

# Junk-bond observers are cautious after Revco's bankruptcy filing

Continued from page 1

to a company looking for financing its capital needs. Junk bonds are similar to stocks, they say, and have recently received bad press only because of the allegations of junk-bond manipulation against the New York-based investment firm Drexel Burnham Lambert Inc.

The two major bond-rating agencies refer to junk securities — those rated BB+ or below by Standard & Poor's, or Ba1 or less by Moody's Investors Service — as "speculative grade." These bonds have been used in the financial market for about 20 years, mostly to finance capital expansion. But recently the bonds have been used to finance expensive takeovers.



"There just isn't enough of a greater return in junk bonds to attract investors to that much higher risk," says Hugh Dyson, manager of the Raleigh office of Interstate Securities.

## Drexel Burnham Lambert's junk-bond list

According to a book released last year by New York-based investment firm Drexel Burnham Lambert Inc., 57 Triangle companies with 1986 sales of \$25 million or more qualify as non-investment grade companies, which could be candidates to issue junk bonds if needed.

"I disagree very strenuously [to Drexel Burnham's listing of non-investment grade companies]," said Marshall H. Johnson, president of McDaniel Lewis Company, a Greensboro-based investment brokerage firm. "Some of those are quality companies, and they meet many of the higher bond ratios and standards."

The Triangle companies on Drexel's list were:

Athey Products Corporation, Raleigh; Bahlsen of America Inc., Cary; Blue Cross and Blue Shield of N.C., Durham; Britt Group Inc., Durham; Burroughs Wellcome Company, Research Triangle Park; Capital Ford Inc., Raleigh; Capitol Broadcasting Company, Raleigh; Carolina Components Corporation, Raleigh; Carolina Golden Products, Durham; Cary Oil Company, Cary; CCB Financial Corporation, Durham; Centurion Construction Company Inc., Raleigh; Clancey & Theys Construction Company, Raleigh; Coggin Pontiac Inc., Raleigh; Container Graphics Corporation, Cary; Dillon Supply Company, Raleigh; and Durham Corporation, Raleigh.

Also Durham County Hospital Corporation, Durham; Eagle Pontiac-GMC Truck Inc., Raleigh; Electrical Equipment Company, Raleigh; Exide Electronics Group Inc., Raleigh; First Citizens Corporation, Raleigh; Firstcorp Inc., Raleigh; Food Systems Inc., Raleigh; M.M. Fowler Inc., Durham; Glaxo Inc., RTP; GoodMark Foods Inc., Raleigh; Gray Inc., Raleigh; Harris Wholesale Inc., Raleigh; Helmsold Ford Inc., Raleigh; Holiday Imports Inc., Durham; Investors Management Corporation, Raleigh; Kenan Transport Company, Chapel Hill; Kerr Drug Stores Inc., Raleigh; Leith Inc., Raleigh; Lincoln Developers of Raleigh, Raleigh; McM Corporation, Raleigh; Bobby Murray Chevrolet Inc., Raleigh; and N.C. Farm Bureau Mutual Insurance Company, Raleigh.

Also N.C. Equipment Company, Raleigh; N.C. Memorial Hospital, Chapel Hill; N.C. Mutual Wholesale Drug, Durham; N.C. Municipal Power Agency, Raleigh; N.C. Mutual Life Insurance Company, Durham; N.C. Eastern Municipal Power Agency, Raleigh; Panther Summit Industries, Raleigh; Pine State Creamery Company, Raleigh; The Record Bar Inc., Durham; Rex Hospital, Raleigh; Rogers Oil Company, Raleigh; SAS Institute Inc., Cary; Al Smith Buick Company, Raleigh; Star Automobile Inc., Durham; State Employees Credit Union, Raleigh; Thompson Cadillac Oldsmobile, Raleigh; Tops Petroleum Corporation, Durham; and Wake County Hospital Systems, Raleigh.

## Pulse

Continued from page 1

### Hotel operator sought

Plans for another hotel along the I-40 corridor near Raleigh-Durham International Airport are in the works. Vantage Hotel Corporation in Cary has been talking with several hotel operators about a possible 150-room hotel at Gateway Centre. James Lapey, vice president at Vantage, said that two or three groups have shown strong interest in the five-acre site and that he expects to make an announcement within 90 days. The project would be the 12th hotel that is planned, under construction or operating in the corridor.

### First Union prospecting

First Union National Bank reportedly is looking for 60,000 square feet of office space near Research Triangle Park for a data-processing facility. Sources said the bank is considering leasing space in an Imperial Center for Gateway Centre, both of which are off of I-40. Marshall Hester, a spokesman for First Union, said that he did not know of any plans and that the bank has a data center in Raleigh. However, he added that the bank was constantly evaluating its needs concerning adequate space for employees and operations.

### New office building going up

Construction has begun on a 150,000-square-foot, \$1 million office building on Falls of the Neuse Road in North Raleigh. Barry Benson of Benson Investments Inc., which is developing the project, said his company would occupy about 4,500 square feet.

The two-story pink granite and bronze reflecting glass building was designed by Sarpton Architects and William R. Flowers of Triple B Investments. The general contractor for the project is Cancy and Theys. Construction is scheduled to be completed in February.

### Designing a European niche

A Raleigh-based designer, manufacturer and retailer of trade show displays and motion picture props is doing a lot of international and European work. Tri-Star Design Group, formed a year ago by Michael Saratzis, recently completed a two-week display show in Paris for M&T Chemicals, a subsidiary of Paris-based Elf Aci. The show has given Tri-Star important exposure to many European firms that worked with the Tri-Star firm in the U.S. "I feel like I can now do business with anybody," said Saratzis.

Seen at the display show business for 25 years. "Also, many European companies looking to display in the U.S. will know who we are."

Tri-Star also has landed another high profile project: building the exhibit for Cinefest, the U.S. version of the Cannes Film Festival.

## Correction

In the August 8-15 issue of Triangle Business, a Pulse item incorrectly reported that Richard T. Fountain III was owner of the Battery Heights apartments, which were foreclosed on by First Federal Savings and Loan Association of Raleigh. Fountain, a Raleigh lawyer, acted as trustee for First Federal in the foreclosure. The former owners of the apartments are Clifton Winston, Shirley S. Winston, Thomas L. Griffin, Arlene Griffin, Harold E. Feimster, Carolyn E. Feimster, Ernest Feimster and Joseph N. Rucker, according to the Wake County Register of Deeds office.

Triangle Business □ August 15 - 22, 1988 □ 3

## TRIANGLE BUSINESS

Triangle Business (891-002) is published by Spectator Publications, Inc., every Monday. Second class postage paid at Raleigh, NC. Office are located at 1318 Dale Street, Raleigh, NC 27605.

Postmaster: Send address changes to: Triangle Business, PO Box 10917, Raleigh, NC 27605



BPA  
Member

## The Black & White Shop

Fine quality processing and printing.

821-4518  
530 N. Person Street  
Raleigh 27604

## "World Class" BMW And Porsche Service.

- Factory trained and certified mechanics.
- 15 years service to BMW and Porsche owners
- OEM parts
- Service to maintain factory warranty
- Distributor of ALPINA parts
- Complete line of accessories

Call 596-9309 today for an appointment or stop by Mon - Fri 8:30 AM - 5:30 PM

Now Selling, Buying, and Brokering Fine Used German Cars



MILLER & NORBURN  
2002 Briggs Ave. N.  
(at the Durham Expwy.)  
P.O. Box 11428, Durham, NC 27703  
596-9309





"Junk bonds are just another way of raising money. Sometimes you are going to win, sometimes you're not," says Campbell Harvey, an assistant professor in finance at Duke's Fuqua School of Business.

**T**he Triangle is much like an eye of a hurricane for the junk-bond market: According to one study, no Triangle-based company has sold low-grade bonds to finance debt, while firms in and around the Triad and Charlotte have combined to sell more than \$2 billion worth of low-grade bonds between 1977 and 1987.

From January 1977 to March 1987, 48 North Carolina corporations and their parent firms raised \$4.6 billion in junk bonds, according to a 1987 study by the Alliance for Capital Access, a non-profit, Washington, D.C.-based trade association formed two years ago by companies that issue junk bonds. Almost half of those companies were based in the Triad

and Charlotte: The Triad had eight companies, which sold \$1.23 billion of debt, and Charlotte had 13 companies, which issued \$865 million. Eden-based Fieldcrest Cannon Inc. was the state's leading issuer of junk bonds, selling \$1.8 billion, or 39 percent of the state's total junk-bond financing.

The only company with Triangle ties to sell junk bonds in those 10 years was Charter Medical, the Macon, Ga.-based parent company of Charter Northridge Hospital in North Raleigh. Charter Medical, which issued \$260 million worth of junk bonds, is currently undergoing a management-led leveraged buyout that is expected to close this month. A company spokesperson declined to say whether junk bonds would be used to finance the purchase.

The Alliance for Capital Access considers some areas of North Carolina, if not the Triangle, to have a high stake in these investments. "High-yield bonds, wrongly called junk, have become a critical financing source for some of the fastest-growing, most dynamic North Carolina companies," David K. Aylward, executive director of the Alliance for Capital Access, said in a news release accompanying last year's report. In addition, he said, 95 corporations based in other states with operations and employees in North Carolina have issued \$23.3 billion in junk bonds since 1977.

Observers aren't sure why junk bonds have not fully caught the attention of Triangle companies or investors. In April, as part of its ongoing campaign on behalf of junk bonds, Drexel Burnham released a book containing comparisons between investment-grade and non-investment-grade companies in North Carolina. It listed 57 non-investment-grade firms with annual sales of \$25 million or more in the Triangle, making them prime candidates, Drexel Burnham said, for using junk bonds to raise capital. In comparison, the Triad was home to 97 such companies.

Among the Triangle companies on the list were Athey Products Corporation, a Wake Forest-based manufacturer of street cleaners; Bahlsen Inc., a Cary-based manufacturer of cookies and snacks; Blue Cross and Blue Shield, with offices outside of Chapel Hill; Durham-based CCB Financial Corporation, a bank holding company; and Burroughs Wellcome and Glaxo Inc., both based in Research Triangle Park.

"I disagree very strenuously [to Drexel Burnham's listing of non-

**NORTHERN TELECOMS CHOICE**

"We're very pleased with the Meridian location. We felt the Campus environment was very professional and easily allows for future expansion. The proximity of the Pickett Suite Hotel and other services were also key factors in our decision to locate in Meridian."

Tim Lorton, Controller  
Northern Telecom, Inc.  
Data Networks Division

**M·E·R·I·D·I·A·N**  
**BUSINESS CAMPUS**

Meridian Business Campus is a 270-acre planned business environment centrally located at the northwest interchange of I-40 and NC55. Developed and managed on-site by CMD Southeast, Inc. 919/544-5791

**C. J. HARRIS  
AND  
COMPANY, INC.**

FINANCIAL & MARKETING CONSULTANTS

- Business Plans
- Expansion And Growth Strategies
- Capital Planning And Funding
- Comprehensive And Market Planning
- Business Valuations
- Turnarounds
- Business And Commercial Brokerage
- Acquisitions
- Mergers
- Divestitures

**RALEIGH 848-1010  
GREENVILLE 355-7799  
GREENSBORO 668-4200**

**Carolina Cable & Connector, Inc.**

3812 Tarheel Drive Raleigh, NC 27609 (919)876-9100 (800)868-3691  
920 Blairhill Rd. Suite 116 Charlotte, NC 28217 (704)529-1100 (800)768-2399

We're your "cable-ready" connector



We'll see to it that you receive the highest quality computer cables by GENERAL INSTRUMENT. So contact us today! We're Cable Ready to provide you with the quality electronic wire and cable you need. Fast! And at a price you'll truly appreciate.

**GENERAL INSTRUMENT**

investors is to get liquid in the next year — get rid of the speculative kinds of things in view of the upcoming downturn," says Jack Ferner, a lecturer in management at the Babcock Graduate School of Management at Wake Forest University.

investment-grade companies," said Marshall H. Johnson, president of McDaniell Lewis & Company, a Greensboro-based investment broker. Some of those are quality age firm. "Some of those are quality companies, and they meet many of the higher bond ratios and standards. They're all well-managed organizations, and they could probably borrow any money they need from banks, although maybe not for the same interest rate or the same length of time."

Most of the companies on the list also disagreed with Drexel. When James Cloonan, president of Athey Products, was contacted about the possibility of his company ever choosing junk-bond financing, his disdains for the high-yielding bonds directors) have never had a conversation along those lines," he said. "We won't even entertain any. We haven't looked into, and we have not considered those — and I frankly don't know why the board would."

The same can be said for Triangle investors. Hugh Dyson, manager of the Raleigh office of Interstate Securities, said he believes few area residents have invested in junk bonds. Unless a client specifically asks for a low-rated bond or bond fund, most investment advisers will suggest a government bond fund instead, he said.

Government bond funds, which invest almost entirely in less risky U.S. government securities, are yielding 10 to 11 percent. That yield has a better risk-return ratio than the 13 to 14 percent return offered by junk bonds, Dyson said. "There just isn't enough of a greater return in junk bonds to attract investors to that much higher risk," he said.

Even the portfolios of financial institutions in the Triangle and the state shy away from investing in junk bonds. Dyson said Interstate Securities does little if any trading in junk bonds.

First Union Corporation, like many banks, does not invest in junk bonds for its trust department clients. "It just wouldn't be prudent," said W. Earl Bardin, senior vice president of First Union in Raleigh. First Union does not even invest in the bonds for its own investment portfolio. Bardin said.

Joel Millikan, senior vice president in charge of the investment

For More Information About The Many Privileges Of  
A Prestonwood Membership, You Are Invited To Visit Our  
Facilities Off Hi-House Road in Cary. Or Call 467-2566.



The October stock market crash caused huge price drops for junk bonds, as it did with almost every investment. Junk bonds were yielding 11 to 12 percent before the crash and peaked at about 14.5 percent after the crash. By March, the rates had fallen to 13 percent. Junk bonds used to yield 13 percent. Junk bonds used to be a more risky investment, topped 16 percent but declined to 13.5 percent by March.

But to get the higher returns, investors must be willing to take on added risk — and many investment analysts say those returns may not be worth it. Because of an ever-larger market for junk bonds, the risks to investors are growing as well, says syndicated financial columnist Andrew Leckey, who calls junk bonds "pesky."

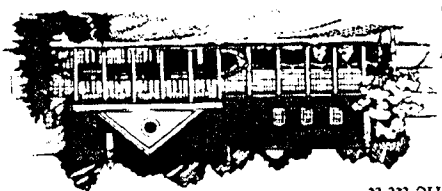
While junk bonds historically have a default rate of less than 2 percent, it must be kept in mind that their overall market in the past was nowhere near as large as it is now. "They have lately become a convenient debt vehicle for ailing companies that have less-than-stellar balance sheets, and that is a reason for caution."

That is why the Revco bankruptcy filing has some junk-bond observers fearful that more failures are around the corner. Jack Ferner, a lecturer in management at the Babcock Graduate School of Management at Wake Forest University in Winston-Salem, dismisses junk bond gains and predicts massive defaults in the junk-bond market, perhaps as soon as mid-1989.

Call Membership Director Valerie (inger, at 467-2566 to discover how you may enjoy the many privileges of a Prestonwood membership.

Prestonwood is the perfect retreat for your sheer pleasure. Whether your sport is golf or tennis, dining on imported china and silver, or simply lounging in the warm Carolina sun, our executive staff will be there, ready to instruct you in the fine art of having fun. But privilege does come at a price. And this one is increasing monthly.

So hurry. For a small investment now you may enjoy the endless returns of a Prestonwood membership for many years to come. Call today. Find out what the privilege of Prestonwood is all about...having the time of your life.



## The Privilege of Prestonwood.



Company in Raleigh, said it is corporate policy not to invest in junk bonds for Durham Life's investment portfolio. He said the company's policy is to remain in A-rated or better bonds.

No matter how much doubt is raised about the long-term stability of junk bonds, they do carry higher interest rates and have been delivering higher yields than higher grade securities. Junk-bond investors have been collecting returns of 12 to 14 percent while higher grade corporate and government bonds have been yielding 9 to 11 percent.



Photo by Julie Knight

RALEIGH FAYETTEVILLE CHAPEL HILL

Nowells

Just a reminder that one of the best, most affordable, and quickest ways to improve an image is in a Kingsridge suit. Kingsridge into an impeccably-styled suit designed to our own specifications. It's an exciting way to look like a million and still have plenty in the bank.

Look like a million and save \$999,675.

Call Eilers and Jones, P.A. Certified Public Accountants Tom D. Eilers, CPA, CFP, Ann F. Jones, CPA, CFP. 919-782-6787

Individual Income Tax Planning.

Harvey said junk bonds are "just like any other way of financing. They just happen to carry higher risk." But because of the higher risk of junk bonds, Harvey said that junk bonds should be viewed more as stocks than bonds. The same view is expressed by Durham Life's Millikan. When a company issues junk bonds, it is substituting debt securities for equity risk," Millikan said. Investors tend to expect a 12, 13 or 14 percent return out of common stocks, and junk bonds also shoot for a 12, 13, or 14 percent rate of return. Millikan said. Because both securities can offer the same return, one should implicitly know that junk bonds have equity risk. "If it walks like a duck, sounds like a duck and looks like a duck, then you should be pretty sure it's a duck," Millikan said. The upside in junk bond financing also worries Millikan, though. Because of the increase of these bonds, the market forces governing the junk bond market might be changing, he said. The studies that showed junk bonds' superior returns with a low rate of default were conducted while there was a relatively low number of junk bonds were on the market. As one investment analyst summed up the Revco bankruptcy: "With Revco going bankrupt, no one is quite sure what will happen with a lot of these junk bonds in the future."

Denis Whittington, senior editor of Trend Business, contributed to this story.

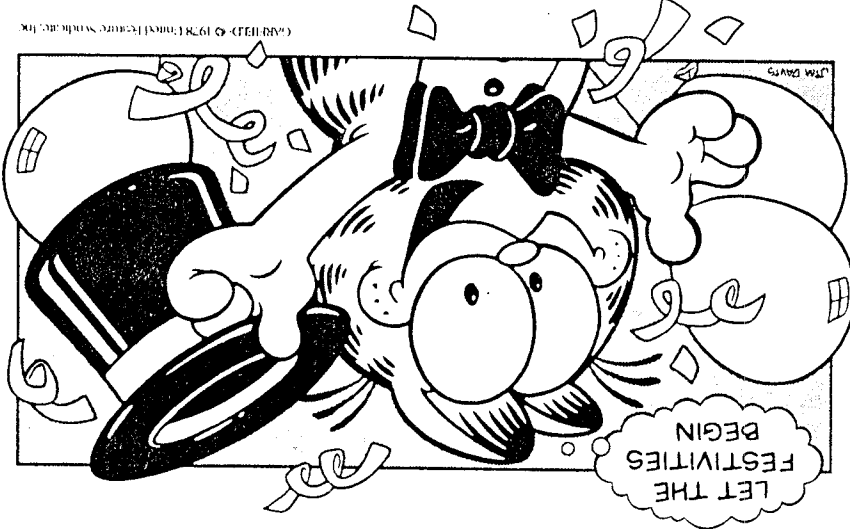
ask about our great \$59 weekend rate. Opening January 1989: Embassy Suites—Charlotte, NC

1-800-EMBASSY HOTEL SUITES EMBASSY



Embassy Suites® hotel has opened in Raleigh's Crabtree Valley. For the cost of a single room at a Hilton, Sheraton, or Marriott, Embassy Suites hotel gives you all this: Two rooms for the price of one. A luxurious two-room suite complete with private bedroom, living room with sofa bed, and a wet bar with refrigerator, microwave and coffee maker. Free breakfast and a complimentary two-hour manager's reception. Enjoy Suites hotel.

Now there's a new place to feel like a fat cat in Raleigh.



© 1978 (E) Harvey Milkman, Inc.

Because of political pressures to keep the market healthy through this ill's presidential election, Ferner said, the impact probably won't be felt until just after that. "A lot of companies will have trouble meeting their debt," he said. "I think you'll find a lot of junk bonds in default. My personal recommendation for investors is to get liquid in the next year — get rid of the speculative kinds of things in view of the upcoming downturn." Ferner is not alone in his belief. The magazine published an article titled, "The Coming Defaults in Junk Bonds," predicting an unprecedented level of defaults by companies issuing nk bonds. The magazine said it had made a comprehensive study of the not."

But many investment analysts and finance experts defend junk bonds, along with any risk-oriented investment, will decline. "Any time you go into a recession, there's going to be more defaults, and prices of these bonds are going to go down," he said. "Junk bonds are just another way of raising money. Sometimes you are going to win, sometimes you're not."