

MEASURING THE MID-MARKET



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FORMER MID-MARKET FAST 40 WINNERS GATHERED VIRTUALLY TO DISCUSS HOW THE CORONAVIRUS PANDEMIC HAS AFFECTED THEIR RESPECTIVE INDUSTRIES AND THE FUTURE OF THE MIDDLE-MARKET ECONOMY.

- ▶ **John Gonella**, CPA, tax partner, Cherry Bekaert, Raleigh
- ▶ **Thad Walton**, senior vice president & commercial banking leader, Regions Bank, Charlotte
- ▶ **Joe DelPapa**, attorney, Ward and Smith, PA, Raleigh
- ▶ **Zeb Hadley**, president and CEO, National Coatings, Raleigh
- ▶ **John Treece**, president and CEO, DMA Sales, Tabor City
- ▶ **Greg Marshall**, CFO, Omega Construction, Winston-Salem

The COVID-19 crisis upended the business world in myriad ways. Business North Carolina assembled three veteran executives of fast-growing businesses and three service professionals to analyze the impact of the unexpected pandemic. Comments were edited for brevity and clarity.

What's your sense of the middle-market economy?

WALTON: It's across the board. Folks are feeling like they're getting to the "new normal," but I think they're still a little nebulous about what that exactly is. A big question for a lot of people who received [Paycheck Protection Program] funding was: "Did it cover up a wound that's healed, or is it getting infected and delaying the inevitable?"

I think we've seen a lot of businesses scrap and adapt. But people who have really changed their business models, or had the foresight early on to make some big decisions, whether it was hoard inventory or opening up different supply chains, have shown a lot of resiliency.

Has transaction work shut down in the last six months?

DELPAPA: We were roaring hot all the way through the middle of March. We couldn't keep up with the amount of deals. When March 15 hit and we had to lock down, everything stopped. It came to a screeching halt from March to the reopening sometime in May or June.

There was a lot of activity in businesses getting ready for sale. When July came around, and in the last couple months, the activities really picked up. We're really starting to see a lot of companies get interested.

We were concerned that valuations would be depressed, and there's going to be a lot of uncertainty from an acquisition standpoint. But over the last few months, it's been positive to see good signs of [mergers and acquisitions] activity picking up. It's not like the first quarter, but it's certainly coming back to an optimistic level.

What's happening in the automotive sector?

TREECE: There has been an explosion of internet sales. There's definitely what we're characterizing as a shift in consumer purchase behavior. A large portion of business has now shifted to the e-commerce sector, and that's going to remain there.

Then there are companies that have supported the big-box retailers or doing internet fulfillment business — they have had surprisingly fantastic years. Their numbers are over budget. We're fortunate to be in that bucket.

Used car prices have dramatically risen. Carvana and the folks that are in the e-commerce space selling cars have been doing fantastic. So there's folks that have done quite well.

Yet, there's still pieces of our business that are doing rather poorly.

Companies on the original equipment side of the automotive sector have been decimated when [automakers] decided to shut down production.

The biggest impact is on the smaller regional parts and repair operations. We've seen a significant number of garages go out of business. When you drive through the rural cities of North Carolina and South Carolina, you're going to see garages that are

closed, and they're not coming back. Maybe they were already on the borderline financially and this has put them over the edge.

Were you poised for this crisis?

TREECE: About 65% of our business was already in the e-commerce and big-box world. From that standpoint, I guess you would say we were poised. But we had supply chain issues because most of our product comes from offshore. So our emphasis very early on was trying to get our supply chain stabilized.

How was the construction market affected?

MARSHALL: The impact on the construction industry varies by market type. If you're doing a lot of university work and public and office and medical and hospitality work, that has slowed way down.

We've always tried to not over-focus on any market when it's hot. Thank goodness we built our resume and reputation over the last couple of years, and now it's paying off. We do industrial work and also a lot of retail in terms of big boxes and grocery store remodels. They aren't exciting projects in the sense that they get headlines, but it's really good work. Remodels and new grocery stores are not going away.

Some competitors that are more focused on commercial office and hospitality projects are laying folks off and cutting salaries. We're actually doing the opposite. We're using this as an opportunity to go out and find good people and do some promotions within our company to strengthen ourselves going forward.

In the last two years, we've completed almost 4 million square feet of industrial work, mainly distribution centers. And we've got about 3 million square feet of distribution centers under contract.

The grocery-store chains are doing really well.

A couple years ago, we got into building some car washes and convenience stores. They seem to be doing really well right now.

We had initially about 15% of our projects that were put on hold. In the end, we're going to lose about 6% of our backlog either permanently put on hold or pushed into the next year. Most of that was hospitality projects.

But we made a conscious decision that we were not going to lay off workers, before a PPP loan was out there. We added our own costs, not the cost to the project owners. We actually put extra personnel on jobs to keep our people busy.

Zeb, you operate in more than 30 states. What has been your experience?

HADLEY: We were shut down in Michigan for two months after the governor shut down everything except for construction projects that were specifically deemed essential. We had a hospital project and a wastewater-treatment plant there but no



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- GREG MARSHALL

revenue for two months.

And we had a retail project in Pennsylvania that was shut down. We also do a lot of work for Walmart and different retailers, and they shut down for two months.

Things are now slowly trickling back to normal. But our HR department had a nightmare for many, many months. We were sending employees or subcontractors to different states, and we have to be very cognizant of entry into that state and then re-entry back into North Carolina or into another state. That was a logistical nightmare.

How did you respond?

HADLEY: Our general administrative expenses were about \$550,000 a month. In early March, we started to analyze how to cut these expenses back. In Phase 1, we cut all nonessential spending. In Phase 2, we scaled back our administrative staff. PPP funding allowed us to keep our staff at full capacity for a period.

But then, we saw the writing on the wall, and we've cut our burn rate to about \$320,000 a month.

We have basically prepared ourselves to break even through the rest of this year. Our revenue projections are \$17.5 million this year, compared with \$25 million last year.

We can't scale back any further because our backlog is about 20% higher than our estimated revenue. If we scale back too much, then when we start ramping up in the first quarter, we will be underwater. We are focusing on being profitable next year, because the work is there for us, fortunately.

Has working remotely been effective?

GONELLA: Remote auditing has been amazingly successful. We've been able to see how much clients will need us in the field other than those things that had to be done in person such as inventory counts.

Everyone has a different situation of their comfort level with coming back into the workplace. We have certain people that could not wait to get back because it's difficult to get work done uninterrupted. Some single people who are living alone quite honestly were starting to go a little bit stir crazy working from home.

The firm has spent a lot of time focusing on how do we keep people engaged, making sure that those people who are working remotely don't end up feeling disconnected from the organization and their teams as we try to service our clients.

DELPAPA: Retention of key employees has become a big, big topic because how do we incentivize these folks when they can do the same job for another company? What if I can sit at my house and I can get paid by another company an extra five or ten thousand dollars or whatever the number is? You're not coming into the office, you're not developing that loyalty. Retention is going to be a big topic.

WALTON: I think it's very difficult to lead people remotely and incentivize them and train them and build a relationship. This telepresence capability is a tool in the toolbox. It's something that we need to be good at just like managing a conference call or

a roomful of people. But it's very tough remotely to really lock arms with somebody and motivate them while we're sitting across from a computer.

What are the keys to growing your businesses?

TREECE: We've adapted to the new opportunities that have opened up on the internet side of the business, so we've realigned and shifted resources. We see an opportunity to gain share where that wasn't potentially there pre-pandemic.

We have about 98 employees, and we have 76 open positions that we're trying to fill. Forty percent are salaried jobs, and 60% are hourly associates. It is very difficult right now to fill those associate-level roles. That's going to be a challenge for us.

Why is it hard to attract workers?

TREECE: Distribution is tough. There's a couple of big gorillas in our business, the Amazons of the world. There's more and more opportunities for people. We've done all the things that you can think of: incentives, hiring bonuses, signing bonuses, retention bonuses. It's counterintuitive because the news says we still have an unemployment problem.

What else is needed to get the economy moving?

GONELLA: It would be good to get some clarification from Congress regarding the nontaxability of the forgiveness portion of the PPP. Initially, the guidance was that the forgiveness would not be taxable. But the IRS came out and said, "We're not going to allow you to deduct the payroll costs associated with that forgiveness portion," which is a backhanded way of making it taxable, which I don't think was Congress' intention. We need both parties to get together and get some clarity.

SHIFTING STRATEGIES

The pandemic has proved an unprecedented challenge for the business community. Companies both big and small have had to pivot and think creatively in order to thrive or, in some cases, survive. As the coronavirus took hold of the U.S. in March, business in North Carolina came to a halt with the governor's shutdown and stay-at-home order. The state saw an unemployment rate of 12.9% in April, according to the N.C. Department of Commerce. Business North Carolina checked in with some of the leaders from our previous Mid-Market Fast 40 lists to learn about their strategies for sustaining their workforce and revenue. Greensboro-based construction company Samet Corp., Rocky Mount's First Carolina Bank and Mako Medical in Raleigh have been among some of the state's fastest-growing middle-market companies over the last decade. The executives shared views on the status of their businesses, how to manage through this difficult period and what lies ahead.

ARTHUR SAMET, PRESIDENT AND CEO

Samet Corp., Greensboro



Samet's father, Norman, started the business in 1961, with Arthur becoming CEO in 2000. It opened a Savannah, Ga., office this summer, joining sites in Greensboro, Charlotte, Raleigh and Charleston, S.C. Engineering News Record ranks the company among the nation's 300 largest general contractors with annual revenue topping \$300 million.

Continuing to execute with a focus on the health and well-being of our customers, associates and trade partners. As an essential industry, we continued to provide construction activities on all job sites.

Our primary moves as a result of COVID were:

- ▶ Shifting all office-based associates to remote work — which our ongoing IT strategies of ubiquity, redundancy, reliability, efficiency and security allowed us to accomplish practically overnight.
- ▶ Extensive focus on customer, associate and subcontractor/trade partner well-being — finding ways to maintain safety and health, address/mitigate family and personal needs and support associates through the crisis.

Our success in these things are all a result of our Big 4 strategies — Promoting our Culture, Developing Organizational Depth, Delivering Operating Excellence, Leveraging Competitive Advantages.

RONALD DAY, PRESIDENT AND CEO

First Carolina Bank and First Carolina
Financial Services, Rocky Mount



Day runs one of the Southeast's fastest-growing community banks with assets of \$907 million as of June 30, according to a federal filing. A former RBC Bank executive in Raleigh, Day led an investor group that acquired a small Rocky Mount bank in 2012. Since then it has expanded First Carolina into Cary, Raleigh, Wilmington and Virginia Beach, Va. Its stock is closely held.

For us, the pandemic has created additional growth opportunities for the bank, given the very resilient markets in which we operate. As well, because our market development plans tend to require significant advance planning, we have opened two new full-service offices this year in both Cary and Wilmington over the summer that have further bolstered the growth of the bank in an otherwise disruptive time. The reality is that our good business customers have adapted during COVID-19 and thus because we are an agile and skilled financial-services firm, we have

had significant opportunities during this period and expect them to continue. Customer adoption of digital/remote channels has accelerated and our technology platform has enabled us to execute very seamlessly with them as well.

Our holding company, First Carolina Financial Services, is in the process of completing a significant space expansion in our Glenwood Avenue office [in Raleigh], and we are also finishing a new bank headquarters building to house expanded operations in Rocky Mount in October. We are doing all of this while experiencing record earnings and continued No. 1 asset quality and operating efficiency compared to our N.C.-based bank peers.

In conclusion, it's been less of a pivot for us than it has been a continued focus on doing what we do best. Given the disruption so many others in our space have experienced, we have been able to benefit and take away market share in the process. We expect this door to remain open as competitors grapple with internal issues created by changing customer behavior and how to best deal with the additional government involvement in their businesses with the massive, and certainly necessary, government stimulus programs.

JOSH ARANT, CHIEF OPERATING OFFICER

Mako Medical, Raleigh



Chad Price and Arant started a lab testing company in 2014, thinking they could compete with industry giants Quest Diagnostics and LabCorp. Mako has become one of the state's fastest-growing companies, expanding at a former printing plant in Henderson with support from state and local incentive programs. Mako lost nearly 40% of its busi-

ness earlier this year when hospitals and clinics stopped offering many medical services to focus on the coronavirus. It has since rebounded by boosting its virus-related testing efforts.

When COVID-19 hit our country in March, Mako immediately began developing a COVID-19 [polymerase chain reaction] assay alongside [medical-services giant] ThermoFisher Scientific. Since April, Mako has scaled its capacity to be able to perform over 75,000 COVID-19 PCR specimens per day and 20,000 COVID-19 antibody specimens per day. MAKO has performed over 1.5 million COVID-19 PCR tests and is supporting over 15 state health departments in their testing response.

Additionally, Mako's COVID response is supporting over a thousand medical practices and senior care facilities, multiple athletic conferences, and numerous colleges and universities. Mako has added over 500 team members and performed three expansion projects in our Henderson facility. Ultimately, Mako is here to serve and continues to provide solutions to all clients and help assist in the fight against the pandemic.

SURVEY SAYS...

Business North Carolina surveyed past Mid-Market Fast 40 winners to see what key factors they used to retain staff and continue growing in 2020. Here's a sampling of their comments.

Stepping up digital efforts was vital.

"Operationally, we have relied on video conferencing for both internal and external meetings. We have encouraged videoconferencing as a substitute for a conference call to increase the level of engagement. Marketing and sales have relied on digital efforts to reach clients/prospects in lieu of on-site visits and trade shows. For instance, we have entertained via chefinars (virtual cooking sessions) in what used to take place in a restaurant or sports venue."

Operations director, logistics company

"We have reduced all marketing [spending] but are ramping up digital [spending] at a faster clip than other expenses."

CEO, database-technology company

"[We] transitioned to a work-from-home environment and expedited a move to cloud-based technology."

Chief financial officer, construction-supply company

"We provided more digital marketing materials to our sales force."

Chief financial officer, biotechnology company

"[We are] developing [and] offering more online, virtual, webinar-type of events for customers. [We are] also adjusting to having more remote workers."

Chief financial officer, engineering-services company

“Our drive-thrus are open for deposits. However, we realize many people have health issues and are not comfortable being in public, even with masks. We made some changes to our online and mobile banking to make it more user-friendly and more interactive. Our customers can deposit checks from the comfort of their home. We also expanded the services that our commercial customers can do online. We have also been more active on social media so we can stay in contact with our customers.”

Chief financial officer, community bank

“We have to a point. Because COVID-19 and [the Black Lives Matter movement] dominated the news cycle (and they should), it did make us take pause and post less. We are starting to regain that momentum.”

Facility manager, medical-services company

Flexibility, communication, safety and thinking about the future of the company are all focuses when it comes to adjusting to the new “normal.” Other keys to success include:

“Learn to adapt to the new normal. Implement strategies that redefine success in the new reality.”

CEO, auto-parts distributor

“Thinking outside the box and changing quickly.”

CEO, retail company

“Continued close communication with our clients, employees and prospective employees. There will be opportunities as things continue to open up and we are working diligently to be prepared.”

Chief financial officer, staffing company

“To continue to work closely with our vetted carrier (trucking) partners. There is 50% more freight on the road compared to this same time last year. Therefore, there is a truck shortage causing a huge strain on supply and demand. We are upgrading our technology and have hired additional team members to keep up our customer service during this new normal.”

CEO, logistics company

“Continue to develop innovative products.”

Executive vice president, sign manufacturer

“Focus on client needs and requests.”

President, schedule-software provider

Not all companies lost momentum during the pandemic. Rather some saw increasing demand.

“Our company was prepared and [has] been unaffected. In fact, the demand for new construction homes has increased significantly this year.”

President, homebuilding company

“We are fortunate that our industry did not suffer greatly in the pandemic. We hope to maintain and grow rather than rebound.”

Chief financial officer, irrigation-equipment supplier



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