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32 JANUARY 24, 2005 • CRAIN'S CHICAGO BUSINESS

FOCUS: FINANCE

Dollar down, acquisitions up

Devalued currency doesn't stop local firms from buying overseas

BY JOHN T. SLANIA

Who's afraid of the weak dollar? Chicago-area companies are buying foreign firms at the brisk pace in three years.

Local companies made 86 foreign acquisitions in 2004, a 25% increase over the previous year, and the largest number of such transactions since 2001, according to FactSet Mergerstat LLC, a mergers and acquisitions research firm based in Santa Monica, Calif.

Fact is, the devaluation of U.S. currency still hasn't offset the lowered costs to be found in overseas operations—not only in Chinese factories and Indian call centers, but even in Germany and the United Kingdom, where engineering costs run sub-

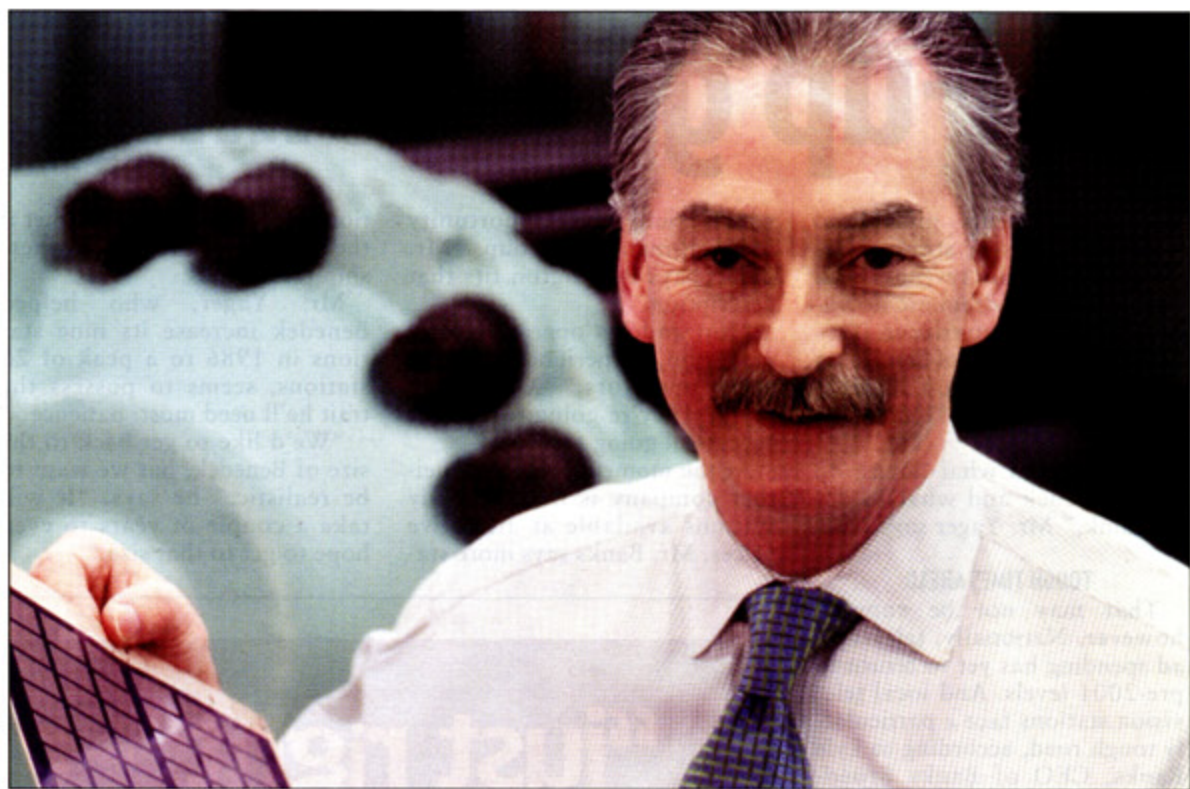
stantially cheaper than in the U.S.

Globalization contributes, too, as more local firms seek to please large corporate customers opening more offices overseas, or to expand their presence in emerging market economies.

"Companies seem willing to take the risks of the (dollar's) conversion rate at the moment if an acquisition means gaining greater marketshare and geographic reach," says Kurt Kunert, publisher of FactSet Mergerstat's reports.

GO WHERE YOUR CUSTOMERS ARE

Consider the experiences of Madison Capital Partners Corp., a Chicago-based company that buys and operates manufacturing firms. Madison spent \$28 million in December to buy Cofimco SpA, an industrial fan manufacturer in Milan, Italy, because a number of its foreign customers



ROARK JOHNSON

"One of the things that is overlooked in an acquisition is the gain in human capital," says Gordon Hunter, CEO of Des Plaines-based Littelfuse, which has been buying foreign companies since the mid-'90s.

were seeking a closer source of specialized fans.

"The only way to compete globally is to be located where your customers are," says Larry Gies, president and CEO of Madison, a private firm with

about \$1 billion in revenues.

Madison has operations in China to take advantage of that country's lower labor costs. But its operations in Europe give the company access to lower engineering costs.

"The attention has been on China and its lower labor costs," Mr. Gies says. "But there's pressure to reduce costs wherever you can."

CHINA TO IRELAND

Even cost cuts don't come free, however, and American buyers find that bargain international acquisitions come with a host of challenges: cultural differences, nuances in accounting rules and tax laws and differing government regulations.

Littelfuse Inc., the Des Plaines-based maker of circuit protection products, has been active in the foreign acquisition arena since the mid-1990s, buying companies from China to Ireland.

In May, the company, with annual revenues of \$495 million, acquired an 82.4% ownership stake in Heinrich Industrie AG, a fuse manufacturer in Witten, Germany; six months later Littelfuse increased its ownership stake in Heinrich to 96.8%. Littelfuse paid more than \$50 million total for the stake.

CEO Gordon Hunter is careful not to enter foreign deals solely for immediate gains in marketshare.

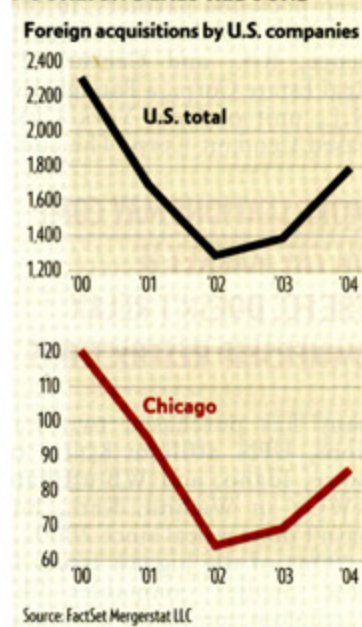
"One of the things that is overlooked in an acquisition is the gain in human capital," Mr. Hunter says. "You often get some very good people who can lend their capabilities to help us on a global basis."

LOCAL IDENTITY

That's an interesting point: Many companies make foreign acquisitions not for cheaper workers, but for better workers. Especially companies already doing business in foreign markets.

Companies also buy firms in other countries to give themselves a presence there. Chicago-

FOREIGN DEALS REBOUND



TIM MOLLETTE-PARKS

based Hostway Corp. has quickly established a foothold in six foreign countries since its inception in 1999, including Korea and Canada.

Hostway, a privately held Internet-hosting company with annual sales of about \$100 million, made two acquisitions in 2004: Cephren Communications Inc. in Ontario, Canada, and Enterprise Networks Internet Data Center in Bundang, Korea. Hostway didn't disclose terms for either transaction.

Acquisitions give Hostway an expedient way to gain an identity in a foreign country, says John Lee, Hostway's vice-president of marketing.

The company doesn't want customers or competitors to view Hostway as a remote presence because it uses far-flung customer-service agents or Internet connections that bounce around the globe.

"You need to have a local presence," Mr. Lee says. "This is an Internet company, but we realize we need to have face-to-face interaction with our customers."