

# Ask the Advisor

**Q:** *How is the dollar's declining value likely to affect the sale of my business?*



**A:** Over the past few years, the U.S. dollar has lost value against most foreign currencies, including the euro, British pound, Chinese yuan, Japanese yen and Indian rupee. Although it's simple to enumerate the dollar's decline in value, it's harder to provide easy answers about its effect on the M&A marketplace.

## International business thrives

The dollar's loss of value is actually benefiting some U.S. companies with significant overseas business. Foreign customers taking advantage of relatively low prices for American goods are contributing to higher earnings for these businesses.

For example, some small manufacturers that began selling internationally only recently have, thanks to the depressed dollar, seen their international sales explode. This has helped them get a strong toehold in markets in which local businesses previously dominated. Business buyers are likely to appreciate a target with growing international business, and such a seller may be able to negotiate a higher purchase price.

The dollar's plummeting value also has made acquisitions of U.S. companies more appealing to foreign buyers that want to take advantage of the exchange rate. This perceived "discount" means that you may have a larger pool of potential bidders. In general, the larger the pool, the higher amount you may be able to ask.

## Costs on the rise

On the other hand, the dollar's depreciation may increase a selling company's expenses. This is particularly true if you purchase supplies directly from overseas vendors or rely on foreign labor.

And though the weak dollar may stir M&A activity among foreign companies, some deals may be hit by capital market uncertainty. In fact, the current credit crunch could stop some deals dead in their tracks. Also, foreign buyers may decide that the complexities

and costs of a cross-border transaction overshadow the potential for a good deal.

Other buyers may worry that today's currency imbalance won't necessarily translate to long-term value. A large part of the dollar's drop can be credited to lowered interest rates, and some economists are speculating that the end of rate cuts is imminent.

## Take heart

The degree to which the declining dollar affects a selling business varies. U.S. companies that buy raw materials domestically and make products in U.S. factories with American labor are likely to benefit from the stronger buying power of foreign customers. On the other hand, American companies that rely on foreign materials and other resources may be hurt by the declining dollar.

If conditions are particularly unfavorable for your business, consider waiting out this economic rough patch. But don't just assume a weak dollar makes this a bad time to sell your business. Many factors affect the M&A market, and if the right strategic buyer comes along, this may be an ideal time to sell. ■

