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The Lubar School

An approach to business honed over generations

BY ARTHUR THOMAS, *staff writer*

YOU DO NOT HAVE TO LOOK FAR around the Milwaukee area to see the influence of Sheldon Lubar and his family. They've made millions in donations and their name is on schools, buildings, research centers and boards all over town.

Beyond gifts of time and treasure, the Lubar family has also shared an approach to business that's helped shape the community in its own way and that a new generation is now learning to apply.

At Lubar & Co., the Milwaukee-based private investment firm Sheldon Lubar founded in the 1960s, the approach goes under the label of professional ownership, a term the company trademarked a few years ago.

"Professional means we are dedicated (to) building that business toward being the best business possible," said David Lubar, president and chief executive officer of Lubar & Co. "When my dad started, and this is still the case but maybe not as much as before,

businesses were subsidizing a personal lifestyle."

Some business owners would charge clothing, meals, country club dues and vacations to the company, Lubar explained.

"We keep all that out. We try and keep politics out. It's really what's the business, what's the potential of the business and how do we come together with management to realize that potential?" he said.

Sheldon Lubar traces the idea back to the late 1950s when he was working at Marine National Exchange Bank.

He was asked to run a small business investment company for the bank. Despite some concern that the bank's focus on large clients like Allen-Bradley and A.O. Smith would make it challenging to take equity in small businesses, Sheldon said yes.

Looking back on it now, he says the business was full of problems "that I created with my investments."





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David, Sheldon and Patrick Lubar in the offices of Lubar & Co. at the 833 East building in downtown Milwaukee.

"What the problem was, in my mind, right or wrong, was that I felt I could run any of these businesses better than the people I was investing with," he said. "That's an overall statement. We just weren't getting good results."

Lubar said he felt buying a company and owning a majority of it provided a path to better results. That's what Lubar did a few years later when he started Lubar & Co., buying Sorgel Electric, a manufacturer of dry type transformers. Lubar said that's where the idea of professional ownership really began to take shape as he was running the business to create value for its shareholders.

Nearly five decades later, it's the same approach Lubar applied to Ixonia Bank, which the Lubars acquired a majority stake in in 2012 after contributing the vast majority of a \$21.5 million recapitalization and the majority of a second \$7.7 million capital raise in 2013.

Regulators were close to taking the bank over when the Lubars stepped in. The bank had lost nearly \$16.4 million across the three years before the investment and lost nearly \$15 million in 2012. Sheldon said part of the motivation for the investment was the potential for jobs to be lost if the bank was shut down.

He set out objectives for the bank of soundness, profitability and then growth.

"In that order," he said.

At one of the first shareholder meetings following the deal, the first question was about how the Milwaukee Brewers might perform for the year. It was directed at former Major League Baseball commissioner Bud Selig, who became a board member of the bank's holding company when it was acquired by Lubar & Co.

The second question was to Sheldon: When would the bank reinstate its dividend?

The bank had declared a nearly \$1.7 million dividend in 2009, even as it lost \$1.8 million, but didn't pay one in 2010 or 2011. In the five prior years, the bank had paid more than \$3.2 million in dividends.

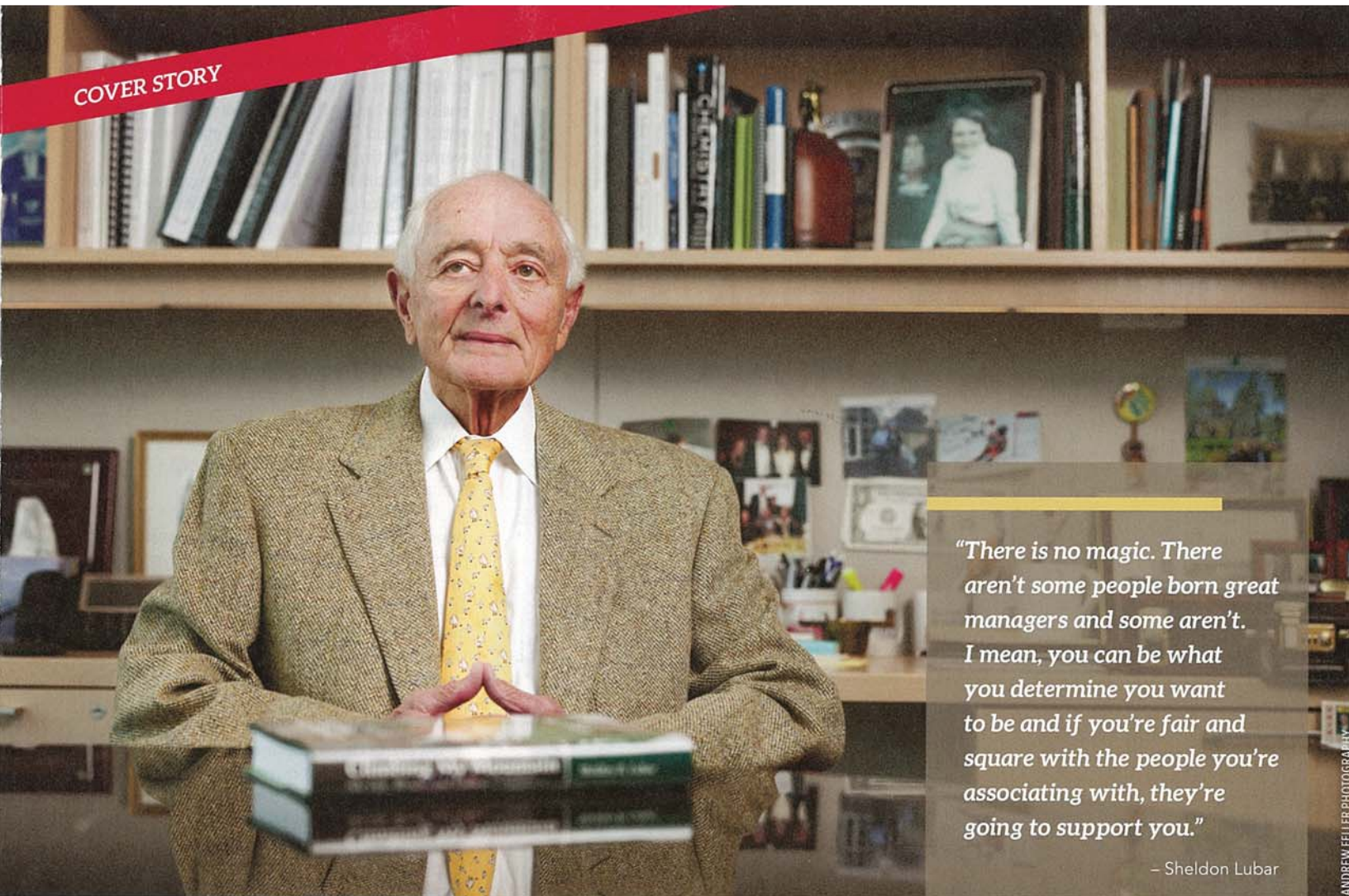
Returning to paying a dividend wasn't in the plans.

"The lowest cost of capital a company can have are retained earnings," Lubar recalled responding. "Since we intend to grow and be a significant factor in Wisconsin in the banking world, there is no such thing as having too much capital, so don't expect dividends."

Lubar said he added that he wouldn't be taking a salary, so shareholders did not need to be concerned he was cashing in.

"What we're going to do is get rid of the bad assets here, we're going to be smarter about the loans we make, we're going to be more aggressive trying to get good customers in and we're going to use the capital that we have to expand the bank," he said.

Those goals have largely been accomplished. Ixonia's provision for loan and lease losses has been almost non-existent in most years after steadily climbing in 2011 and 2012, reaching nearly 8% of assets at one point. Its total assets have grown from a low of \$269 million in 2014 to \$389 million at the



"There is no magic. There aren't some people born great managers and some aren't. I mean, you can be what you determine you want to be and if you're fair and square with the people you're associating with, they're going to support you."

— Sheldon Lubar

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end of 2019 and grew to \$536 million as of March 31. It has been profitable every year but one, and it has also expanded into the Milwaukee market with an office downtown.

"It wasn't charitable, but it saved it from being liquidated," David Lubar recalled of the Ixonia investment, noting Sheldon was looking to invest in a bank in the greater Milwaukee area and Ixonia provided more opportunity than others he considered.

David recently took over for Sheldon as chairman of Ixonia Bancshares, the bank's holding company, and joined the bank's board.

The next generation of Lubars is also involved at Ixonia Bank. Patrick Lubar, David's son, is vice president and Milwaukee commercial banking lead for the bank. He joined in 2017 as a credit analyst, picking Ixonia over an opportunity with a regional bank in Chicago with a little encouragement from his grandfather.

Working in a family business, let alone with the Lubar last name, can come with challenges and the potential for questions about what doors may have been opened for you.

"I've had a very intentional focus on establishing credibility for myself. I try to prove it by working hard and contributing," Patrick said. "I think through genuine conversations with people and showing genuine interest in all my coworkers and

colleagues and genuine care for the growth of the bank, that I can show what my true intentions are. They are to be here to learn, to develop and to establish myself as a contributor on the team."

He added that the opportunity to work with his father and grandfather in a business setting has been inspiring, and it has given him an up-close view of their differences in style. Patrick said his grandfather is very much an entrepreneur who knows what to do, can tackle something on his own and trusts his decision making.

"My dad is much more team-oriented. He gathers input from many different sources and evaluates it," Patrick said. "He does a lot of research and he'll make a thoughtful decision that way. My grandpa, he trusts his gut."

David said he has also learned a lot from watching how Sheldon works over the years. When David first returned to Milwaukee to join Lubar & Co. after starting his career in Minnesota, Sheldon handed him a pad of paper, pointed him to a desk and tasked him with figuring out what he would do to be productive.

"There have been many, many lessons about how to deal with people and about how to treat them fairly and respectfully that I've learned mainly through observation," David said.

As an example, he pointed to efforts to lead

companies with facts, logic and vision, not simply through ownership, although he acknowledged having ownership control means sometimes people will just agree with you.

"The point being, it's not carrying a big stick; it's speaking softly and have an informed decision," David said. "You have to prove that your judgment, over time, is good judgment, sound judgment."

"Being able to observe how (Sheldon) makes judgments and the judgments he does make and the positions he takes and what positions are strong positions and what ones are flexible, that's all part of how you deal with other people," David added.

The Ixonia Bank deal wasn't the only time that saving jobs factored into a decision Sheldon made. In 2005, Minnesota-based SuperValu agreed to acquire Total Logistics Inc., a company the Lubars had taken public in the late 1990s but still had a significant stake in, for \$233 million.

Part of Total Logistics was Zero Zone, a North Prairie-based manufacturer of commercial refrigeration cases it had acquired in 1999.

SuperValu's bankers came back to Lubar not long after the Total Logistics deal was done. They wanted to sell Zero Zone back to the Lubars. It turned out that Wal-Mart, which accounted for 11% of Zero Zone's sales in 2003, didn't want to

"It becomes very subjective as to what's a great team and what isn't. ... It can be something as basic as does the CEO trust us, and do we trust that person, and do we each have mutual confidence in each other that we're working together and we have the long-term objectives of the company as our top priority?"

— David Lubar

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count SuperValu, a competitor, as one of its suppliers.

Lubar was interested, but none of his colleagues wanted to support it, so he passed. Six weeks later, the bankers were back. They'd been unsuccessful in selling Zero Zone. Now, either Lubar would buy the company or it would be liquidated.

"Guys, we made so much money on this," Lubar recalled telling his colleagues. "I'm not going to throw 100 and some people out on the street. We're going to buy it back and we're going to turn it around."

In another case, the Lubars were part of a group that helped save Peck Foods from being shut down. The meatpacking company, located in the

Menomonee Valley, was facing foreclosure from its bank and around 1,500 jobs, primarily held by Black and Hispanic Milwaukee residents, were at risk. Sheldon's task was to get the bank to compromise on the \$40 million it was owed. He called then Milwaukee Mayor John Norquist and Gov. Tommy Thompson for help, asking them to make it clear the Chicago-based bank would not be welcome to do business in the state if it shut down the plant.

"We weren't going to invest if we thought we were going to lose our money and the company was going to fail. I mean, what are you accomplishing there? But we were driven by and attracted by

the fact that there were so many minority people working there at what was then high-paying jobs," David Lubar recalled, noting the group felt they could at least stabilize the business.

Part of the Lubars' approach is partnering with company management, not just in developing a plan for a business, but in owning it.

Sheldon said the most important thing in a manager is character and he looks for people with integrity and honesty who are proud of what they do.

"That's what I tell a person: Are you proud of what you do, can you announce it to the world and really feel that you're respected?" he said.

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"There is no magic. There aren't some people born great managers and some aren't. I mean, you can be what you determine you want to be and if you're fair and square with the people you're associating with, they're going to support you," he added.

David Lubar pointed out that the evolution of a management team can cut both ways with a team performing well in one economy and poorly in another. Measuring the performance of a management team also isn't necessarily straightforward. Looking at revenues or profits may be a common way, but there are many factors influencing the top and bottom line besides the experience and decisions made by the CEO and the rest of the team, David said.

"It becomes very subjective as to what's a great team and what isn't," he added. "It can be something as basic as does the CEO trust us and do we trust that person and do we each have mutual confidence in each other that we're working together and we have the long-term objectives of the company as our top priority?"

The Lubars incorporate patience as a core part of their approach to companies and investments.

"We don't make impetuous, knee-jerk decisions," David said. "We think things through, we ask for data, we collaborate with the management team to understand, 'well, what is going on here?'"

He pointed to the onset of the COVID-19 pandemic in the spring of 2020, when revenues in almost every Lubar business collapsed, as a moment that may have led to being overly reactive. He praised the firm's management teams for instead coming together on worker safety and preparing for the unknown. David said it highlighted how competent and capable the teams are, even if it doesn't show up in the financial results.

Patience can be tested in other ways, too, like figuring out how quickly to grow a business in a time of changing markets and rapidly evolving technologies.

"The faster you grow, typically, the more risk you take on," David said. "Not always, but generally, because things are moving so much faster. With speed comes the possibility of errors and mistakes, but with speed comes rewards if you're successful."

Patience and an investment philosophy can also be tested by a mergers and acquisition market that remained strong or even improved over the course of the pandemic. Billions of dollars are available at private equity firms and corporations to pursue deals, and more recently the rise of special purpose acquisition corporations, a vehicle for taking a company public overnight, has added even more money to the market.

"There's temptation to go outside whatever your investment guidelines are," David said. "Well, if we want to make acquisitions, we have to compete with what's happening in the market and so if the market is outside of one's guidelines, then you have to either change your guidelines or say, during this period of time, you're not going to be very active in



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— Patrick Lubar

the market, and that takes discipline. So, sometimes we're in the market and sometimes we're not in the market."

"Whatever we do, you're always sort of accountable to the market, otherwise you're out of the game," he added.

With plenty of things to test their patience, how does Lubar & Co. go about making decisions? David said it is a collaborative process that involves gathering information, putting forward a thesis and challenging that thesis.

"There's kind of a little joke here that decisions make themselves," David said. "You pull all the information together and if you're looking at it, it's like 'yes, this is what we should be doing' or 'no, that's what we should not be doing.'"

For David, it is important to get input from as many people as is appropriate, which means the

group changes when the decision is about making an acquisition, changing accounting systems or hiring a new team member.

"It's all about getting input," he said.

For Patrick, the Lubars' values of patience, trust, respect, integrity and support are things he tries to apply with his customers, but he is also aware the family name and its philosophy only carry him so far.

"The family has developed a philosophy, but that's all it is, it's a philosophy," he said. "So every day, in practice, you have to go out and make your own decisions and you're experiencing things on your own. I'm guided and influenced by the family philosophy, but I think my reputation and my credibility is judged on the decisions I make every single day with my colleagues and with the customers I serve." ■