

North Carolina's Brewers, Bakers and Other Small Businesses Fight to Hold on as Stimulus Funds Dwindle

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As the economy staggers amid a raging pandemic, businesses are in a precarious situation as their federal relief funds are used up. The question for many: Without another round of stimulus, is bankruptcy ahead?

In a typical March, the line wraps around the door of the brewery's taprooms, an impatient crowd gathered from all over the state, thirsty for the return of seasonal brew Peanut Butter Jelly Time.

But March 2020 was not typical for Billy Pyatt, owner of Catawba Valley Brewing Company in Morganton, whose cans and kegs have become a mainstay in bars, restaurants and grocery stores across North Carolina – from its foothills taprooms to Mellow Mushroom in Raleigh.

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The pandemic had Pyatt, who owns the firm with his wife and brother, trying to hold his footing and uncertain of his next moves. Wholesalers were canceling keg orders. Taprooms were forced to close. Business went from “fine” to 45 percent capacity.

And there was no end in sight.

“You’re looking at a company that’s running on certainly less than half of its resources,” he said. “We were just planning for the worst.”

And that meant cutting external consulting contracts and negotiating with landlords and lenders. And it meant laying off employees who had helped build the brewery’s success.

Before Covid-19, the firm was at 76 full-time employees. In a matter of weeks, it was at 36. In April, Catawba Valley Brewing notified the state that it would be cutting 69 jobs across the state, including both full- and part-time workers.

Business shifted from kegs to cans – a lower-margin, lower-price business. And even as of July, revenue was still down 25 percent.

But even amid the revenue dip, business was returning to normal in June. As of June, Catawba Brewing had returned to 76 employees thanks to the Paycheck Protection Program, a federal stopgap that awarded loans to more than 120,000 North Carolina businesses like Pyatt’s.

“We were paying people without the volume or the revenue to afford those salaries,” Pyatt said. “But that’s kind of what the PPP was for ... to make sure that people have jobs.”

A review of PPP data provided by the U.S. Small Business Administration shows at least 11 companies across North Carolina that, earlier this year, had notified the state of layoffs, received PPP loans of at least \$150,000. And several of those confirm that, as with Catawba, the PPP loan was integral in bringing the jobs back.

With no end to the pandemic in sight, it’s unclear what will happen next, particularly if North Carolina, amid rising Covid-19 cases, finds itself slipping backward.

“If we go back to a shutdown, a Phase One ... we can’t support this,” Pyatt said.

Rising concerns

He is not alone, as many business owners across the state are concerned about their future as Covid-19 cases continue to rise and Congress weighs more action. Zack

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Medford, whose firm owns Raleigh bars such as Isaac Hunter's Tavern, spent his PPP dollars on salaries prior to the feds' decision to expand the allowable use of the cash. With Gov. Roy Cooper's restrictions, he has not been able to open his doors. "Tough choices" lie ahead without another infusion, he said.

For some smaller firms, those tough choices are already coming faster than anticipated.

CrossFit Brier Creek in Morrisville, for example, recently filed for Chapter 7 liquidation after being closed since March. Many expect more bankruptcies to follow – even for those privy to PPP cash.

Nitin Walia, chief client officer at financial analysis firm RapidRatings, said the consensus his team is hearing is that PPP "is really functioning more like a Band-Aid than a cure."

"It's certainly helpful for some companies, but for many of them it is delaying layoffs rather than preventing them," he said. "The design of the PPP law, it says something about what was the consensus at the time of the expected duration of the economic impact of the pandemic, and our understanding of that has obviously changed."

There's no question that jobs have been saved through the PPP program. A look at layoff notifications in the state shows parallels.

For example, Carolina Eye Associates, whose main office is in Southern Pines, furloughed some of its staff at the onset of the pandemic, notifying the state in March of more than 100 cuts. CEO Dawn Apple said the PPP fund saved the jobs.

"With the funding we were able to pay our employees and as operations resumed more fully, all employees were called back to work," she said.

Buying time

But the PPP funds did not eliminate layoffs entirely, records show.

Take Guilford College, which was approved for a PPP loan worth between \$2 million and \$5 million, according to SBA records. While spokesman Roger Degerman said the funds "were instrumental in helping us maintain the faculty and administrative staffing levels needed to open our campus in August for face-to-face instruction," he said the 45 layoffs the school disclosed in a notification July 1 were outside the scope of the loan.

And Ennio DiNino, director of operations for New World Concepts, which owns Neomonde and considers Neomonde Bakery a "sister company," confirms the loan (in the range of \$350,000 to \$1 million) didn't save all the 120 layoffs it disclosed to the state in March.

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DiNino said the PPP funds allowed Neomonde to continue to employ 46 of its workers and operate two of its three restaurants – even after the firm filed that notice.

“We look forward to the day when we can fully reopen our restaurants and dining rooms to our neighbors,” he said.

But Frank Williamson, founder and CEO of Oaklyn Consulting, says what the PPP did was buy time. “You had a chance,” he said. “This looks like one of those cases where, by and large, the public policy worked.”

However, Williamson expects to see additional layoffs and bankruptcy filings in the coming months.

“Some businesses just aren’t going to make it,” he said. And many of those businesses with bigger odds against them are in the Southeast, where Covid cases are on the rise. In some states where case numbers are starting to dip, the PPP may have bought enough time to deal with the problem. But in places like North Carolina, “it’s just going to take longer, and there will need to be new creative solutions.”

As for Pyatt, business is adjusting to a new normal. Taprooms are operating at 50 percent capacity, albeit with social distancing and mask guidelines. A business that was 45 percent kegs last year has shifted to an 82 percent cans operation – a more costly business. And the bars in Raleigh and beyond that had been attaching its kegs to taps are still shut down. Even so, Pyatt said he’s making it – for now. Should the state slip backward, he’d need help.

“We’re proud North Carolinians,” he said. “If we need help, we’ll ask. But if we don’t need it, we’re going to try to make it on our own.”

These are the companies approved for PPP funds who also filed WARNS with the state:

- Lemco Mills in Burlington was approved for between \$350,000 and \$1 million in PPP loans, pledging to retain 60 jobs. That’s as, on March 16, the company notified the state of 57 layoffs.
- Quaintance-Weaver in Greensboro was approved for between \$2 million and \$5 million in loans to retain 500 jobs. That’s as, on March 19, it notified the state that it would be laying off 700 people.
- CE Rental in Raleigh was approved for between \$2 million and \$5 million in loans to retain 373 jobs. That’s as, on March 20, the company told the state it would be laying off 47 jobs in Raleigh (and another 7 in Charlotte).

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- New World Concepts in Morrisville was approved for between \$350,000 and \$1 million. That's as, on March 19, the company told the state it would be laying off 120 jobs. The job retention part of its PPP pledge was not included in SBA records.
- Neomonde Baking Company in Morrisville was approved for between \$350,000 and \$1 million. That's as, on April 15, the firm notified the state of 27 layoffs.
- Carolina Eye Associates of Raleigh was approved for between \$2 million and \$5 million to retain 257 jobs. The company notified the state March 20 that it would be conducting layoffs at multiple sites, including 47 in Wake County and 117 in Moore County.
- Imperial Hotel Group, which does business as Sheraton Imperial Hotel in Durham, was approved for between \$1 million and \$2 million to retain 166 jobs. That's as, on March 20, the company told the state it would be laying off 207 jobs.
- Kanki House of Steak in Raleigh was approved for between \$1 million and \$2 million on its pledge to retain 200 jobs. That's as, on March 22, it notified the state of 220 layoffs.
- SportsMedia Technology Corp. of Durham was approved for between \$5 million and \$10 million to retain 484 jobs. That's as, on March 17, it notified the state of 44 layoffs.
- Catawba Valley Brewing Company of Hickory received between \$350,000 and \$1 million. The number of retained jobs was not listed. That's as, on April 7 they filed four separate layoff notices in Mecklenburg, Buncombe and Burke counties impacting a combined 69 jobs.
- Guilford College in Greensboro received between \$2 million and \$5 million to retain 424 jobs. The school, on July 1, notified the state of 45 layoffs.