

# US Steel/Nippon Quick Take: CFIUS Still Likely to Approve Merger as White House Walks Back Threats to Kill the Deal, Despite Blockage Noise

September 13, 2024

## The Bottom Line:

With the White House walking back its commitment that President Biden would imminently block Nippon Steel's acquisition of US Steel, we are reiterating our call, held since December 2023, that despite the volatility and extraordinary politics surrounding this transaction, the Committee on Foreign Investment in the United States (CFIUS) is likely to approve the merger with conditions, clearing regulatory hurdles to the deal.

## What's the News:

US Steel (X) closed up nearly 4% today, as the White House said that President Biden was, in fact, not imminently preparing to block Nippon Steel's acquisition of US Steel, as was reported last week. As we wrote [yesterday](#) to clients, cooler heads appear to be prevailing as the first- and second-order consequences of such a decision became more clear in recent days.

## Our Take:

Beyond the headline news of today's development, the most important line to us in the Washington Post reporting is this: "the pace of internal deliberations has slowed." As we wrote yesterday, our assessment of the drips of information that have emerged about CFIUS' actions in this case is that the Committee did not meaningfully engage in discussions around mitigation, which is both common and an important part of the transaction review process. This is because, in order for the Committee to make a unanimous recommendation to the president to block a transaction, there needs to be the determination made that the national security risks arising from the transaction must have no other means of mitigation but for preventing the transaction altogether. For their part, the parties have demonstrated considerable openness to reaching a mitigation with CFIUS. A slower pace of deliberations, in our view, leaves more room for negotiation around mitigation and the eventual clearing of the transaction.

Secondly, we called clients' attention to reporting suggesting that both the State Department and the Department of Defense did not agree with a recommendation to block. Based on our assessment of the events that have transpired since the leak of Biden's intentions last week, consensus around a recommendation to block will be increasingly difficult, if not impossible, to achieve.

At this time, Capstone reiterates its call, held since December 2023, that despite the extraordinary politics surrounding this transaction, CFIUS will likely approve it (with conditions).

Given all of this, pressure is now mounting on United Steelworkers (USW) leader David McCall, which may have reached the apex of his extraordinary leverage over this entire process. This is particularly true as local USW leadership and rank and file members are far more mixed on their perspectives of the deal, with many in favor of it.

## What's Next:

Reiterating with slight updates our signposts from yesterday's commentary for what to watch for in the next few weeks:

- Any credible reports that CFIUS has granted the parties a 90-day extension from the September 23 deadline. This would be the strongest indication to us, after the White House's walk back today, that a more considered process will occur. This would augur well for CFIUS clearing the transaction, with conditions (our original call).
- The outcome of the labor arbitration process, which is still occurring. A decision is expected there at the end of the month. That decision, which will be binding on the parties, could create an opening for the USW to declare some measure of victory and shift its position to support the deal. No doubt, the pressure is growing on USW leadership, and this may be the face-saving development that they need. Unclear if they will take it, but we see that as an opportunity.
- Indicators of success in other pathways of negotiation between the USW and US Steel/Nippon Steel, namely Gov. Shapiro's efforts.

Capstone's Call at a Glance	
<b>Our Prediction</b>	We assign a 75% probability that the Committee on Foreign Investment in the US (CFIUS) will approve Nippon Steel's acquisition of US Steel in the fall 2024. We stress, however, that given the review is classified, the public lacks access to all of the information upon which to base an assessment.
<b>Company Impacted</b>	United States Steel Corp. (X), Nippon Steel Corp. (5401 on the Tokyo exchange), Cleveland-Cliffs Inc. (CLF), ArcelorMittal SA (MT)
<b>Potential Impact</b>	US Steel trades at close to a 35% spread to Nippon's \$55 per share offer.
<b>Read More</b>	US Steel/Nippon Steel: Cooler Heads May Yet Prevail As Companies Go On The Offensive, September 12, 2024

\*Capstone's predictions are informed by rigorously examining historical occurrences and current conditions while rooting out cognitive biases systematically. We update our probabilities often to reflect the latest information. Read more [here](#).

### In Case You Missed It: A roundup of Capstone's recent notes on US Steel/Nippon:

US Steel/Nippon Steel: Cooler Heads May Yet Prevail As Companies Go On The Offensive, September 12, 2024.

CFIUS Likely to Approve Nippon Steel Purchase of US Steel; Regulatory and Labor Issues Point Toward Resolution This Fall, August 17, 2024.

US Steel Shares Remain Attractive as US Government Still Unlikely to Block Acquisition by Nippon Steel, Despite Noisy Political Environment, February 26, 2024.