

South Florida loses companies to the global grind

By Emon Reiser

South Florida business leaders are often powerless to stop the economic machinery that forces corporate headquarters to leave the region. The area's business-friendly climate is just not enough to stop merger and acquisition deals that often appear to be at the whims of corporate executives and activist investors.

Staples' acquisition of Office Depot will inevitably place the retailer's headquarters in Framingham, Massachusetts.

Burger King, once based in Miami, was bought by a Brazilian-based hedge fund and organized under a corporate parent in Canada last year.

Roark Capital, an Atlanta private equity firm, announced May 13 that it had acquired Pet Supermarket, but would keep its headquarters in Sunrise.

FTI Consulting (NYSE: FCN), a global consulting giant, left West Palm Beach in 2014 in a move attributed to a change of top executives. With more than \$1.7 billion in annual revenue, it was the city's largest publicly traded company.

These are recent examples, but the trend goes back decades. W.R. Grace & Co., now a Columbia, Maryland-based chemical giant with 6,700 employees in 40 countries, was once based in Boca Raton. It closed the office in 1999 after a change in its top executives.

Remember Blockbuster Video? It was based in Fort Lauderdale before moving to Dallas in 2005 and later disappearing in a cloud of obsolescence.

Allied Waste Industries, which was once one of South Florida's largest public companies, merged with Republic Services (NYSE: RSG) and relocated to Phoenix in 2008. The company employed nearly 1,000 people. Its revenue is now \$8.42 billion.

Many states are aggressive in wooing companies. Their efforts do not always succeed.

Fort Lauderdale-based AutoNation (Nasdaq: AN) has received offers to move to Texas, but, fortunately, CEO Mike Jackson likes it better here.

"I don't care how much money [former Texas Gov.] Rick Perry offers me, I'm staying here in South Florida," he said at a recent Business Journal event.

Because Florida doesn't have an income tax and bends over backward for businesses, it actually has three more Fortune 500 companies than it had in 2005. Florida has 17 Fortune 500 companies, including six in South Florida. Texas, by contrast, has 52.

Texas spends an average of \$19.1 billion, or \$759 per capita, a year on corporate incentive programs, while Florida

averages \$3.98 billion, or \$212 per capita, in spending, according to a 2012 study by The New York Times.

The trend of losing the merger and acquisition lottery is likely to continue in a world driven by deals. Announced mergers and acquisitions totaled \$3.5 trillion globally in 2014, the strongest year for dealmaking since 2007, according to data from Thomson Reuters. In the U.S. alone, there were 15,734 deals totaling \$2.1 trillion last year.

THE NEXT BIG HIT IS ON THE WAY

The biggest loss South Florida faces now is Office Depot (Nasdaq: ODP), as it is devoured by its rival Staples (Nasdaq: SPLS) in a \$6.3 billion deal expected to close by the end of the year. Staples has assured shareholders it would remain in Framingham, leaving the fate of about 2,000 Office Depot jobs in Boca Raton up in the air.

South Florida's economy will take a hit if those jobs are lost to the acquisition. The company's approximate economic impact is \$88.6 million annually, according to estimates from the Regional Economic Models Inc. model used by Palm Beach County.

In 2013, when Office Depot was acquiring rival OfficeMax, the company considered consolidating its headquarters in Naperville, Illinois, where OfficeMax was located. The Business Development Board of Palm Beach County worked to get Office Depot to stay.

"We were competing with Naperville," BDB President Kelly Smallridge said. "We wanted to make sure that the decision-makers had the proper information outlining the advantages of doing business in our city, county and state."

After six months of work, Smallridge's staff and the city of Boca Raton secured \$5 million in incentives for the office supply giant in exchange for creating 378 jobs in South Florida over five years. As of June 23, Office Depot has been awarded \$3 million of that to keep jobs in Palm Beach County, according to the Florida Department of Economic Opportunity. On Dec. 31, Boca Raton is expected to disburse an additional \$1 million to the company if it retains 2,006 jobs at its headquarters, each paying an average of \$76,762 annually. Another \$1 million would be awarded if the company keeps those jobs Boca Raton by December 2016.

But if an acquisition passes federal approval by the end of the year, it's no longer up to Office Depot to keep the jobs there.

"This is Staples purchasing Office Depot, not Office Depot purchasing Staples," Smallridge said. "We're going to work hard to maintain those jobs."

NOT ALL IS LOST

Many large companies decide to stay instead of go: Last year, Fortune 500 company Ryder System (NYSE: R) was set to renew its lease at the 248,989-square-foot building where it's headquartered. The company considered moving out of the state, said Rod Loschiavo, senior VP at JLL in Fort Lauderdale, who helped the company research its options.

But the most cost-effective option for Ryder (NYSE: R) was to buy its headquarters, at 11690 N.W. 105th St. in Miami, for \$42 million, Loschiavo said.

"The timing was good from an ownership perspective because the cost of capital was at an all-time low," he added.

Loschiavo has also helped other companies in their corporate headquarter searches, including Consolidated Cigar Holdings, which moved into a 13,000-square-foot space in Fort Lauderdale from New Jersey.

The company, now Commonwealth Brands, has since grown to a 60,000-square-foot space. Loschiavo says big companies that don't already have ties to South Florida would only move here for a compelling reason, rather than incur the large costs associated with relocating. Restructuring or eliminating some of its workforce would mitigate the cost.

The region has gained large companies, as well: Jarden Corp. (NYSE: JAH), a Fortune 500 company that recently passed \$8 billion in revenue, relocated to Boca Raton last year from Rye, New York. The company still has offices in both cities, but its larger workforce is in Boca Raton. The retail company employs about 35,000 people worldwide.

Also, many large companies based in South Florida are swallowing up other companies and making their own deals. Norwegian Cruise Line Holdings Ltd. (Nasdaq: NCLH) acquired its rival Prestige Cruises International in a \$3.03 billion deal in November. Fort Lauderdale's Citrix Systems (Nasdaq: CTXS) acquired Delray Beach's Virtual in September. Mednax (NYSE: MD), based in Sunrise, acquired 13 companies in 2014.

SMALLER COMPANIES MAY BE A BETTER BET

The best hope for South Florida economic development officials may be in much smaller companies like Stemtech International. The dietary supplements company, which has less than \$100 million in annual revenue, relocated to Pembroke Pines last year.

Facing a growing tax rate and a lease set to expire, Stemtech CEO Ray Carter Jr. knew the company had to find a better state than California.

"It was either Houston or Broward County," he said.

Florida faced intense competition. The Texas Legislature, which is known for throwing down hefty cash incentives for businesses, even had Gov. Gregg Abbott pay the company a visit in its recruitment efforts, Carter said.

But Stemtech eventually moved 50 high-salary employees from San Clemente, California to Pembroke Pines in September. Stemtech qualified for \$615,000 in incentives from the city and state. In return, it pledged to pay its workers an average salary of \$65,849. Stemtech plans to add 40 employees over the next three years.

"When the Stemtech project was in the confidential phase, we called it Project 502 because the CEO said California is ranked 50th for business friendliness and Florida is ranked second," said Bob Swindell, CEO of the Greater Fort

Lauderdale Alliance, Broward County's public/private partnership for economic development.

Tere Blanca, president and CEO of Blanca Commercial Real Estate, specializes in office real estate and has represented many companies in corporate relocations, including the Miami Herald's move to Doral in 2013. She believes that, as South Florida becomes more densely populated, it will be more challenging to find large parcels of land at competitive prices to be developed for large headquarters.

"We may not be the place attracting 500,000-square-foot relocations, but I know of many stories of companies that came here in small offices and are growing," she said.

But sometimes, we lose those growing companies. North Miami's Fresh Diet, for instance, was acquired by Innovative Holdings in Bonita Springs last year. The company, one of the region's fastest growing, had 350 employees. It often just comes down to money.

Jack Osterholt, deputy mayor of Miami-Dade County, looks at it this way: "We have instant access to the fastest-growing markets in the world, skilled labor, great seaports and airports with direct flights that can get you anywhere. We've got the beach and we've got the sun, but when we have to be competitive with cash, it gets difficult."

COMPANIES THAT LEFT US

- **Blockbuster Video** moved its headquarters from Fort Lauderdale to Dallas in 2005. Its revenue was \$6.05 billion that year.
- **Claire's** moved its headquarters from Pembroke Pines to Hoffman Estates, Illinois, in 2007, when it was acquired by Apollo Management for \$3.1 billion. Its revenue was \$1.09 billion that year. The company still maintains an accounting office in Pembroke Pines.
- **Republic Services** merged with **Allied Waste Industries** and moved to Phoenix from Fort Lauderdale in 2008. Its revenue was about \$3.69 billion that year.
- **Spherion Corp.** moved from Fort Lauderdale to Lakeland after it merged with Atlanta-based Tatum in 2010. Its revenue was \$2.05 billion that year.
- **Jacuzzi Brands** moved from West Palm Beach to Chino Hills, California, when **Apollo Management** bought it for \$1.25 billion in 2007. Its sales were \$1.2 billion in 2006, when the acquisition was announced.
- **Agilysys** relocated to Alpharetta, Georgia from Boca Raton in 2008. Its revenue was \$770.96 million that year.
- **Stiefel Laboratories**, formerly based in Coral Gables, was acquired by **GlaxoSmithKline** in 2009. Its revenue was \$905 million that year. The company is now headquartered in Durham, North Carolina.
- **Signature HealthCare** moved its headquarters from Palm Beach Gardens to Louisville, Kentucky in 2010. Its revenue that year was \$700 million.
- **FTI Consulting** moved its headquarters from West Palm Beach to Washington, D.C. in 2014. Its revenue was \$1.76 billion that year. The company still maintains offices in West Palm Beach, downtown Miami and Coral Gables.
- **Burger King** merged with doughnut-and-coffee chain **Tim Hortons** and formed a parent company that is based in Canada. The new company, **Restaurant Brands International**, has combined sales of \$23 billion. Burger King says it is maintaining personnel at its Miami headquarters.

THEN AND NOW: FLORIDA'S FORTUNE 500 COMPANIES

Because of Florida's economic development teams and favorable business environment, there are three more Fortune 500 companies headquartered in the state than there were 10 years ago. Comparably, in 2005, Texas had 40 Fortune 500 companies. Now, it has 52. A corporate headquarters benefits the community in which it is based in many ways, including higher wages for residents and better business for local suppliers and contractors.

Florida's Fortune 500 companies in 2005:

- No. 110: Tech Data Corp., Clearwater
- No. 112: AutoNation, Fort Lauderdale
- No. 117: Publix Super Markets, Lakeland
- No. 156: Office Depot, Delray Beach
- No. 182: Winn-Dixie Stores, Jacksonville
- No. 213: FPL Group, Juno Beach
- No. 214: Lennar Corp., Miami
- No. 261: Fidelity National Financial, Jacksonville
- No. 269: CSX, Jacksonville
- No. 324: Jabil Circuit, St. Petersburg
- No. 351: World Fuel Services Corp., Miami
- No. 381: Ryder System, Miami
- No. 386: Darden Restaurants, Orlando
- No. 437: Hughes Supply, Orlando

RECENT SOUTH FLORIDA HEADQUARTERS TRANSACTIONS

TENANT	DEAL SIZE	DEAL TYPE	HEADQUARTERS TYPE	CITY
Ryder System	238,000	Purchase	Main HQ	Miami
Ultimate Software	93,000	Expansion	Main HQ	Weston
Cancer Treatment Centers of America	73,340	Relocation	Main HQ	Boca Raton
FedEx	73,000	Renewal	Latin American HQ	Miami
Norwegian Cruise Line	70,300	Expansion	Main HQ	Miami
TotalBank	60,000	Relocation	Main HQ	Miami
Bupa Global Insurance	60,000	New	Latin American HQ	Miami
NewsMax	52,000	Renewal	Main HQ	Boca Raton
Microsoft Corp.	47,000	Renewal	Latin American HQ	Fort Lauderdale
Carnival Cruise Lines	35,000	Expansion	Main HQ	Miami

Florida's Fortune 500 companies in 2014 (the most recent ranking):

- No. 71: World Fuel Services Corp. Miami
- No. 104: Publix Super Markets, Lakeland
- No. 111: Tech Data Corp., Clearwater
- No. 155: Jabil Circuit, St. Petersburg
- No. 162: AutoNation, Fort Lauderdale
- No. 191: NextEra Energy (formerly FPL Group), Juno Beach
- No. 231: CSX Corp., Jacksonville
- No. 248: Office Depot, Boca Raton
- No. 294: WellCare Health Plans, Tampa
- No. 316: Fidelity National Financial, Jacksonville
- No. 319: Darden Restaurants, Orlando
- No. 356: Jarden Corp., Boca Raton
- No. 406: Ryder System, Miami
- No. 426: Fidelity National Information Services, Jacksonville
- No. 431: Lennar Corp., Miami
- No. 471: Harris Corp., Melbourne
- No. 264: Hertz Corp., Estero