TAILOR-MADE GROWTH

JIM CAMPANELLA HAS a simple goal. He wants to be the dominant lawn care provider in his region.

"The Northeast, that's our footprint right now," says Campanella, owner of Nashua, NH-based Lawn Dawg.

Lawn Dawg, which operates in four states, has made four acquisitions since 2009 — the most recent one just last month. And Campanella is certainly not alone in the merger and acquisition market.

"2011 was a pretty good year for mergers and acquisitions in the industry in a lot of ways and kind of off in other ways," says Ron Edmonds, president of The Principium Group.

It was good because of the deal that led to the sale of TruGreen Landcare.

"That was sort of a cloud over the industry in a sense," Edmonds says. "Nobody knew what was going to happen. Having some resolution there really helped."

While some of the larger Green Industry players sat on the sidelines during 2011, many deals were completed. And while there are always more buyers than sellers, the gap narrowed.

"There are a lot of contractors kicking the tires on 'what is my business worth?' I've had more contractors ask me that question in the last year or two than in the previous five years," says Jason Cupp, a Kolbe Certified Growth Consultant, former landscape business owner and a past president of the Professional Landcare Network (PLANET).

Whether it's the economy pushing owners toward seeking the next stage in life or simply time to retire, many contractors are looking at ways to exit their enterprises. And plenty of people are interested in what they have to offer.

"The larger independents have become more active buying," says Jim Mello, owner of Massachusetts-based Professional Business Consultants. "One of the reasons is some of the offers from the larger companies have been a little bit less."

Campanella and his equity partners have been quite active on the acquisition front, but the organization has been strategic about its candidates.

Campanella could meet his goal of becoming the Northeast's most dominant lawn care company through time and organic growth, growing the customer base, slowly expanding into new areas or opening branches in new territories. But that's not as easy as it once was.

"With the implementation of the federal Do Not Call Registry, it really rendered telemarketing ineffective. And it makes it much more expensive to start up from scratch," Campanella says. "If we can acquire our way into a new market area, that gets you past that initial growth curve and gets us into a market with some stability."

Growth is one reason to acquire a company. Providing new services or entering a new market are others.

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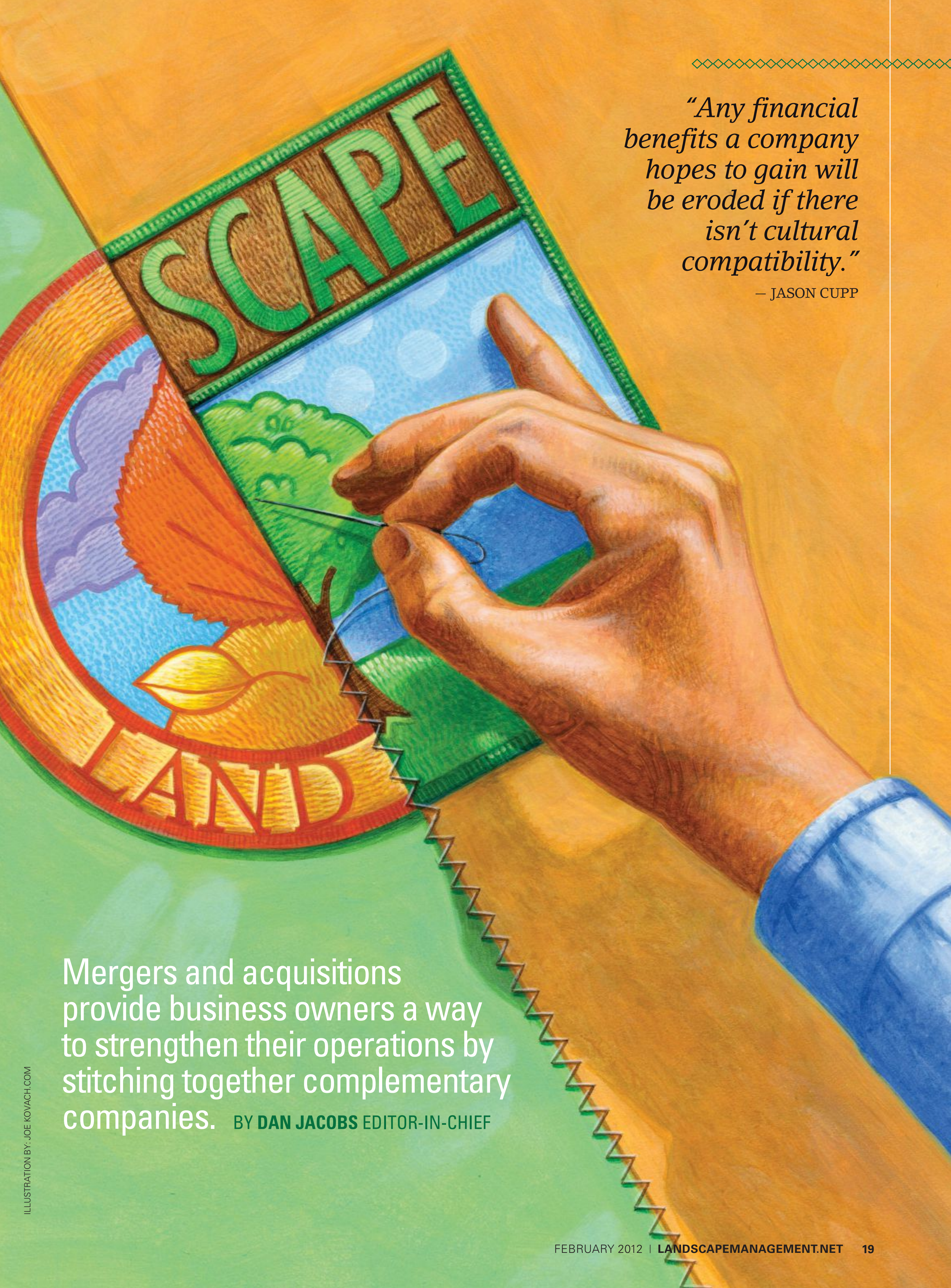

> *"Any financial benefits a company hopes to gain will be eroded if there isn't cultural compatibility."*
> — JASON CUPP

Mergers and acquisitions provide business owners a way to strengthen their operations by stitching together complementary companies.

BY **DAN JACOBS** EDITOR-IN-CHIEF

ILLUSTRATION BY: JOE KOVACH.COM

(From left to right) Dan Cisz Jr. and Mark Kelbacher, 50/50 partners in Lush Lawn Service, sold their business to Jim Campanella earlier this year.

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Brickman entered the Southern California market in a big way, snapping up the Dworsky companies during the summer of 2010.

"We were in a number of different locations in California that they weren't in yet," says Dave Dworsky, owner of Dworksy Facilities Services. "It was an opportunity to take the company one step further in its market share. Divided we were somewhat conquerable, but together in a collected effort we were stronger."

Financing

One of the challenges to sealing any deal is figuring out how to pay for it. A company without pristine financials is going to have a difficult time getting money from a bank.

"It's a sign of the times. Everybody is more cautious," says Mello. "Banks are not lending to people to buy anything. They never did much of that in this business anyway."

But not all is doom and gloom for contractors seeking assistance. While most small businesses aren't singing the praises of the current administration, one thing the government did do as part of its stimulus program was to prop up Small Business Administration loans.

Campanella tapped a pair of equity partners in 2009 to help with his expansion plans.

"They're very active in the process," Campanella says. "It's a team effort, and a team collaboration on making the decisions and reviewing the documents. They look at everything that I gather during the process."

According to Mello, the buying price is pretty wide, anywhere from 50% to 110% of gross sales. Many variables go in to deciding what that purchase price will be.

"To get the high end, that would be an unbelievable company with good pricing in a prime market," Mello says. "It also could be somebody who's not in a particular market as opposed to a (larger company) looking to buy it as a tuck in."

Other factors that affect the sale price include profitability, the manage-

Dave Dworsky (left) worked with Brickman's Mike Bogan to complete the sale of Dworsky's $15 million-plus landscaping business, which gave Brickman entry into the Southern California marketplace.

ment team, potential for upsell, services offered, taxes, liens on the business, receivables, how long they've been in business and how long their customers have been with them.

"When you're coming out of a recession you have a built-up supply of deals," Edmonds said. "There are people that really need to do deals out there. One of the things that has always surprised me was how slow people were to show their business. A lot of people have a natural instinct to hold on until things get better."

That hesitancy, along with caution on the part of the buyer, meant fewer deals than in years past.

"What that tells me is that there was considerable concern about the economic climate during the year," Edmonds says. "People weren't convinced we were really out of the recession. At the same time, there was tremendous focus on financial discipline with buyers."

Another trend has excited many folks in the industry.

"The other positive thing coming out of 2011 is a lot of interest from the private equity community," Edmonds says. "We've talked about that for a long time, and there have been bits and pieces of it, but there was a fair amount of real evidence of it in 2011."

Culture

Financing is integral to completing the deal. Just as important is making sure the two companies will mesh.

"The biggest mistake people make is not putting enough focus on integration after the deal is done," Edmonds says. "And related to that is looking only at numbers and not understanding the culture of the companies."

The results can be catastrophic.

"The quickest way to destroy the value you're trying to create with an acquisition is to have a large defection of people from either side," Edmonds says.

To avoid that, buyers need to meet with as many people as they can from the company they hope to acquire.

"There has to be an analysis of culture and what the meshing of that culture is going to be," Cupp says. "I've made some mistakes in mergers and acquisitions in my career as a contractor where I didn't adequately analyze differences between the teams and the clientele and ended up paying for that. If the culture is a mismatch, the deal needs to be taken off the table immediately, even if the financing is in place."

Campanella says he walked away from a deal because he was concerned about how he and the acquired executive would mesh.

"When I meet the owners, I talk to them," Campanella says. "We get to know each other a little bit. It's got to be somebody I want to work with and that I think can work well within our structure. So far we've been lucky with all the deals that we've done."

Such was the case with Campanella's first acquisition, Weed and Feed Professional Services. Campanella sent an email to his friend Bob Mann, the owner.

"It didn't bother me at all," says Mann of losing his position as top executive. "I'm happier now than I was at the time I made the decision. As time has gone on, I'm more satisfied with the decision that I made. I'm not hung up on titles. For me it's never been about what's written below your name on your business card."

Mann is now director of training for Lawn Dawg and a branch manager.

Dworsky has no regrets, either. "I never had one second of seller's remorse," he says. "Nor do my partners."

Buyer

For business owners, an acquisition can be like a dog at dinnertime. It's very easy to get so excited, they don't stop to think about what they're taking in — or they're willing to overlook red flags in their haste to get the deal done.

"It's easy to become very, very focused on wanting to get a deal done as a buyer and to lose sight of the discipline you need to have," Edmonds says. "Do you have financing sources looking over your shoulder? Yes, that helps keep it all in check."

But there are factors to consider before you even get to that stage in the process.

"The first thing that I always ask is, 'why do you want to make the acquisition?' Cupp says. "Once I hear that reason, I determine whether or not the value of the acquisition is truly there.

"What are you getting for your

The right time to sell

According to Ron Edmonds, president of The Principium Group, there are four factors to consider when deciding if it's the right time to sell a business:

1 You have to be mentally ready to sell your business and understand where your head is.

2 You've got to be financially ready, meaning you know what's going to happen next (if that's retirement, you have an understanding of what your requirements are moving forward).

3 Your business needs to be ready to sell (running on all cylinders). The last thing you want to do is sell a business that's on a down stroke.

4 The market has to be right.

"We encourage people to focus on the first three so that when the market is right, they can make a move," Edmonds says. "We encourage people not to think in terms of 'waiting 'til next year.' We encourage people to think in terms of getting their business in order and themselves in order, now so that when there's an opportunity to maximize that they can make a move."

— DJ

PHOTOS COURTESY: LAWN DAWG (TOP); THE BRICKMAN GROUP

"The financing market is better than a lot of people think. The SBA enhancements pushed through by the administration (allowed) more loans to get made.

— RON EDMONDS

purchase price? Are you getting equipment? Are you getting culture? Are you getting some marketability.... You have to understand the reason for the acquisition. It has to make great sense in a lot of different areas."

The first step is to have a strategic vision, Edmonds says.

Doing proper due diligence is key to the success of any deal.

There are a couple of numbers that a seller has to be aware of, Cupp says. The first is obviously the selling price. But owners often forget about the second number, which is what they'll walk away from the deal with.

"We went through all the due diligence and came up with a price," Cupp says of one deal he worked on. "(The owner) was very pleased with the price. When he took it to his accountant, he was very discouraged by the amount of taxes he was going to have to pay and what the options were to try to reduce taxes from a capital gains standpoint. He chose not to pursue selling for that reason alone. He would have to give a lot of the proceeds back to Uncle Sam."

The process typically takes anywhere from three to six months to complete.

"The Lawn Dawg team in the course of their due diligence was very diligent, very, very diligent," Mann says. "They were able to rummage around and take the numbers that I gave them and look under the hood of my business and see how I was doing. When everything was all said and done, since they had done their due diligence and I had done mine, there weren't any surprises left for either one of us."

Seller

The seller, just like the buyer, must be prepared for when the right opportunity comes along.

People ask Edmonds when the right time is to sell their businesses.

"There's not a magic answer," Edmonds says.

Mello suggests having your business appraised at least every two years.

"Keep abreast of what's happening with the industry," he says. "You learn something from it. Every time you go through that due diligence process, you learn something about the business."

It's something every business owner can benefit from, even if they don't plan to sell their operations anytime soon.

"You want to figure out the value of the business and where you can make adjustments to make your business more valuable," Mello says. "If you get an appraisal like that and you know what your business is worth, if something ever happened to you, at least your heirs would know what the value of it was and where to go to sell it if they had to. It's good estate planning."

It helps keep business owners from being surprised.

"Everybody thinks their company is worth more than it is," Campanella says. "I'm guilty of that as well. I understand that because I've been on both sides of the table. You work so hard — you put your blood, sweat and tears into your company. You want to get the most for it. I show why it's worth what we're offering and why we're offering what we're offering, with good hard numbers, hard facts and what the industry average is. It's only worth what people will pay for it."

As we slowly emerge from this recession, Edmonds expects merger and acquisition activity to pick up.

"There's probably more energy toward deals right now than I've seen in three years," Edmonds said. "The phone's rung a lot, both from buyers and sellers. That's mostly a good thing."

And if yours is one of the companies that creates interest in a buyer, Mann has some advice.

"If someone comes to you with an offer, it's well worth your time to listen to them and give them your ear for a little while," Mann says. "It's worked out for me. In challenging economic times like this there is safety in numbers. It might be an excellent opportunity." LM

Bob Mann (left) joined Lawn Dawg when Jim Campanella purchased his company in 2009.

PHOTOS COURTESY: RON EDMONDS (TOP); LAWN DAWG