

The Charlotte Observer BUSINESS MONDAY

Monday, November 2, 1987

Section D

INSIDE

Financing

N.C. has just announced a new long-term, fixed-rate financing program for small businesses. **Page 2**

Balancing Act

Bobby Lowery runs two Charlotte businesses and still finds time to put in a full schedule with the Charlotte Chamber, his church, UNC-Charlotte and other civic organizations. A profile. **Page 3**

Fast Times

Convenience stores increasingly are competing with fast-food restaurants as they serve customers looking for something to pick up and eat on the run. **Page 4**

Looking For Slim

You used to find Slim Jim only in bars, but owner Goodmark Foods has launched an ad campaign to get you looking for their popular snack foods on supermarket shelves. **Page 14**

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Nightmare On Wall Street



Within the last 10 months, several Carolinas companies offered their stocks to the public. Shareholders dreamed of investment home runs, but the per-share value of the stocks has tumbled with the stock market collapse. The Wall Street bear has turned shareholders' dreams into nightmares.

New Issue Stocks: A Snapshot

Stock	Offering Date	Opening Price	Closing Price Friday
Cato Corp.	April 22	\$12.00	\$5.25
Computer Components	Aug. 14	5.00	0.50
Delta Woodside	Feb. 3	14.50	7.25
Ingles Markets	Sept. 22	13.00	9.00
Integon	June 25	7.00	4.50
Liggett Group	Oct. 8	12.00	\$9.00
One Price Clothing*	May 19	10.00	9.00

*Adjusted for split

Crash Takes Its Toll

Some Firms Put Plans On Hold

By STEVE MATTHEWS
Staff Writer

Manufactured Homes Inc.'s plans to pay off \$15 million in debt and poise itself for acquisitions took a nosedive with the stock market. Chairman Robert Sauls isn't sure when the Winston-Salem-based retailer will issue stock now. "With the market out there, nothing is clear."

Greensboro-based First American Savings Bank, the second largest N.C. savings institution, planned to convert from a mutual thrift to shareholder ownership by year's end. But Jim Bethel, First American's chief executive, says the firm will wait until markets improve, maybe in 1988.

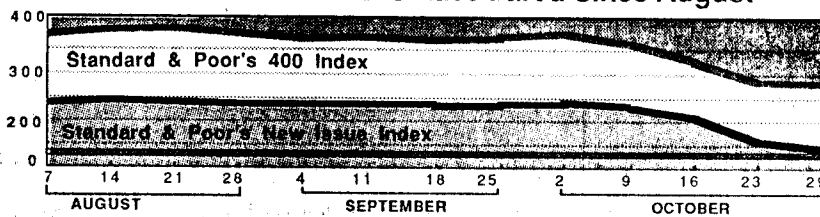
Expansion plans of Franchise Enterprises Inc. of Rocky Mount, the nation's third largest Hardee's franchisee, are also jeopardized by the Oct. 19 market collapse and continuing turmoil. The firm still plans to go public next summer, but chief financial officer Frederick Forsythe says its stock offering will raise far less than it might have this summer.

With the historic 508-point drop in the Dow Jones average of 30 stocks, the market for stock offerings has all but halted. Investment bankers and analysts say that's put on hold plans to raise money by Carolinas firms looking to reduce debts or expand rapidly.

While the inability to raise stock will hurt a broad spectrum

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How Some New Issue Stocks Have Fared Since August



SOURCE: Standard & Poor's Corp.

GEORGE BREISACHER/STAFF

Dollar's Fall Could Help Carolinas Industries — For Now

By JAY McINTOSH
Staff Writer

If a falling dollar stems imports, it could help the Carolinas' already-healthy textile industry, some economists say. Other industries that compete with imports might also benefit.

But if a falling dollar is accompanied by a decline in consumer and business spending and a rise in interest rates, then that could spoil the party in the Carolinas.

The dollar has been in a tailspin lately.

Last week, the dollar fell 2.5% against some key currencies to the lowest levels in 40 years.

Most economists predict the dollar will decline against most currencies over the next year, as a result of the nation's trade deficit. Heavy spending abroad by the United States has flooded the world with dollars, with the supply of the currency outpacing demand — thus cutting the dollar's value.

One effect of a weaker dollar could be price increases for imported goods. U.S.

products also would cost less overseas.

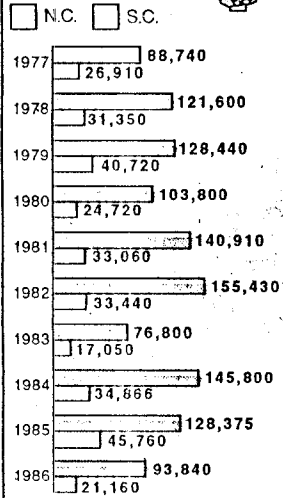
"The bottom line is it should help textiles," says Dan Friel, an economist at NCNB Corp. in Charlotte. Textile and apparel industries, which employ 325,000 people in the Carolinas, have been troubled in recent years by increasing imports from South Korea, Taiwan and other foreign producers.

But Friel says the equation isn't simple. U.S. textile and apparel companies will be helped only if the dollar weakens against the

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Corn Production In The Carolinas

in thousands of bushels



SOURCES: N.C. and S.C. Departments of Agriculture

MIKE BERTRAND/STAFF

Stock Crash Crimps Firms' Expansion Plans

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of service, industrial and banking firms, it's a big blow to smaller firms without a long track record, especially in high-technology fields.

"For many companies, equity (stock) capital is the cheapest form of capital they can raise," says Robert Philpott, senior vice president with Interstate Securities Corp. in Charlotte. "You can't rely on debt forever. When you don't have the equity market available, it restricts a company's ability to grow."

Though companies can finance growth through earnings, borrowing and private investment, stocks have become an important source of capital for companies in the Carolinas and elsewhere. N.C. firms raised \$1.6 billion with stock offerings from 1980 to 1986, while S.C. firms raised \$721 million over the same period, according to Drexel Burnham Lambert, a New York securities firm.

Though figures are unavailable for 1987, analysts say public offerings of stock have been strong this year, with Liggett Group Inc. of Durham and Ingles Markets of Asheville making large offerings just within the past two months.

But investors are leery of new stock offerings in a volatile market. In uncertain times, many investors shift to stocks of larger firms with a long track record of success, leaving more speculative new issues to languish. With blue-chip stocks like RJR Nabisco and Coca-Cola at bargain prices compared to August, there's little



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interest in new issues, Philpott says.

What's more, many of the recent Carolinas new issues have fared poorly. Cato Corp. of Charlotte, which issued stock at \$12 per share in April, traded after the crash as low as \$4 per share but closed Friday at \$5.25 per share. In addition to the crash, the stock has suffered because of flat earnings and a slowdown in consumer spending that has hurt all specialty retailers.

Even One Price Clothing, a Duncan, S.C., retailer that doubled from its May 19 offering price of \$10, is now selling beneath its offering price. The stock closed Friday at \$9 per share. Prices have been adjusted for a three-for-two stock split.

Of course, there have been prominent past success stories. Buyers of Home Shopping Network saw their investment multiply last year when the concept of shopping by television caught on with Wall Street. (The stock collapsed earlier this year when the company's performance disappointed Wall Street.) Closer to home, shareholders of Greenville,

S.C.-based Ryan's Family Steak House, which has used stock issues for its highly profitable expansion, have been big winners in the past several years.

But in a volatile market, investors are less willing to take big risks that are a key to the new issues market. Richard McEnally, a UNC-Chapel Hill business professor, says, "The appetite on these issues depends on animal spirits — people willing to take fairly aggressive investments bets with high risks."

While how long the market for initial offerings stays cool depends on the stock market and the overall economy, McEnally says, "I wouldn't be surprised to see a fairly minimal number of initial public offerings for three or four years."

That's particularly harmful to high-tech companies, says Bill Seymour, vice chairman of Broadway & Seymour, a Charlotte-based computer software firm that serves financial institutions. Broadway & Seymour, which has revenues estimated at nearly \$25

million this year, is frequently rumored to be ready to issue stock.

Seymour says the company plans to go public ultimately, but has no pressing need for capital and wasn't poised for an offering before the crash. But he says stock offerings "are probably the best source of large capital for the kind of growth we're trying to accomplish here."



Seymour

Companies with high levels of debt that want to raise capital could also face problems, says Campbell Harvey, a Duke University graduate business professor.

Dan River Inc., a debt-burdened textile maker with operations in South Carolina, withdrew its \$40 million stock offering just before the crash. The firm, as well as a dozen other textile and apparel makers, went private several years ago in buyouts that increased debt dramatically.

Greensboro-based Cone Mills Corp., which also increased debt with a buyout, has considered going public but had no immediate plans before the crash, says John Bakane, a vice president involved in business planning. Looking ahead, he says, "There's so much uncertainty in the financial markets. It's so difficult to plan a financial structure because the

markets are so unsettled."

One bright spot is smaller financial firms, because their businesses are conservative and more predictable and may be able to continue offerings in the not-too-distant future, experts say. Several groups are now preparing to raise money to start new community banks in the Carolinas or to convert mutual, or depositor-owned thrifts, to shareholder ownership.

William Graham, N.C. commissioner of banks, says investors who have lost money in the stock market may not be eager to buy stock of a start-up bank, but bank organizers are generally raising relatively small sums of money.

In September, organizers of Enterprise National Bank in Rock Hill began raising \$5 million in a stock offering. The last two weeks have been the strongest for the bank and more than half the money has been raised, said Joe McDermott, president and chief executive. "Bank stocks present less risk than industrial new issues," he says. "It's less speculative."

Advertising executive Bill Bryant, one of the organizers of a planned Charlotte bank, says the market's crash won't slow the bank's offering of stock early next year. "We know the interest is there," Bryant says. Rather than looking at the market, he says, "People are looking at the success of Republic Bank and First Charlotte (Bank)." Both have grown quickly and become profitable.

Crisis In Currency

The dollar has plummeted in value against foreign currencies. Most analysts say that is bad news for the national economy. Here's why:

Dollar Glut

The dollar's decline is tied to the nation's mammoth trade deficit, which has flooded world markets with dollars. In addition, the Federal Reserve is now easing its monetary policies in response to the stock market crash. The result: The supply of dollars is outpacing demand — thus sending the value down.

Stock Prices

If foreign investors believe the value of the dollar will keep declining, they will sell out of their dollar-based investments. That could mean more declines in the stock market.

Fears Of Inflation

A declining dollar means Americans will have to pay more for imports — from Japanese VCRs to West German autos to Taiwanese textiles. As those price increases sweep through the economy, inflationary pressures will build.

Trade Deficit

A benefit of a weaker dollar is that it makes foreign goods less attractive, which could help ease the U.S. trade deficit. But declines in the dollar so far this year haven't helped the trade imbalances.

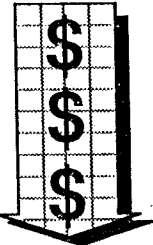
Interest Rates

The United States must try to attract foreign investors to finance its budget and trade deficits. If the dollar is dropping, the government likely will have to raise interest rates as a lure.

Fears Of Recession

Higher interest rates mean consumers have to pay more for loans to buy houses, cars and appliances. If those purchases are put off, a recession can result.

— Compiled By David Enna



EARNEST HART/Staff

Dollar's Fall Could Help Industries In Carolinas — For Time Being

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currencies of their foreign competitors. And since mid-August, while the dollar has declined 5% to 6% against Britain's and Japan's currencies, it has weakened only 3% against Taiwan's and 1% against South Korea's and has held steady with Hong Kong's.

And rather than rejoicing over the dollar's prospects, textile, apparel and furniture manufacturers are more likely to be worrying about the effect of the Oct. 19 stock market crash. Will it torpedo consumer and business spending? Nobody knows.

Kay Norwood, research director at Interstate Securities Corp. in Charlotte, notes that many textile and apparel companies are producing at full steam.

"Any time you're operating at full capacity, the odds are the business is going to turn down before it gets stronger," she says.

Friel says the stock market crash's effect on consumer and business spending won't be known for a while. Car sales and other consumer spending indicators already were disappointing for October before the crash, so economists will need November numbers for a good postcrash comparison, he says.

"It's going to be December before we have a good feel for what has happened," he says.

Further blocking the benefit of a falling dollar is the possibility that it will herald rising interest rates. If dollars are worth less abroad, the U.S. government might have to pay more interest to attract foreign investors to finance its trade and budget deficits.

In turn, that could push up domestic interest rates for mortgages and other consumer and business loans.

But economists are debating how much and how soon interest rates might rise. Marlene Nicholson, chief economist in Washington for Charlotte-based

BarclaysAmerican Corp., suspects the Federal Reserve will inject enough money into the economy to keep interest rates low for a while, to lessen the chance of a severe recession in the wake of the stock market collapse.

She thinks interest rates might rise eventually, though. That could cut borrowing by businesses and consumers. Home-building might suffer, and with it the furniture industry, which employs 97,000 in the Carolinas.

"A lot depends on what happens in the current negotiations on the budget," says Nicholson. If Congress and President Reagan can agree on measures to slash the budget deficits, that could soften any interest rate rise.

She also points out that since the stock market collapse, key interest rates have actually declined as money has poured out of stocks and into treasury securities and other safer, interest-bearing investments. A three-month Treasury bill, for example, had tumbled from an effective yield of 6.59% at the Sept. 28 Treasury auction to 5.12% a week ago.

Friel at NCNB also doubts the Fed will let interest rates rise sharply, since similar action after the 1929 market crash is generally agreed to have helped cause the Depression.

Should interest rates rise, however, another victim could be lenders, says UNC-Charlotte economist John Connaughton. Banks and other lenders that had loaned money at low rates could be squeezed between rising costs and a stable return on their loans.



Nicholson