



Publisher Dinner with Comerica Bank

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Business leaders in and around Tampa Bay face challenges their peers nationwide would recognize at once. Stuart Forsyth, Senior Vice President at Comerica Bank, invited local business and finance luminaries to join the Tampa Bay Business Journal and tackle some of these issues on Wednesday, October 11, 2023. Topics included navigating rising interest rates and inflation, hiring, and retaining the best staff in a competitive market, and successfully buying and selling companies.

The publisher's dinner was sponsored by Comerica Bank, a Dallas, Texas-based bank that established a significant Southeast market presence in 2021, focused on commercial banking and wealth management. Comerica has a 175-year history of assisting private business owners in their pursuit of successful generational leadership transition.

Serving as moderator, Ian Anderson, Market President and Publisher for the Tampa Bay Business Journal, first asked the panelists to consider what interest rates and the state of the economy mean for their organizations.

"We are in real estate and directly tied to construction, but we've worked hard to hedge our business," says William Daniel, CEO of Building Easier Construction Group. "We do new construction and multifamily and for next year we're focusing on better stabilization and profit optimization. During COVID, everyone was growing too fast to put the right systems in place. So our goal for the next year is to create a long-term sustainable organization."

ABC Capital Group Co-President Gary Cohen agrees, saying, "We're not going to see the COVID economy again. In the multifamily world, the biggest hurdle is the interest rate environment. A few months ago, I would have guessed interest rates would be sliding back to normal by the fourth quarter of 2024. But we may be into 2025 before the Federal Reserve pulls back. They're trying to create a soft landing, and we're going to see another 25-point increase before 2024. Because of interest rates, home buying has a headwind attached, and people need apartments but rental rates have gone up quicker than incomes. It's not a simple formula. You're dealing with irrational human beings. If no one's selling their house, America isn't generating lean liquidity."

"Interest rates are going to stay the same or go a little bit higher, which I don't like," says David Andrews, Founder of the Auto Auction Group. "We borrow a lot of money and our (this might be "cost of funds") comps and funds have gone up across the board for every company. We've got three residential subdivisions going and we're still selling houses, but there's not a lot on the market. The new car business exploded during COVID, but you're not ever going to see that again. When the government prints trillions of dollars, people are out buying cars. It's back to normal times now. Margins are down, volumes up a little. And this conflict in the Middle East could be

over in a week or become an all-out war across the region, which could have a major impact. But those things are out of our control, so we just focus on managing our expenses as much as we can, but everything costs more. Not 5 or 6 percent more, either — labor alone is 50 percent more. It's a serious consequence to your bottom line."

Inflation and interest rates make it difficult for young people to justify buying homes. According to Linn, "Consumers in their 20s through 40s see interest rates over 4% as unreasonable even though the long-term average is in the 5-6 percent range (let's not forget the late 70s when interest rates were in the teens!). That perspective impacts home buying vs. renting."

Barry Shevlin is the CEO of FlyUSA, and has seen rising costs impact his industry in a major way. "Oil prices are certainly an issue. If jet fuel is back at \$10 a gallon, that's problematic. I think it will go back to the old normal, and we are seeing asset prices come down for the first time in a long time. Planes are just like boats and cars. When inventory went to almost nothing, prices went through the roof. All sorts of planes are on the market today for two or three times the price in 2019. As inventory goes back up, prices are coming back down," he says.

By adapting to new conditions, businesses like Burgess Civil Engineering can look forward to a strong 2024. "I've got a year's worth of work ahead of me, which is about as good as I could hope for," says CEO Ben Burgess. "Labor is a concern, but if people want to work four days a week at a 30 percent pay raise, that's better than zero days a week if we can't find any employees. During the pandemic, workers started making more money because of demand. In the last few weeks I've had three of my 15 construction crews poached by competitors for more money. I've diversified in the public market, because if the private market slows down, contractors solely dependent on private dollars will get hammered. Then I might be able to attract workers because I have a steadier source of income."

BUILDING A WINNING STAFF IN A WORKER'S MARKET

Daniel joined Burgess in considering the need to keep workers happy and feeling respected. "My goal is to create a senior leadership team (SLT). We have a president, a vice president, and a controller to run the day-to-day operations, while I function as chairman. Our president started as a consultant with us six years ago. The vice president is brand new as of last year, and he came from a startup. It took me nine years to find that team, and the hard part is trusting them to run the organization with my culture and values. When you're IPO-ready, your team should send the message that you're ready to create the most value for shareholders." Daniel's philosophy extends beyond the leadership team. "We've been creative in our compensation structure, whether it be shadow equity deals or long-term



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bonus programs. If we find the right fit, we pay what they want because the value is there. There’s a huge diversity in timelines and pay expectations. I make sure compensation levels rise with contribution and talent. If I bring in someone new at a certain rate, I give others a hike so they feel no slip in their value. It’s an expensive proposition, but we’re small enough to do that. All the ships rise with the tide and the people who have been with us the longest aren’t outweighed by the market.”

“One top conversation we have with clients is how to retain employees in a competitive environment,” Linn says. “People who want to work remotely or

who care about free versus subsidized health benefits will be driven by those concerns, and it varies by employee. I had a manager hire a consultant to find out what was important to me and she acted on that information. Compensation is one aspect, but knowing you’re supported, you’re heard, and empowered can mean more than the money.”

BUYING AND SELLING BUSINESSES

In conditions like today’s, investors must carefully consider every new company purchased, even if the product and team are exceptional.

“We’re still dealing with a bid-ask

spread. What are assets really worth?” Drew Weatherford, a Partner at Weatherford Capital asks. “We invest in growth businesses so eventually we’ll have to raise money, but we’re in this period without a lot of deals in the market because valuations are limited. A technology business could raise money at 17 times revenue in 2021, but now you don’t want to go to market because you’re going to get punished in valuation. Everybody on the cap table is trying to provide capital to extend the runway, while waiting for a better day.”

As Managing Director of Investment Banking at Comerica Securities, Jeff Wilson has noticed a shift in the

mergers and acquisitions (M&A) market. “My primary focus is selling medium-sized, privately owned businesses. The current M&A market for most businesses is slow. Interest rates went up, so the cost of buying a business is higher, and buyers want to pay lower prices to offset the higher cost of debt. Business owners remember the high valuations from 2021, creating an expectations gap between the buyer and seller. I think the market for M&A will stabilize and improve in 2024. We see a growing pipeline of sellers that will come to market in 2024 and private

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equity investors are stating an intent to be more active — they can't sit on the sidelines forever."

Ultimately, the decision to sell a business lies with owners, who may not get the ideal price in a difficult economy.

"The market is starting to rationalize the economy," says Weatherford. "These are smart people who have built businesses, so they'll realize things might not be better in 12 months, and maybe we haven't seen the bottom. They'll decide whether to keep working for another three years in hopes of a better selling environment, or to just get out."

A misinformed decision to sell could cost a business owner, as Linn explains: "Owners can see a good deal and decide to sell. But sometimes they haven't done the pre-work to determine if a number that feels good or is bigger than they expected represents the full value of their business. If they're not going to start a new venture and are just looking to get out, the number may seem attractive until seller's regret sets in. If you don't get out ahead of the process, you'll be ill-prepared for the outcome, even if the numbers seem grand in the moment."

BEST PRACTICES FOR SELLING A COMPANY

To avoid the pitfalls Omar Soliman, Co-Founder of College H.U.N.K.S. Hauling Junk, advocates "hiring an investment banker for any sale of considerable size. You want to find the right culture fit to buy into your vision. The firm we went with is great because

they're privately owned. We paused to see how the market developed when COVID was just starting. Then we did the sale over virtual calls, got spreadsheets of the offers, and no two were the same. The devil was in the details."

"We see a spectrum in the business owner space," Linn says. "On one end, a buyer offers a purchase price the owner thinks is great, more than they thought they could get for it. On the other end of the spectrum, the owner thinks their business is worth more than it is — they're unrealistic about the purchase price of their entity. An owner could receive half the desired purchase price and be happy and live out their dreams, whether traveling around the world or spending more time with grandkids, rather than hanging onto a business and waiting for a better deal. We suggest spending time on your personal planning to find out what meets your goals from a monetary and non-monetary perspective."

Bob Buchanan is the National Practice Leader of Business Transition Planning for Comerica Bank, and knows that buying a business is about getting the best deal for buyer and seller alike, even if the seller needs time to understand their own needs. "I once spoke with a business owner who said, 'I really want to sell my business and I need \$50-million after taxes.' Which means a deal worth \$70 million before taxes or more. We did some pre-work and his business wasn't worth that much. He thought he needed that much money for his lifestyle, but hadn't done any planning to really know. I asked him to participate in a personal financial planning process. He came

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back and said, ‘What I really need is about \$25 million to achieve everything I ever wanted and even have a huge buffer.’ Buchanan agreed with Linn about the need for preparation, saying, “If you don’t do any personal planning, you won’t understand your real goals and priorities. Then you’ll either turn down the best deal you’ll ever have, or take less for your company than it’s worth. When I talk to business owners, having been one myself, my goal is to help them understand what they want from a sale, whether it’s philanthropy, family harmony, leisure, or their next venture.”

ADAPTING TO CHANGING CONDITIONS

Weatherford provided a compelling example of how adapting to changing market conditions and filling gaps for customers can turn a company into a sought-after commodity. He cited, “One technology platform gets 3 million leads a year from parents as a marketplace connecting student athletes to colleges to hopefully help them get placed”. This platform has experienced rapid growth, especially with the recent development of college athletes being able to earn income. Notably, only a small fraction, about 10 to 15 percent, of the athletes using the platform are Division 1 athletes. Instead, the majority are passionate about sports and eager to work hard to pursue their dreams. The platform succeeds in placing an impressive 80 percent of these athletes on college rosters, showcasing its tremendous impact. This business success story illustrates the potential of well-constructed ventures in today’s ever-evolving market, a potential that

continues to excite investors and stakeholders. “BPEA EQT bought it from Endeavor, who bought it from McCormick. It’s a big business, a lot bigger than people realize. Buyers are always excited about the potential of a well-built business even in today’s market.”

As businesses adapt to changing conditions and cater to evolving customer needs, they also need to consider the shifting requirements and expectations of their employees.

“It’s about creativity and generating value for employees,” says Daniel, once again stressing that success begins with a satisfied team. “When inflation was insane, everyone needed a raise, because fuel was through the roof. So I instituted a work-from-home day for everybody in the organization, which is weird for a construction company, but we did it. Now we have a robust cloud management system and productivity rose, creating better outcomes in the field. It’s an inventive solution and costs nothing, but the employees saw a huge benefit in not having to drive to work every day.”

To close the discussion, Shevlin stresses the importance of standing by sound policies, even as the market shifts. “I’m running the same playbook, just in a different industry with different employees. I’ve always advocated creating a culture around employee and customer experience. If you focus on those two things, everything else tends to take care of itself. These philosophies became part of my DNA over the years.”

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