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Capital Thinking: Site & Incentive Opportunities for Companies Pursuing Strategic Enhancements

Mike Preston, Managing Director, Head of Site & Incentive Group

As the demand for skilled labor and the need to quicken supply chain turnaround times both intensify, companies are seeking new ways to maximize their return on investment when pursuing strategic enhancement initiatives.

Inflation and interest rate hikes have heightened the focus on costs related to projects involving locations and facilities, as well as workforce training and efficiency. In response, some companies have begun to negotiate for strong geography-specific financial incentives with local, state, and regional economic development organizations that align with their long-term capital raising and M&A strategies.

Whereas an infusion of debt or equity capital may enable a company to build new facilities or expand existing ones, an acquisition may require the consolidation of facilities and elimination of redundant roles, while either organic or inorganic growth may call for upskilling the workforce. These opportunities and considerations are relevant to companies in nearly every sector, from aerospace and defense to manufacturing and biotechnology.

ROI-Seeking Processes

When conducting site and building evaluations, companies aim to identify multiple site or building locations based on their specific needs. This can involve acreage or building square footage; access and proximity to interstate highways, railroads, ports, and airports; as well as utilities requirements.

Logistics analysis entails determining increased or decreased costs associated with these factors. Companies whose projects stand to bring many new jobs to an area may be able to obtain the desired site or building at a discounted price, especially for property owned by a government entity. States and municipalities tend to offer competitive tax credits and refunds based on varying project factors.

Federal, state, and regional infrastructure grants can help offset project costs related to an infrastructure deficit. For highly competitive projects, states also can supply discretionary cash funds to offset a company's costs for locating in their state. Furthermore, local governments can abate a percentage of property taxes in order to locate a business to their community.

Labor and demographic analysis often involves reviewing where skilled individuals already work and live relative to the proposed locations, to determine workforce availability and training programs in a specific sector. States and regions can provide customized training grants to qualifying businesses.

When conducting a comparative cost review, companies look at overall expenses for doing business in the locations being considered – by forecasting taxes, regulations, utilities, logistics, and more – in an effort to maximize potential savings. This encompasses making a thorough examination of the historical records, as well as of the currently evolving environment, for a given location – as it relates to the economy, legislation, and the company's sector.

Negotiating financial incentives typically comes down to navigating channels specific to each location. Establishing relationships with key decision-makers, in light of cultural dynamics and the political atmosphere, also is essential. Much of a company's success here may rely on understanding the informal processes at play.

Incentives in Action

In May 2023, wood panel products producer Kronospan announced that it would invest an additional $350 million into its plant in Oxford, Alabama, and bring in approximately 150 new jobs. The company will employ a total of 600 people and have invested over $1 billion in Oxford since entering the city in 2008.[1]

Kronospan previously has received incentives to undertake expansion projects in Oxford.[2] These packages have included an investment credit, tax abatements and a local economic development grant.[3]

In August, glass fabricator Press Glass Inc. announced plans to invest $155 million to expand its existing facility in Ridgeway, Virginia, which includes a 360,000-square-foot addition and is estimated to create 335 new jobs. The company opened the facility in 2020 and already employed more than 300 workers before the expansion.

The Virginia Economic Development Partnership and the Martinsville-Henry County Economic Development Corporation helped bring the Press Glass project to Virginia.[4] Gov. Glenn Youngkin approved a $2 million grant from the Commonwealth's Opportunity Fund to help Henry County achieve the project. The Virginia Jobs Investment Program also agreed to provide funding and services for Press Glass employee training.

In December, the manufacturer Dassault Falcon Jet announced plans for a $100 million expansion to its Little Rock, Arkansas, facility that will add around 800 new jobs to the existing 1,400 jobs the company has across two facilities in Little Rock.[5] The project will support development and delivery of the Dassault Falcon 6X business jet.

An incentive fund will provide $12 million for Dassault Falcon Jet's expansion, the Arkansas Office of Skills Development will provide $6 million in customized training funds, and the company will receive sales tax refunds and rebates based on new-employee payrolls.[6] In 2008, the company invested $20 million and in 2015 another $60 million in Little Rock-based projects.

In January 2024, the automotive plastics injection molder HEYCO-Werk USA Inc. announced plans to establish manufacturing operations in Gaston County, North Carolina. The $12.75 million project is scheduled to bring in 34 new jobs, occupy a 10-acre site at the Apple Creek Corporate Center, and contain a 65,000-square-foot production facility and showroom.

The One North Carolina Fund will provide a performance-based grant, which requires the company meeting job creation and capital investment targets, and a matching participation amount from the local government. The North Carolina Community College System, the North Carolina Department of Commerce's Division of Workforce Solutions, and Gaston County also will provide HEYCO-Werk USA with financial support.[7]

Professional Guidance

Companies that pursue site selection and incentive opportunities on their own often assign the responsibility to a C-suite level executive who has a demanding work schedule, and whose field of expertise lies elsewhere.

As a result, these companies risk inadvertently missing out on ways to boost their ROI on strategic enhancement initiatives – by leaving discounts, tax credits, and cash awards on the table; by underestimating project costs; or by overlooking local rules and regulations.

Alternatively, companies can better position themselves for identifying potential site and workforce incentive opportunities by seeking out experienced third-party professionals with a proven track record for navigating these processes and helping to connect their clients with incentives tailored to their business needs. To our knowledge, Stephens is the only investment bank currently offering this service to clients in close collaboration with capital markets, M&A advisory, and sector-focused bankers.

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MIKE PRESTON

Managing Director, Head of Site & Incentive Group

Mike Preston is Managing Director and head of the Site & Incentive Group for the Investment Banking Division of Stephens. Prior to joining Stephens, Mr. Preston held several positions including Secretary of Commerce for the state of Arkansas, Executive Director of the Arkansas Economic Development Commission and Vice President of Government Relations with Enterprise Florida, Inc. He also served as Chief of Staff for Senator Steve Oelrich of Florida. During his 8 years as Secretary of Commerce he signed more than 500 economic development agreements totaling $14+ Billion of investment. His site and incentive work has helped businesses all across the country and includes successful site locations for numerous international companies as well.

mike.preston@stephens.com
o: (501) 377-2023 | c: (501) 993-8775

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