# The Advisor – Summer 2014

## Cross Border M&A

With the advent of technology, the world continues to become a smaller place to do business. Buying items online from a company in a different country that is thousands of miles away is no longer as risky a proposition as it once was. The same can be said for a business acquisition in another country. What was once considered an arduous task is no more difficult than buying a business in the same city or country.

There are many reasons for a company to consider an acquisition in another country. These include:

1. **Access to a Key Market.** Customers in foreign countries may not wish to deal with a business that doesn't have a location in their home country.

2. **Reduce Risk through Diversification.** Depending on the proximity of the target, an acquirer may mitigate the risk of poor economic conditions in his home country by buying a foreign business.

3. **Access to Target's Intangible Assets.** A target may have R&D, technical skills, patents or brands that the buyer may wish to exploit in his home country.

4. **Exploitation of Buyer's Intangible Assets.** A buyer may wish to exploit his own brands, R&D, patents etc. in a foreign country.

5. **Cheaper Costs.** Depending on the territory, labour and material costs may be cheaper than what it costs in the home country. And if the target is close to other key markets the buyer sells into, freight costs to ship product into these territories will be cheaper as well.

6. **Lower Taxes.** If the target's jurisdiction has lower tax rates, the buyer can transfer production and sales to the target's operations in order to reduce the overall tax burden.

7. **Foreign Currency.** If the exchange rate between the buyer's and target's currencies is favourable, a price that was once considered prohibitive may now be affordable.

8. **Financing.** Acquisition financing may be more readily available at cheaper prices in the foreign territory to facilitate an acquisition. Government agencies (such as the EDC in Canada) may exist in the home country to assist with foreign acquisitions provided that the transaction results in an overall net benefit to the buyer and the home country.

Although an acquisition in another country has many positives, one must consider the risks as well:

1. **Language.** If the target country's native language is different from the buyer's, communication may be a challenge.

2. **Cultural Fit.** This may be an issue both from a country perspective and a company perspective. Attitudinal and religious differences between the two countries may make it difficult for the buyer and target to connect and relate for the greater good of the whole. Or the buyer's corporate culture may be one of decentralization and entrepreneurship while the target's culture is centralized and conservative.

3. **Geography.** While geography can be considered a strength due to diversification, it may also be a risk if the distance is significant. Control over management of the target's affairs may be more difficult the further away it is from the buyer. This will be exacerbated if there is a significant time zone difference between the two.

A buyer must weigh the pros and cons of each potential target and consider the geographic and cultural differences between them. Assuming these issues can be mitigated, the buyer should work towards consummating the acquisition with the preferred target.

A company may wish to acquire a business in a foreign country but may not know how and where to locate potential targets. In this instance, it would be best to retain a corporate finance advisor familiar with the territory. The advisor may have offices in the country in question or may have significant experience acquiring businesses in the territory on behalf of foreign buyers. They can assist in locating potential targets and educating the buyer about cultural differences he may be unaware of. A local advisor can be invaluable in assisting the buyer from inadvertently offending the target during negotiations.

Aries Advisory Group can assist you with your foreign company merger or acquisition. In territories we are unfamiliar with, we have relationships with local advisors who can assist with the transaction. And we will work hand in hand with you and our local partners to facilitate a successful acquisition. Please contact us at info@ariesag.com or at (416) 467-7878 to see how we can help.