

Foreign Buyers

American food manufacturing and foodservice industries have attracted a host of foreign buyers, from Japan, Australia, France, Great Britain, etc. No segment of the industry is immune to foreign interests.

CURRENCY IMBALANCE. The proliferation of foreign investments may, at least in part, reflect the decline in the value of the dollar versus other foreign currency. However, many experts feel that the currency imbalance has little to do with foreign interest in U.S. companies. They claim that the devaluation of the dollar—while making companies more attractive from the standpoint of initial investment—does not increase the earnings returns on a like currency basis.

Why do foreigners buy American companies.

1. Many foreign companies acquiring U.S. firms are focused on the technological, distribution, or product synergies that become available through an acquisition.

The U.S. market continues to be attractive because many U.S. companies lead European and Pacific countries in product development. The president of one foreign restaurant and leisure management concern, for example, expressed confidence in American entrepreneurs' abilities to develop successful chain concepts that, after a period of growth, are worth buying.

2. The American market is perceived as an excellent testing ground for new concepts and ideas. The consensus of opinion overseas is that if it works in the U.S. and has developed a strong following, it should work elsewhere.
3. U.S. tax rates are among the lowest in the industrialized world. Therefore, return on investments made here is normally higher.
4. Foreign buyers are just learning how to use leverage in order to enhance returns. Global financial institutions have been successful in both staging leveraged buyouts and encouraging utilization of excess cash reserves. Investment managers are seeing the need to invest in other countries as a means of diversifying their portfolios. Savers, likewise, no longer satisfied with parking their funds in banks that earn low rates, are looking for alternatively high rates of return in the U.S. market.
5. U.S. companies are relatively cheap compared to companies in Europe, where prices are much higher than those of comparable U.S. firms.
6. Foreign investors are growing more accustomed to higher levels of risk and are paying the large multiples that U.S. companies are getting here.

7. The federal government has been pro-business in establishing lower corporate tax rates and a freer economy in which to operate.
8. U.S. sellers also welcome foreign buyers. Investment banking firms are scurrying overseas to find buyers for domestic companies they have been engaged to sell. Closely held sellers desire foreign ownership as offshore owners oftentimes want management to stay on in order to operate the business. They also look at their acquisitions as long-term investments.

Sellers also feel that foreigners will pay more than their domestic counterparts to have a U.S. presence. Also, the confidential disclosures, that they have to make to a foreign company will be less damaging should the transaction not be completed. Sellers may sense that foreign owners will limit their say in the way the company is operated.

9. With one of the highest consumer spending rates in the world, the U.S. offers the best market for foreign product acceptability.
10. Governors, mayors, and commerce department personnel are encouraging foreign investment. It is generally perceived by government that capital investment is productive investment

Although food manufacturing continues to attract foreign investors, restaurant chains have not been as high on the target list. They are nearly last on the list of the 10 most popular investment industries by foreigners in the U.S. What is it about the restaurant industry or the U.S. market that would deter the foreign buying market?

1. There are very few restaurant powers outside the U.S. and most of the top 10 foodservice companies in the world are headquartered here.
2. Buyers overseas are generally focused on internal growth rather than growth by acquisition. Perhaps this stems from the volatile nature of the restaurant industry overseas.
3. U.S. concepts have been available to foreign investors through franchising for several years. This vehicle as well as the use of joint ventures has helped to limit the need for foreign purchase of the domestic parent.
4. Unless U.S. foodservice companies achieve significant growth through diversification, foreigners take a wait-and-see attitude.
5. The U.S. foodservice industry is made up of a large number of independents and small chains without significant market share. Most foreign buyers wish to purchase a segment leader, which is often unavailable.
6. Some foreign restaurant chains fear the U.S. entrepreneurial system won't be able to adjust to the rigor and regimen of the corporate climate. This same fear exists among many domestic buyers.
7. Many restaurant chains lack the physical assets to support the valuation required to meet the shareholder's asking price.

Some foreign investors fear that future fluctuations in the U.S. economy will adversely affect most theme restaurant businesses. Furthermore, the high employee turnover rates experienced here are unusual in the world climate.

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