

THE VIEW FROM ABROAD

DESPITE A SLOWING ECONOMY, THE U.S. MIDDLE MARKET REMAINS ATTRACTIVE TO FOREIGN STRATEGIC BUYERS

BY JIM LAWSON AND HANS PETER PETERS

AS THE GLOBAL ECONOMY GROWS, SO DOES THE DESIRE and capability of non-U.S. companies to acquire U.S.-based businesses, particularly as the value of cross-border transactions increases. Of the \$1.5 trillion of U.S. M&A activity in 2007, approximately \$444 billion (29.1% of the total) involved non-U.S. acquirers, as compared with \$229 billion (18.6% of the total) in 2006 and \$143 billion (17.3% of the total) in 2005.

This recent increase of cross-border acquisition activity has been fueled by powerful, long-term secular trends coupled with the recent market developments of a significantly weakening U.S. dollar and reduced competition from private equity acquirers who rely on debt financing. As industries such as aerospace, automotive, building products, chemicals, electronics, industrial components and plastics have become increasingly global, cross-border acquisition strategies are following suit. For many acquirers, the proposition is simple: The U.S. economy offers a large addressable market, healthy secular growth, excellent infrastructure, flexible labor markets and, in the case of manufacturing businesses, facilities proximate to these markets.

This growth is also due to both greater interest from the traditional cross-border buyers in Europe as well to as expanded interest from non-European countries. The increase in European interest is based, in part, on the European M&A markets' recent growth. According to **Thomson Reuters**, the number of completed deals involving a European target grew at a compound rate of 11.2% from 2004 through 2007, compared with 8.1% growth in deals completed with U.S. targets. In 2007, emerging countries, including China and India, accounted for close to a quarter of all cross-border M&A activity, up significantly from 2005.

This trend is apparent in the middle market, where buyers from developing countries view mid-sized deals as a solid, low-risk, high-return investment. Frequently, the strategic buyer can use the medium-sized acquisition as a platform to drive substantial growth by pairing it with low-cost manufacturing in China or services capabilities in India.

As foreign acquirers increasingly eye acquiring U.S. businesses to bolster their international platforms, investment banking services are evolving to better serve their global client base. Global

resources and the ability to streamline processes across continents are becoming increasingly important to both domestic sellers and international acquirers as the cross-border M&A trend continues.

For domestic businesses, foreign acquirers often represent attractive and potentially highly synergistic buyers. That said, accessing foreign buyers typically requires specialized knowledge of local markets and strong relationships, which take years to develop. Even where language is not a barrier, cultural differences and professional nuances such as timing and tempo, information expectations, process points and negotiation postures can vary widely by country. Trust is also an important factor: Having pre-existing relationships with corporate acquirers in foreign markets significantly enhances an investment bank's ability to bring these buyers to the table. As such, a strong local presence is the only method to generate truly effective dialogue with the best foreign strategic acquirers.

In navigating the nuances of cross-border M&A, foreign buyers often need specialized, cross-border support from their investment bank to complete a successful transaction. On a recent buy-side advisory assignment, **Lincoln International LLC** represented a U.K. buyer of a services business that was principally located in the U.S. Responding to a situation that demanded a quick close, our firm helped the client coordinate due diligence and negotiate a deal simultaneously from two continents. The transaction closed 30 days from the execution of a letter of intent and illustrates the complexity and increasing requirements for timely cross-border middle-market M&A.

Overall, the U.S. middle market is a market segment ripe for foreign buyers. The overall economy may have slowed, but the relative attractiveness to international acquirers of leading U.S. niche businesses across a number of global industries has not diminished. For this reason, we expect to see growing cross-border acquisitions of U.S. businesses in 2008 and beyond. ■

Jim Lawson and Hans Peter Peters are co-chairmen of Lincoln International, located in Chicago and Frankfurt, respectively.



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