

Jason: I'm Jason Drake, I'm a partner with Plante Moran. Plante Moran is an accounting firm here based in the U.S. We have 22 offices, about 2,200 individuals. I lead our International Assurance Practice for the firm, and spend a lot of my time working with our internationally active clients, mostly private equity owned, but also, like Bob, inbound companies looking to invest in the U.S. I also spend a lot of my time traveling around the globe working with our international active clients, and building relationships with our partners as well.

I'm here today really talking about, from my client perspective, what I see, and my view is a little bit more long-term in nature and not on the actual transactions. So, good to be here and looking forward to the conversation.

Moderator: Great. Thanks, gentlemen. Again, I'm gonna get things started with some questions here, but please feel free to jump in as the mood strikes you or as a question comes to mind.

Andy, if you don't mind, I'm gonna start with you, and if you could just give us a little bit of perspective for Jordan. Why are you investing internationally, and what is driving those investment decisions?

Andy: Okay. Well historically, we've helped our U.S. portfolio companies expand internationally for three main reasons. One is following U.S. customers. If one of our companies is a leading supplier to a U.S. firm and they're going to China or India or Brazil, they would ask us to follow them, and so there's no guarantees with that, but we've developed a pretty good track record of helping our companies do that. Then, by following them, you develop other customers, etc.

Another one is where you just see a huge market overseas that's just starting to develop, and there's an opportunity to be an early foreign investor in that market to have a first-mover advantage.

The third one, which really happens a lot is, we are slowly expanding sales and distribution or sourcing, and through that process our companies develop good relationships with suppliers or with distributors, and then all of a sudden we're like a third of that distributor or supplier's business. Then we decide hey we know them, they're good people, let's do a JV or let's acquire that company.

So, those are the three or four main reasons we expand. Now, things are changing for us. We were very focused on Mexico in the '90's, and then that shifted to China; and now, we're backing off a little bit in China as far as acquisitions and joint ventures. A lot of our companies are still selling there and expanding there, but it's just a lot tougher to do deals there. The whole emerging world is a lot more competitive than it used to be, and so we're still helping our companies, but I'd say things are a lot more strategic. If it's not a good strategic fit, then it's just hard to justify expanding to those countries.

Moderator: Thank you. Bob, if you could also just add a few comments on what you're seeing in your client base?

Bob: Sure. Mm-hmm (affirmative).

Moderator: A lot of activity expanding internationally? Where? Why?

Bob: Yeah, the beauty of being able to follow Andy is I can just simply look over and say, "What he said." Because a lot of the ground they covered, that your covering at Jordan, is what I'm seeing with my client base. We're seeing a lot of vertical integration on the supply chain side, so doing a lot of tuck-in deals. Not necessarily new platforms, but the platforms that are out there, we have a lot of the clients doing the tuck ins. We're looking at people who have built up master distributorships or other networks on the sales side. Those companies are maturing, the owners are getting older, they've been the person who has driven it, it's a family business; and we'll come in and we'll purchase them out because now we have a good mature set.

It's market opportunity, but most of my clientele, unlike one of the things you said, Andy, is they don't look as much at some of the developing opportunities. I think we're gonna talk about that later in some of the developing countries. I sort of wish they would, because I see there's opportunity there, but we're looking at more mature market opportunities, and those then grow as the client scale grows.

So the earlier stage companies are looking at getting out and purchasing a distribution chain overseas, cross border, that then oftentimes will morph into where we are seeing a lot of joint ventures now. We're going in with the management team that we've already seen, and the clients are now going into ventures with them; control/non-control, that's the beauty of being the lawyer, because I then get to negotiate. Doing the deal sometimes is easy; actually having do to the documents with the owners, who they're used to doing it their way, becomes very interesting.

Then you've got a number of them who are now mature enough that they're doing straight up acquisition, so we're going and acquiring the company. From my broad base, seeing a lot of the same things you see at Jordan. But again, I'd really kind of like to get into some of those emerging markets, because I think that's an opportunity that some of my clients need to see clearer.

Moderator: Jason, anything that you've seen; recent transactions or within your client base that would be, I guess, supporting what we've heard from Andy and Bob, or a little bit different?

Jason: No, I would agree 100% with both of them. I guess one of the things I'd add is, part of it depends on what sector you're in, or what industry. A lot of this growth in these markets is from the manufacturing perspective. I do a lot of work in India as well, and from an Indian perspective, a lot of folks are going to India just to have that additional access to talent. So, they're having troubles finding the talent in some IT companies locally here in the U.S., so they're expanding to India just to have that greater access to talent.

Moderator: That's an interesting perspective.

Jason: One other item I'd just add is a lot of the growth areas that we're looking for is more offensive, or offensive, but there's a big play on this that's defensive as well. If you have a customer that's pushing you to go to a specific country, a lot of times you go because they're pushing you.

I have a client that does a lot of business with Walmart, and Walmart said, "If you're not in all the countries that we're in, we're going to give the contract to someone else." They've expanded substantially just because the Walmart relationships. A big portion of that is, there's potential growth, but it's also because of a defensive move.

Moderator: Interesting.

Bob: Walmart could be its own panel, but we'll save that for another time.

Moderator: The good, the bad and the ugly.

Bob: Yeah.

Moderator: Andy, I'm curious, just to switch gears a little bit, when you're looking at an international deal that Jordan might be contemplating, do you look at it differently? And by that I mean, do you apply a different internal rate of return threshold? Do you otherwise apply a different set of metrics than you would a domestic deal?

Andy: Yes. If it's a straightforward ... If we're going into Europe or Australia or Japan ... A developed country, it's more straightforward. But going into Brazil, India, China, India, it's more difficult, the risks are higher, so we would expect a higher return. We've done 36 acquisitions and joint ventures in China over the last 20 years. All of them 100% equity; very difficult to do debt financing.

From '94 until 2005, our average multiple was like three or four times EBITDA, so when you're buying companies that cheap that are growing rapidly, you have a lot of room to fix things and go through a little bit of a down cycle until things improve.

Now there's so much money in China and even India, that you're paying top dollar and it's just real hard to get comfortable with some of the valuations. So unless there's a compelling strategic reason to go to those companies, or unless a Walmart or somebody like that's dragging you along and you just have to do it for the relationship, we are having ... It's much harder for us to get comfortable with making those investment decisions. Now maybe that will change in a few years, but it's a lot tougher than it used to be.

Moderator: Jason, anything that you are seeing or advising your clients to do from that perspective? Are you having to push them to say, for example, consider additional transaction costs, or a higher rate of return, or a longer holding period; whatever those aspects might be that are different. What are you seeing in your client base?

Jason: I'd say we're really seeing that if companies are going to expand internationally, they need to think more long term, the longer holding period.

Most of my clients, as they establish their footprint internationally, through acquisitions or growing organically through Greenfield Investments, there's typically a four- or five-year period where they're having losses or very low returns. But then, the expectation is that long term, that will catapult.

The client that I was saying followed Walmart into all these various countries, now their business is 40% international. And when I started working with them, they were in two countries; the United States and Canada. Now 40% of their sales operations are outside of the U.S. After about seven years, now 70% of the profits are international, whereas the first five, six years, they were break even or losing money.

So you have to keep the long-term investment, which, in a private equity world, is much more difficult when your investors want a quick return.

Moderator: Bob, anything that you're seeing that you would do differently from your perspective, on the legal side? Would you encourage a different set of terms, or a different way of approaching the deal? Anything you can add from that perspective.

Bob: Yeah, I mean you're really going to have to look at it differently when you're going overseas, or you're going on an international basis. There was a recent study done ... Magnet went out to, of the C-suite level, and said, "What's the biggest deterrent to your international expansion?" It was really fascinating, but over 50% of the respondents, it was lack of knowledge and just, "We don't know; we don't understand." And when we don't know and when we don't understand, the good news is you're going to need the legal team in addition to your management team; you're going to need the accounting team. That's kind of the ... It's the good news/bad news. It's really good news for Jason and myself because we have that opportunity, but we've been through this. You look at clients who are just starting to go overseas, and really the value add that we bring to the table is, we have done this with a number of clients before, so we can help navigate, we can help you with boots on the ground in almost every jurisdiction that you're going to.

There really is that additional time factor and cost factor that says, "I've got to take a slightly longer-term view of this." In a U.S. deal, I can turn this in three, four years because I can get in; my speed to market's going to be quicker. If I'm going to go internationally, people are saying, "Move faster, speed to market, get there." Well the answer is, you can't quite get there. And you really can't get there because you've got a situation where you're going to have more language, you're going to have more regulatory, you're going to have more complexity. And any time you have those three things built in, you're going to need to lean on your professionals to help you navigate the regulatory waters of several different jurisdictions.

You're going to have to help ... You may need some help on just the complexity of the loss of commonality. Your management teams are used to a common language, so you have a common set of documents that you work with. Well once you start broadening

that out overseas, particularly when you're going in some of the emerging markets, that's going to change. The loss of commonality is an expensive piece of doing business, so the longer-term hold comes into play.

Andy: If I can just add to a couple things that Jason and Bob said about ... Jason mentioned that it takes four to five years to really develop value added internationally. And our company, we did much smaller, mid-sized deals 15, 20 years ago, and now we're doing much larger deals, sales of \$500 to \$800 million in sales. A lot of those companies have already expanded overseas, and we're looking at investing and looking to exit in three or four years.

Even when you start looking at international opportunities, when you really do a proper assessment, you're going to say, "It's going to take a year until the operating company executives really start thinking about it; and then there's about a year until they start thinking about if key people are overseas, who's going to hold down the fort running the businesses while they're overseas. And then it takes a while, whether you do a start up or a JV or an acquisition. And so I think a lot of the larger funds, the LP's are pressuring them to get in, do an investment, do quick value added through lean manufacturing, small add-on deals; and unfortunately, the international just takes a lot longer.

That doesn't mean our companies aren't still expanding internationally if it makes sense, but from a fund point of view, we don't want to spend a whole lot of effort on things that are going to take five, six, seven years to realize the benefits of that.

One more thing that Bob mentioned is culture. In China for instance, 15 years ago, there was a culture ... You talk about uncertainty or whatever ... One of the big uncertainties is Americans tend to use a lot of American jargon: "We got to quit trying to hit homes runs; we got to hit more singles and doubles; let's get on first base." And the Chinese would all say, "Ah, yeah." And then they'd later go, "What is he talking about?"

Anyway, they understand-

Bob: They may go and Google getting to first base, second base and third base, and they're going to be in for a huge surprise. That's when you call your labor and employment lawyers folks.

Andy: Another thing that is American, Type A aggressive operating guys would show up and say, "You're doing a great job; we need to double the output within two months." "Can you do that"? And if you ask a direct question in China, they lose face if they say no, so they always say yes. And then about two weeks later they come back and go, "Aw, there's a long lead time for equipment, or our suppliers can't keep up." "It's really going to be more like six months." And you've already told your U.S. customers you're going to be able to ramp up quickly; and they go nuts. We used to have to train our executives, don't ask a direct question; keep it open. You're doing a great job; we want to double capacity. How long will that take? And then they'll say six months, and you go, "Why?" And you work with them. Let's pay the suppliers 50% upfront. Oh yeah. They'll get it to you quicker, or equipment or whatever.

But now there are literally hundreds of thousands of middle managers in China, maybe a million, that have worked 10 or 15 years for European and U.S. firms and been trained on our best practices; including when an American executive asks you a question and you know the answer's no, tell them no.

We are having a lot less of those cultural issues. And so from that viewpoint, the uncertainty is going down. But it's still an issue for first-time investors to just realize that those cultural things are a huge part of making decisions, getting commitment, and executing what you're trying to do.

Bob: We'll oftentimes encourage clients ... Many of you have probably seen it before, but most general's counsel and most law firms, they'll have the world map for the Foreign Corrupt Practices Act. And you'll see the green, yellow and red of the countries that are easy to go into; moderate and the red, where you just shouldn't do business. You really can look at that same map and use that as kind of a time continuum as well, so that when you're looking at the green countries ... The Western Europe's, the Brazil ... the places where you're doing business all the time, your lead time will be a little shorter, or your horizon can be less. As you move down from the yellow through the red, you're going to need a longer time horizon. When you get into places like sub-Saharan Africa, great opportunity, but you're not going to hit a quick home run. You're going to have to string together what we used to call at home, a lion's rally, which was three walks and an error, and pray for a run.

The Chinese would not get that.

Moderator: So Jason, I'm curious what you're seeing across your client base with the Trump administration. Is that increasing international activity? Decreasing international activity? Really has no effect and it's based upon other factors? What are you seeing from that perspective?

Jason: I think it depends on if it's a strategic versus a financial investor. From a strategic perspective, we see that our client base is still expanding internationally. Part of it really depends on why they're going. So if they're going for that local market, they're still expanding. Our practice is heavily automotive, so we have many clients that have plants in Mexico. And the plants in Mexico are really to build in Mexico, at lower-cost labor, ship back to the U.S. Those have stopped or slowed down tremendously, other than foreign companies. We have a large Japanese practice. The Japanese companies are still investing heavily in Mexico, where our U.S. domestic clients that were looking at it as a to reimport it back into the U.S. market have definitely slowed down.

The financial buyers for sure have slowed down. Part of it is that the timeframe on where they need their return and the uncertainty, but I imagine over the next six months, once we see what President Trump is going to do, then we'll see a increase back into those deals.

Moderator: Andy, are you seeing the same in your ... With your activity? What Jordan's doing? Or would you say it's a little different?

Andy: Yeah, I mean, we're all glad to see that the rhetoric of the campaign is slowly ... When you hear some of the rhetoric about all this international, you're thinking, "Oh my gosh." But then, now it looks like some of the Trump advisors are helping educate the White House on what's really going on. A lot of the things we get in Mexico, there literally are no U.S. companies can make some of those parts or assemblies. And so if you were to try to force that to be made in the U.S., think of the increase in cost it would be for the U.S. customers to have to, you know ... I think the reality is that we're going to see some of that, and the world is so global.

And I think also if you separate the myth from the reality, there's so much hype, what's going on in the world. Just look at China. China's had so many ups and downs over the last 20 years, and think of all the just negative, negative stories on CNN; and yet they grew at over 10% a year to real economy for 15, 20 years, and now they're growing at six or seven.

The reality is that the stock market and the real estate market have no connection to the underlying base economy for a variety of reasons. Several years ago they allowed individuals, for the first time, to borrow money from a bank to invest in the stock market. Well then one year you had 40 million new brokerage accounts opened, and most of those people didn't even have a high school degree. Well that led to the market going up like 500% in one year. Well then reality set in and it fell like 80%. And everybody's like, "Oh, it's the end of the China miracle." Well the market was still up 50% from where it was a year and a half before.

So if you separate all of that out, their underlying economy's growing, but those don't make good stories. So as an investor looking at these new markets, whether it's India, Russia, Brazil, China, is to really try to understand what's really going on, and really separate yourself from all the hype. What we often found is the underlying markets in which we're serving, there's a real need or a void, and there's an opportunity for us to come in and exploit that, or whatever, take advantage of it.

Long term, that's really where I think you want to invest. Because long term, everything evens out; in the short term we have currency, swings, and you'll have political stuff and whatever, but if you're investing for the long term, and you're committed, there's a good chance it's going to be successful five or seven years later.

Bob: Unless it's Venezuela.

Andy: Well hey, maybe things will change in [crosstalk 00:23:44] years.

Bob: You never know.

Moderator: If it doesn't get nationalized, right?

Bob: Yeah, we like to call that fake news.

Moderator: Yeah.

Bob: This is an interesting topic, because you've got a lot of pundits out there saying with everything going on there should be a slow down, and that international deals should slow down, yet every study you look at, they're actually increasing. I liken this sort of to it's "this is dessert." You know you shouldn't have it, but you really want it because it makes perfectly good sense.

You have all the bluster coming out of D.C., which again, I think a lot of that is being dialed back over time. You've got everything going on with the wall, and with Mexico and with Russia, and Brexit and France, and the pulling out of the TOP. Are we going to be bilateral or are we going to be multilateral? And all of this is swirling around in the wind, and yet all of us in this room, and most of the people out in the corridors here, the 1800 of us or so, we're just plugging away.

We're going to do these deals; we're going to do deals that make sense; we're going to have clients that are doing them. The companies ... Jordan's going to continue to do them; Jason and I are going to be working like your professionals work to help you navigate those waters. But these things are going to continue to happen, so I really don't see any real slow down other than the typical catching of your breath, like some of the credit markets. There was so much activity in third and fourth quarter in 2016 that there is a breath. We've seen a slight slow down, but not in the indications of interest and the letters of intent that are going out. Just that first quarter was kind of that catch up.

I think there's a lot out there, and I don't want to call it fake news, but some of it really is. Some of it is just people posturing, saying, "This market's falling apart; that market's falling apart." But I think Andy is right on in saying that deals that make sense are still going to make sense. Deals that don't, never will. And no amount of politics anywhere in the world is really going to change that.

Moderator: As you said, the statistics actually tell us that the deal-

Bob: [inaudible 00:25:59] They bear out the complete opposite.

Moderator: The statistics tell us the opposite. That's correct. That's very interesting.

Bob: We all want to make money, and that's where there's money to be made.

Moderator: Yep.

Andy: Well, just one example is the auto industry in China. Back in the mid-2000's, everybody was saying, "Oh, the auto market's over hyped; they've grown too fast; it's risky, blah, blah, blah, blah." And yet, if you really dug into it, you're looking ... The government's already got plans to go from 10,000 miles of freeways to 50,000, and the provinces have committed to this. It's like, if you look at the U.S. in the 1950's and 60's, and we build our highway system; before that nobody had a car, but once you realized you could get on a highway and go from New York to L.A. in three days and visit national parks along the way, people wanted cars. And that led to the Holiday Inn's of the world, the

McDonald's and all that. A lot of people were saying, "This infrastructure's going to happen." "They're going to need cars, and even though the industry has grown rapidly, there's a lot of competition; we're just at the tip of the iceberg."

So based on that, we swallowed hard and made some additional investments in the auto sector, and in the following five years, the market went from selling four million cars a year to like 17 million. Led the whole world, and it's still at that pace, continuing to grow. And China's still adding more highways; it's going to keep growing. They've got some congestion in the major cities, but if you look long term, you can see a large continuing-to-grow market in the auto sector in China. And you also got to think that if you can figure out how to sell in China, you're going to make products you can bring back to Europe and the U.S., or other parts of the world.

So, you know, if you look at that strategic view and do your research and have that long ... Then there's opportunities.

Moderator: That's very, very interesting.

I have a question I just want to throw out to the panel, and jump in as you see fit.

We've talked about the current status; we've talked a little bit about the very short-term future. But what do you see five, ten years out? Where are those markets? Bob I think you alluded to this a little bit. Where are those markets where you're, Jordan you think you should be ... That Jordan should be thinking where your customers, where they should be thinking at five, ten years down the road. Where perhaps right now they're not thinking of it, or they're too scared, or just it's not on their radar screen.

Bob: Who gets to field that one first?

The answer is, I tell them the one country I tell them to absolutely stay out of is California. But other than that ... Lawyers don't love California ... if you're looking down the road, again, if you go to that map, you're looking at a lot of those countries that used to be red, that are now kind of the yellow. So you're looking at the opportunities in Southeast Asia, and I know Andy you're going to talk about that-

Andy: Yeah, I'm going to talk about that.

Bob: -because that's a big spot for you. Same thing in sub-Saharan Africa. I think Latin America ... A lot of opportunity.

I base Jason on an earlier conversation, not just about Venezuela, but a lot of my clients are very hesitant at looking at South America. They'll do stuff in Brazil, but still really hard to get money out of Argentina; still really difficult to do some business down there.

Eastern Europe. Still a decent amount of good opportunity there down the road, so I think people continue to look at the developing countries, but I really believe that if you look at the current map today, it's going to continue. So I think five, ten years down the

road, there's just going to be that continuing consolidation in the countries that we're fresh with today.

But Andy, this one's more in your bailiwick, so I'm going to let you go.

Andy: Thanks for teeing that up.

Bob: No worries.

Andy: Yeah, I think Southeast Asia's going to be the big story of the next ten years. Over 600 million people. Two or three trillion in trade comes from that region. The average age is like 35 or 40, so demographically you've got a lot of young people moving up. The ASEAN Agreement was just signed early last year. They've been working on that 10 years. It's like a common market for Southeast Asia, and the first thing they put in place. they reduced tariffs on 90% of products to zero among the ten Southeast Asian countries.

I've made four trips to Vietnam, Indonesia, Malaysia, Singapore, Thailand in the last two years, and I originally went to Vietnam thinking that geeze, there's tens of thousands of Chinese companies investing in Vietnam, it's got to be because that's a lower-cost place. And what I learned is it's really not. They went there to get inside the tent, so that when they sell to Indonesia or the Philippines, they can do it with a zero tariff. Where if they continued to make at their plants in China, they're going to have to pay those import duties.

The other thing that's going on is, take Vietnam. Da Nang is right in the middle of the country. It's 400 miles north to Hanoi, about four or five hundred miles south to Ho Chi Minh City or Saigon. It's a two-lane road; it's like China 20 years ago. They've got infrastructure plans to put in expressways north and south to cut into Cambodia and Thailand, going over that way. Singapore has plans to have high-speed trains up the Malaysia highway. So in 10 years, you're going to be able to go from Singapore all the way up into China on freeways, with sophisticated trains. There's going to be free movement of people.

So I think what's going to happen is the Fortune 1000 companies from the U.S. and Europe start investing more in Southeast Asia; the small, mid-size companies from the U.S. and Europe are going to follow them, and that's going to lead to a new wave of investment in that region. And I just think it's very exciting.

Now when we're looking at buying companies that want to exit in three or four years, it's not an immediate opportunity, but as far as looking ... The question was, what five or ten years down the road, what are you seeing? Everything I've read and what I've seen on my visits indicates that that is going to be one of the hottest regions during that time period.

Jason: The only one that I would add is, and people are already thinking about it, but it still has a long ways to go, is India. They still have 1.2 billion people, so if the government can get

control around the corruption, make it easier for foreign companies to do business there, it's a huge marketplace and there's a lot of opportunity still. They continue to invest in infrastructure in India; but again, once they get a handle on the corruption, I think it could be a big market.

Bob: Yeah, and the one kind of lawyerly cautionary tale that I'll tell here is, there's a changing dynamic in this world, if you look at TPP and you look at Brexit is, where's the world going? We're kind of at a tipping point now where, are we going to continue on multilateral deals, are we doing bilateral country by country, as you saw with ASEAN. There was a perfect example of the successful multi-jurisdictional deal that just absolutely makes sense. Multilateral, a bunch of countries, works out really well. TPP was really teed up to do that. It had some flaws, but the concept is TPP is not dead, it's just not going to happen with the U.S. in it. And I think that's an unfortunate situation, because the rest of the world really is starting to lean multilateral, and then you have what used to be the global powers of trade ... The U.S., the UK, and some of the big guys, who all the sudden are pulling back and going more on a bilateral basis.

So when you go out, think about the countries you're going into. Are they on a bilateral basis? Are they a multi-lateral? How will that affect your business? How will that affect your ability to go into other markets? Because as Andy said, the Chinese are getting into Vietnam mainly so that they have access to that multilateral deal. There's nothing better than being able to have access to those countries. Just something to keep an eye on as we go forward and we see what C-change happens, particularly in the U.S. and the UK.

Jason: Every time I travel to China, the Chinese are very happy about the failure of the TPP. They see the bigger win for them than they see it for us as a failure.

Bob: If you look at, and again, we talked, I've mentioned a couple of times sub-Saharan Africa, the Chinese are all over that. And if they're all over it, there's got to be a good reason. So I sit there and ask my clients, "Why aren't we there?" "Look at that market." "There's a lot of risk there, and if you're taking a long-term view and you're going to play with some risk, you should have some aspect of your portfolio there." Again, balanced portfolio, it's just like everything else that we do in our life; it's a little bit of balance, but there's some just fascinating opportunities that are sitting there waiting to happen, and I'm hoping to see more of our U.S. brethren getting into that arena.

Moderator: Great. So we have about 10 minutes left. Does anyone have any questions they would like to ask of the panel? I can certainly continue and go on, but if you have something you'd like to ask, please don't hesitate to ... Yeah, please go ahead.

Audience 1: On the tax side, do you see the U.S. have performed [inaudible 00:35:57] having an impact on how a company will look at global structure [inaudible 00:35:57]

Jason: Yes, for sure. The U.S. was never thought of as a holding company jurisdiction. Many companies do have holding companies in the U.S. But I have multiple clients that were looking at other locations; the UK, Luxembourg, the Netherlands, as holding company jurisdictions, and they're holding off to see if it should be the U.S.

Andy: Yeah, all of our companies set up sophisticated offshore holding companies just so that if that operations overseas successful, we're not bringing the profits back, we can keep them in the holding company to put into other international markets. And if the U.S. government can get their act together to make it where you're not ... We're one of the only countries that taxes worldwide income, and that's ... So if we'd start to change that, it's going to dramatically change the gyrations you go through with these offshore entities.

Bob: Yeah, if you combine some tax change with the ability to easily repatriate the money, you could really find the U.S. being that jurisdiction, and you won't have to go out and do your Mauritius company or your Dutch BV, and it'll be nice for the U.S. lawyers to have a piece of that action finally.

Moderator: Please. Oh yeah, go ahead.

Audience 2: [inaudible 00:37:30]

Jason: Different question. Will they get it done?

Trump said he's coming out with another announcement on Wednesday, so we'll see.

Moderator: Yeah, we'll talk that Wednesday.

Jason: The latest tweet was 15% again.

Bob: Come back to this panel next year, and hopefully we'll have an answer for you. Hold that question please.

Andy: I think the latest that we've seen with our national tax office is that it's going to be difficult. It's going to be difficult. There's a lot of resistance, so it's not going to be easy. Certainly not automatic.

Moderator: Please go ahead.

Audience 3: [inaudible 00:38:05] touched on the strategic relevance [inaudible 00:38:05]. Is there a trigger that we're seeing that's [inaudible 00:38:13].

Bob: Again, I look at that map starting as a Foreign Corrupt Practices Act one, and not really using it on the investment model, although we talk about it. So how you move from red to yellow really is a maturing of your market, and a lot of times it's governmental changes. It's the government coming up, coming in, and trying to clean up some corruption. And understanding that a lot of the foreign companies ... And they're looking at the UK Bribery Act; they're looking at the FCPA, and they're saying, "Hey, we need to change the way we're doing business here so that we can get the UK and the U.S. companies and the Western Europe companies to come in and do business."

That plays directly into an investment strategy for just about everybody, because the easier it is to do business in a country and the more political stability you have, you're going to get to that same place. I use this analogy, but it's actually a pretty good one. We have a number of clients who kind of look at that and say, "Okay, you know we can start investing in more of these countries than we have in the past because they're doing things right on the legal side. So again, I can ... It's helpful.

Andy: Our perspective on that is, we've done a lot of work in these emerging markets, which have all the corruption and all that stuff, and that's because those are the world's biggest, fastest growing markets, but we take the FCPA very seriously. What that means is we spend two or three times as much on legal accounting and consulting to look at deals. And we have a very high failure rate where you sign an LOI and you're a week or two from closing, and then you finally start learning about the third or fourth set of books, and you take the owners out and you get them a little bit drunk, and then they start bragging about all the government officials they've been paying to get contracts. And then you go, "Oh well, I guess we can't do this deal."

Unfortunately, those are ... You don't learn a lot about those things til the very end of the process. But, along the way, we've figured out, okay 30% of your sales are off books or whatever; we can't do that in the future. How much of that business are we going to lose? And if it's strategic, where if it's a standalone, the deal's over. But if it's strategic, where you say you're a 20 million dollar company, our U.S. company's one of the leaders in the world; we're coming to China; we'd love to partner with you; we want you to run the business, but we're going to put our own controller in. We're going to do this; we're not going to do any of this paying people off to get orders.

Even if the value of the deal goes down because you're redoing the deal because of that, they see their business this big, and then together with us we can be this big, and they're going to own a piece of that. You can't even have that discussion unless it's strategic.

The other area with foreign corrupt practices is ... We were talking about this at lunch ... In China and Vietnam and India, you have cases where you're going to lease or buy a building, and the lawyers in due diligence want to see that the owner has clear title to the land to lease it to you or sell it to you. And sometimes they don't have it. And you dig into it, and it turns out, to make a long story short, the government forced poor peasants to sell their collective farmland, which is illegal. They build these beautiful industrial parks that are world class, and they want you to sign a five-year lease. And you're like, "Well, we're going to need some reps and warranties here, so in case there's a new party secretary and they dig into this and say, 'Oh, this is all ... Shouldn't be done.'"

Well that complicates the deal, drags it out, and if you've got two or three Chinese competitors, where their mode of operation is there's a very low probability this will ever be an issue, which is correct. And if it is an issue, we'll just pay off the government official. Well we can't do that.

So my experience has been if you've got a U.S. firm bidding "X," and a couple Chinese firms around "X," you're not even going to be able to compete with them, because we wanted to do things properly ... reps and warranties; really understand what we're getting in ... and have an understanding if this becomes an issue, the owner's responsibility is to clean it up, or your partner if it's a JV. And the Chinese just sort of have different ways of dealing with it. Not all of them, but it's very common. That makes it more difficult.

Bob: And that quickly gives me a chance to give you the lawyer commercial for two seconds, which is, when you're looking at your lawyer and your law firm, really dig down and ... You don't want to have counsel that simply knows your business model or your portfolio companies ... But sit with your lawyer, sit with your law firm, and talk to them about your risk profile. Because your risk profile is probably the most important thing that I need to understand. I need to know when I can come to you and tell you you can't do this, versus something that would get you into jail. You can't do this, I don't care if it's a day before, remembering again, I get paid whether you close the deal or not, so I don't really care. I sort of care.

But on the other hand, the rest of these things you talk about, those are business risks. The more you can explain to us and help us understand your risk profile, the better job that we'll be able to do for you.

Moderator: Please, go ahead.

Audience 4: I was just wondering, how many times do you have to have your [inaudible 00:44:04] in Southeast Asia [inaudible 00:44:22]

Andy: Well, the reality is, even if you have a claim, it's hard to-

Bob: [inaudible 00:44:21] and pressing a claim are two different things.

Andy: It's really more of an understanding that if this becomes an issue, you're responsible, but when you get down to we're going to have an escrow, we're going to set money aside in China, Vietnam, it's very hard. Now Singapore, Malaysia, you can do all that stuff, but it's more of a, if you have a partnership, that it's an understanding that if this ever does become an issue, and it really hardly ever does, so it's really more of a business risk, that you're going to ... If we're forced out of a building, we want you to cover us moving and getting into a new building, and any business interruption that might come with that. And if they're your partner, you've got some leverage, because you can have the claim against their equity in your joint venture.

But you got to be careful, because they know the business, they know the customers. And if they're not happy, it's just like anywhere. If your partner's not happy, whether they have 10% or 90%, they make life miserable for you. It's along those lines.

Bob: It's interesting, you don't see a lot of ... You see a lot of saber rattling. You will see some higher level meetings, but it's very rare that you're forcing those reps and warranties

into that indemnity. Ninety-nine percent of the indemnity fights tend to get done on working capital adjustments and things up front, and not really on the lawsuit in the back. That's because most of this stuff ... We're all sophisticated enough now doing our diligence, that most of it turns up in diligence, it's negotiated up front. It's priced into the deal where it's set into a separate escrow, where something is going to happen that triggers the money going in or out; you're not disputing something.

And then on the unknown, you know a topic for another day, but you're seeing a lot more of the rep and warranty insurance starting to invade the marketplace. That only helps on unknown. The answer is, the better diligence we do, the less valuable that becomes, but it does let you sleep at night for the stuff that just pops that you didn't know of.

Andy: Well, just one more thing quickly, 10 or 15 years ago when we're paying three or four times EBITDA for add ons that are going to be added on to a U.S. portfolio company that's trading in eight or nine times, you had a lot of room to understand issues and clean them up after you invested. And still it was a good opportunity. Where now, in some of these markets, if you're paying top dollar, you just can't get comfortable with the additional cost you might have to spend to clean all this stuff up, or to get comfortable at the risk of losing some key customers. If you say we're just not going to ... They're going to have to pay the AT, this cannot be an off-book sale anymore.

That's one of the biggest uncertainties we're seeing is, all over the world there's a lot more money. There's more ... Think of it, you have smart people from all over the world come to the U.S. or the UK, they learn to do deals. They're investment bankers, lawyers, they're business people; then after 15, 20 years, they go back to their mother countries and they bring everything they've learned with them, and it's easy for them to raise money to start their own funds. That's happening all over the place.

I think we were lucky as a firm 20 years ago going into some of these emerging markets, where there really wasn't a lot of competition. It's just really ... That's a big uncertainty, is just that whole ... You know the concept of buy low, add some value, sell high, you can do well. Now, it's you pay high, and you really got to cross your fingers to hope you can do something to get a higher exit.

Moderator: Well, I want to say a heartfelt thank you to Andy, Bob and Jason for joining this afternoon. And thank all of you for attending. All of us will be around for the remainder of the InterGrowth, so please feel free to reach out if you have any questions.

And again, thank you gentlemen, and have a great rest of the conference.

Thank you.