder activism. It's not just the traditional activists that are adding to this – you're seeing a lot of big, traditional, long-only, non-activist types having a voice on strategy and price.

Any shareholder vote has become fair game for activism in this new era. This is an important change. Companies that are not doing that well and falling behind their peers need to be dialed into who owns their shares and what they're thinking. Just because their owners may be big traditional funds, they cannot assume that whatever that company does, those funds will be supportive.

It's also important to recognize that not all activists are the same.

At Yahoo, for instance, Dan Loeb brought in a new board; recruited Marissa Meyer, a terrific CEO, and did some fairly sophisticated things to Yahoo's corporate finance activities. He's an activist who came in and acted as a constructivist and helped that company along. It's a new company with a bright future.

Boards and management teams need to be discriminating about this activity because some activists have been very thoughtful.

There are also core changes going on in activism that companies need to be dialed into. It is important to have break-the-glass plans for when someone or some firm comes into their stock and they have strongly held views.

The lessons for boards are: know who owns your company; have consistent dialogue with them; take steps to always evaluate and improve competitive metrics against your peers; and have a break-the-glass plan if someone comes into your stock in a big way. One good habit for companies to get into is to continually ask themselves what an activist would do if he owned my stock. This topic needs to be discussed at the board level regularly. This is a service we provide to our clients.

Have the deals become a lot more complex?

Yes. Dell is a good example. It went through a management-led leveraged buyout that took more than a year to complete and it had everything that can make a big contested deal complex-in fact it will go down as one of the most complex deals I have ever done.

The deal also played out on the big, public stage. When doing a contested transaction in the public domain, not only do you have to win on value, you also have to win in the court of public opinion.

How critical is it that the next mayor of New York engages with business leaders and promotes public/private partnership?

It's mandatory. Businesses create jobs, and jobs create revenue for the city.

Engagement with the companies that form the lion's share of the tax base is critical. Under Mayor Bloomberg, New York City has flourished – partly because he recognizes the importance of working with all the constituencies that make New York so great, including business leaders. Mike has been a spectacular leader – I wish he would run for President.

Are you surprised by how close-knit the business community is in New York?

No. When you find the right cause, people come together. It's a function of the pride we all take in our city. When we come together as a group, we are able to create a dramatic impact any issue we choose to help keep New York City the greatest city on Earth. ●

