Deal continues despite shareholder reluctance

John Dere's proposed acquisition of LESCO represents the largest from a revenue standpoint in the equipment manufacturer's 170-year-old history. It also represents, perhaps, Deere's most important undertaking in its efforts to become a business partner to golf course superintendents and lawn and landscape contractors nationwide.

Decisions about the future branding of the combined company haven't been made yet.

Because the Deere/LESCO transaction won't be finalized until later this spring, executives at both companies couldn't reveal specific plans about the future of both companies. It's clear, though, LESCO and its 332 service centers and 125 Stores-on-Wheels will be moved under the John Deere Landscapes umbrella.

JDL has 300 locations throughout the United States and executives at Deere indicate the site overlap isn't significant. JDL is a distributor of irrigation, nursery stock, outdoor lighting and landscape supplies primarily to the installation and new construction markets. In contrast, LESCO mainly serves the maintenance side of the green business as a distributor of pesticides, fertilizers, seed and other soft goods. Deere views the purchase of LESCO as an opportunity to strengthen customer relationships by maintaining the properties their customers might only install currently.

As Deere integrates LESCO into its JDL locations and fulfills its vision of becoming a better business partner with its customers, a LESCO shareholder filed an appeal against the sale citing the price per share undervalues the intrinsic value of LESCO. The definitive merger agreement calls for the purchase of LESCO for $14.50 per common share in cash.

Hawkshaw Capital Management LLC owns more than 1.2 million shares of LESCO common stock, which is said to represent 13.6 percent of shares outstanding.

"LESCO's intrinsic value is significantly higher than what Deere & Co. is offering," says Frank Byrd, managing member of Hawkshaw in a prepared statement. "The proposed price of $14.50 at best captures the cost synergies available to Deere & Co. as a strategic acquirer, but fails to adequately compensate LESCO shareholders for a return to normal operating earnings and the value creation from continued expansion of the company's high return on capital retail service center business."

A recent 52-week period showed LESCO stock ranging from $6.70 to $18.17. It traded at $10 a share in February and listed at $14.40 the same month.

Last year, LESCO was rejuvenating its standing in the golf industry following a decision by previous management to eliminate field sales staff to reduce costs. The move backfired, costing sales in a business in which relationships play a key role.

The sale couldn't have come at a worse time – immediately following one of the worst operating years in LESCO's history, Hawkshaw says. Between lost sales, raw materials costs and restructuring, the company posted a $20-million year-end operating loss.

The issues that precipitated the stock's decline are temporary and largely fixable during the next two years, Byrd says.

Jeff Rutherford, LESCO's c.e.o., couldn't comment about the sale or the shareholder complaint, but says the company was scheduled to publish it's proxy earlier this month.

As the sale continues through shareholder and regulatory approval, Deere executives will work with distributors on both sides to determine to best way to deliver products and services to its customers.

"For our customers, this represents the joining of two great brands, innovation and quality built on strong customer service," says Gregg Breningmeyer, director of sales and marketing for John Deere Golf & Turf One Source. "The positive reaction we've heard from our customers and associates affirms why this makes sense. It's more resources for our customers and an expanded portfolio of goods and services than in the past."

No decisions have been made about future branding of the combined company; however, Breningmeyer says Stores-on-Wheels remain in its plans.

One Source is a work in progress, he adds.

"We don't want to be all things to all people," he says. "We want to find out what appeals to our customers and take advantage of what they want."

While there are redundancies between LESCO's Cleveland corporate headquarters and JDL's headquarters in Alpharetta, Ga., Breningmeyer says it's too soon to say whether LESCO's office will remain open. – *Cindy Code*