



THE CAPITAL CORPORATION

Closing Deals. Opening Doors.

America, a Magnet for Foreign Capital

By C. Dan Adams

Foreign investors have always vied for a piece of the American Pie. Our economic strength and political stability have made America a magnet for foreign capital. Likewise, Americans have traditionally spanned the globe in search of attractive investments and new markets for domestic products.

The latest surge of foreign investments, however, is unprecedented and is out pacing U.S. purchases of foreign companies. A front-page story in The New York Times reported a phenomenal rise in foreign investment in U.S. companies, factories and other properties from the previous year -- a record \$414 billion in 2007, up 90% from 2006 and 100% more than the average over the last decade. In the first two weeks of this year alone, foreign businesses agreed to invest another \$22.6 billion in American companies — this represents well over half the value of all reported transactions. Nearer to home, BMW announced a \$750 million expansion to its Greer Manufacturing facility. A closer look beyond the headlines, into cross border Mergers and Acquisitions activity, reveals a more remarkable shift taking place: Cross border M&A transactions are not just for the multinational firms looking to strengthen their international position. For many foreign Middle Market investors the promise of penetrating the American market had been unattainable - until now. As the dollar continues to loose value against thriving global economies foreign investors are vigorously buying what, for many, are solid companies at bargain prices. Businesses across diverse sectors such as manufacturing, real estate, distribution, energy and pharmaceuticals have been acquired by foreign entities. No industry is immune to foreign investors seeking a good deal while expanding their footprint into the U.S. market. Unlike the recent high profile foreign giants we read about, these transactions represent Middle Market companies, those that stand to gain the most from this momentum. This shift in focus has many clamoring for foreign buyers. While the surge in foreign investments is, in part, the result of certain weaknesses in our economy, the story isn't entirely negative or alarming. Foreigners also invest in U.S. firms because they expect to profit by doing so. This is a vote of confidence in the American economy, the American marketplace and America's future; welcomed news particularly for those who have been planning their retirements and until now have been discouraged from selling in this stalled domestic M&A market.

The decline in the value of the dollar versus other currencies has made US companies more affordable to a wider base of international buyers and expanded the international playing field to include smaller deals, offering tremendous opportunities for privately held Middle Market companies. This has caused many Investment Banking firms to look beyond our borders to find buyers for US companies. The Capital Corporation currently has “buy-side “ engagements from companies in India, Mexico and Canada, just to name a few, with interest in industries ranging from IT and molded plastics to manufacturing and pharmaceuticals. These are not the headline grabbing multibillion-dollar deals; they're the 30 to 100 million in revenue companies that make up the backbone of our economy.

However, many experts feel that the currency imbalance is only one factor contributing to the overall surge in foreign interest in U.S. companies. They point out that the devaluation of the dollar—while at first glance makes U.S. companies more attractive from the standpoint of initial investment, does not increase the earnings returns when calculated on a like currency basis. So what is the compelling reason for foreigners to buy American companies? The answer may lie in a culmination of key elements that have fallen into place over the last decade and sparked by the devaluation of the dollar. For years, governors, mayors, and commerce department personnel have been wooing foreign investment. Economic developers have targeted international companies as an integral part of their strategy to grow and further globalize their local economies. Generally, the perception by state governments has been that foreign capital investment is constructive investment. In today's economic landscape, many government and business leaders see foreign investments as the silver lining behind the looming dark cloud of a potential recession, rising unemployment and worsening credit crunch, looking to foreign money to prop up hard hit industries and keep the economy growing. As Treasury secretary, Robert M. Kimmitt, stated in a recent New York Times article, “These investments keep Americans employed and keep balance sheets strong.”

For its part, in an effort to help domestic businesses, the Federal government has established a pro-business culture that includes lower corporate tax rates, in fact U.S. tax rates are among the lowest in the industrialized world. Therefore, a foreign company doing business in the U.S. stands to gain a higher return on investment here than in their country of origin and do so in a less structured economy that makes it easier for businesses to operate.

Another factor is the increasing globalization of businesses. Cross-border deals have grown simply because business has become more global. As a result of a stronger global economy and emerging new economies, international buyers have become more prevalent. Multinational companies are considering acquisitions as a key driver of growth, seeking new markets, customers, products and operational capabilities in economies outside of their home base. Global financial institutions have been successful in both staging leveraged buyouts and encouraging utilization of excess cash reserves. In an effort to diversify their portfolios, Investment managers are seeking investment opportunities in other countries. Globalization has even trickled down to individual investors, who, no longer satisfied with the low rates offered by banks are looking for alternatively high rates of return and stability in the U.S. market. "It's part of the overall global economic climate," said Brian Bethune, a US economist for Waltham

research firm Global Insight, who said the acquisitions should be judged case by case. "Foreign companies are trying to get access to the US market, and generally that's positive." It is these factors that will see to it that the cross-border M&A momentum keeps churning ahead.

But when it comes to the Middle Market, the lure for foreign investors, buoyed by strong currencies and large pools of investment capital, continues to be bargains created by the significantly weakened dollar and the continuing credit crisis. If the U.S. sinks into a recession, domestic M&A activity, already experiencing slow down could see a further decline and offshore buyers could easily find themselves in an environment with more opportunities and less competition for attractive acquisition candidates.

With this said, one might think companies would be better advised to hold off on any major merger or acquisition — at least until the economic turbulence subsides. Not so. For the savvy business owner looking to buy or sell there is good news. The uncertain conditions facing the domestic M&A market should not cause alarm rather; it can create new opportunities that the bearers of the gloom and doom banner might miss.

Overall, U.S. businesses are healthy. The strategic benefits of acquiring American brands, resources, distribution systems and technology continue to attract investors.

Given today's climate, there are many reasons why U.S. sellers may welcome foreign buyers:

Value: As a result of burgeoning global economies foreign investors are growing more accustomed to higher levels of risk, and are paying the large multiples that U.S. companies generally bring in our domestic market. In certain instances, the opportunity to have a U.S. presence will entice foreigners to pay more than their domestic counterparts.

Management Continuity : Offshore buyers often prefer management and staff to stay in place and continue to operate the business. This is particularly attractive to owners who are near retirement and are looking for ways to get the equity out of their business but not ready to throw in the towel.

Long- term investments: Traditionally, European and Asian companies tend to take a longer view, and could be more patient than US investors.

While the deals abound, cross border M&A transactions are not for the faint of heart. "Effective M&A requires careful planning, consideration and guidance from advisers who understand the strategic, legal/regulatory, accounting and tax ramifications of a transaction," said Harris Smith, Grant Thornton LLP West Region Managing Partner. "Approaching a cross-border transaction with an understanding of the added layers of cultural and language differences, legal and regulatory complexities, and business environment issues in all relevant geographic areas is an essential ingredient for ultimate success."

As companies continue to look for top and bottom line growth, in today's environment, they must continue to look beyond traditional borders for the right opportunities. New technologies increasing

the ease of efficient global communications, regulatory changes and better cultural understanding, has made it easier than ever for businesses to expand their footprint into foreign markets. These are exciting times. Now more than ever you need a partner that will go beyond your doorstep and take your company to the farthest reaches of the globe. The American pie has never been as accessible or as profitable to foreign investors and homegrown businesses alike.



C. Dan Adams, President and CEO
The Capital Corporation.