What's next for LandCARE?

LandCARE USA, INC., goes 'public' in its quest to acquire more landscape/tree service companies and become a national player

By RON HALL/ Managing Editor

What's next for LandCARE USA, Inc.? Owners of landscape and tree service companies across the United States are wondering this as LandCARE in May took the final steps to become a public company.

As LANDSCAPE MANAGEMENT magazine went to press, LandCARE, headquartered in Houston, TX, prepared to offer for sale 5 million shares of Common Stock . A successful offering means that LandCARE stock (proposed symbol GRW) will be traded on the New York Stock Exchange. It would also complete the merger of the seven founding companies into LandCARE (see sidebar), and provide the framework around which the company hopes to construct a national landscape/tree care empire.

LandCARE says that it intends to expand from its seven regional operations into a national company.

Its operating strategy is to:

▶ focus on commercial and institutional markets,

▶ operate on a decentralized basis.

Local management will retain responsibility for the day-to-day operations, profitability and internal growth of the business, achieve operating efficiencies by adopting "best practices" operating programs for its management information systems, recruiting and training, safety and risk management, sales training and human resource management.

"The company intends to implement an aggressive acquisition program focusing on entering new markets through significant acquisition as well as expanding within existing markets through acquisitions of smaller companies," says the document it filed with Securities and Exchange Commission (SEC). The strategy focuses on "the acquisition of numerous, relatively small companies."

"We're in the process of auditing the best management practices of existing companies," who may be prospective LandCARE partners, says Roger Braswell, president of Site Work Systems and Southern Tree and Landscape Company, Charlotte, NC.

"Chief Operating Officer Hal Cranston is working through that, to be certain that we're applying the best information across the board," Braswell adds.

"We're a little limited by the SEC [regulations] prior to the initial public offering," says Braswell, "but we've been pleased and excited with responses from the industry, from other entrepreneurs and potential partners."

LandCARE, because of its size, could conceivably have several advantages over

The seven founders of LandCARE

The seven founding members of LandCARE USA generated revenues of about $116.2 million in 1997 and $26.6 million the first three months of 1998, says the prospectus that LandCARE USA filed with the Securities Exchange Commission. About 75 percent of the company's revenues came from maintenance services, installations for about 25 percent.

The founding members, and their 1997 revenues:

Trees Inc., Houston, TX, $50.1 million (line clearing services in 13 states accounting for 96 percent of the revenues);

Four Seasons Landscape and Maintenance, Inc., Foster City, CA, $16.1 million;

Southern Tree & Landscape Co., Inc., Charlotte, NC, $14.2 million;

D.R. Church Landscape Co., Inc., Lombard, IL, $13.3 million;

Ground Control Landscaping, Inc., Orlando, FL, $9 million;

Arteka Corporation, Eden Prairie, MN, $7.4 million;

Desert Care Landscaping, Inc., Phoenix, AZ, $6.5 million.

For merging their companies into LandCARE the seven founding companies will receive a total of $27.2 million in cash and 5,162,645 shares of Common Stock, making the owners and officers of these "wholly-owned subsidiaries" the holders of at least 55.5 percent of shares of LandCARE's stock, according to the document filed with the SEC on May 6.

They will be paid out of the proceeds of the IPO of 5 million shares expected to sell for between $10-$12 per share. The company estimated the offering to raise about $55 million. □

smaller competitors. It would have more negotiating leverage in seeking volume discounts from vendors—everything from trucks to insurance. Its size and growing visibility would also be a plus in attracting new supervisory talent and, perhaps, in hiring and keeping laborers, particularly if it can improve on the skimpy benefits packages most laborers receive in the industry. The biggest advantage, however, might be the ties a national landscape/tree service company can build with regional and national commercial and institutional property owners or managers.

But, most of this is still ahead of the company. LandCARE, in spite of the hard-earned experience of its founding members, is still far from being a national powerhouse with just seven regional operations scattered across the country. There are strong independent competitors in every marketplace. But the biggest threat to LandCARE's expansion plans could come from companies like TruGreen/ChemLawn which is now branching into maintenance services and the several other large landscape or tree services that have operations across entire regions of the country.

LandCARE could gain a competitive advantage if it improves on the benefits packages most laborers receive in the industry.

Even so, Braswell says, there is an "incredible excitement" among the employees of LandCARE. "They've had a positive response to the entire concept, and to the potential to participate" in purchase of LandCARE stock. □

Terry McIver contributed to this story.

Don't fear consolidation, says Ross

Industry financial consultant Frank Ross thinks the consolidation in the landscape industry is "fantastic." He refers to the formation of LandCARE USA by its seven founding members.

"In the next three to five years, we're going to see billions of dollars coming into our industry. Most of it's real estate driven, coming from the public sector. That's great. We need capital," says Ross.

"[The landscape industry] has been a notoriously under-capitalized industry from day 1," explains Ross.

"When I talk to landscape contractors all across the country, it's not an issue of selling more or producing more. It's about cash flow, pricing, tracking, and making a profit."

In effect, says Ross, "business sense" has always been an industry weakness.

"And because the financial side is not on an equal plane with the production side, we tend to be an under-capitalized industry."

LandCARE USA's marketing strategy is to go after national corporate accounts.

"When they do that, don't you think by training those corporate accounts to higher expectations, those accounts are going to demand a higher level of professionalism? And what does that do to all of us? To compete, we have to match it."

All of this money flowing into the industry will bring the larger companies' costs down, according to Ross, who believes industry consolidation will help the industry save money in three areas: interest, insurance, and commodity buying.

"Let's take interest expense. How much is interest expense in relationship to revenue in your company; one percent, two percent? These roll-ups don't have debt, therefore interest goes away. So where does that interest fall? On the bottom line.

"How much does insurance in your organization cost? Eight percentage points of revenue? Do you think national buying of insurance is going to be able to economize on that? That's probably a savings, as far as revenue is concerned, of one-two percent. Where's that going to fall? On the bottom line.

"What about commodity buying on a national level? Do you think these organizations are just going to go after national accounts generate revenue? They're also going to go after equipment dealers and commodity dealers of material."

That national buying power will give those landscape companies another one to two percentage points on revenue.

"By coming into the roll-up in a profitable manner, and then being able to appreciate savings in three areas of cost will have 6-10 percentage points on sales to their bottom line should they choose to keep it. That's a lot. In many of our organizations, that's as much as we make in profit.

"You don't have anything to fear about anyone coming into your marketplace if you operate as well as they do, or better. "

Don't look for predatory pricing from these giants, assures Ross. It isn't part of their mission.

"When I think of predatory pricing, I think of pricing at a loss or a break even, to gain access to a market," says Ross.

"These guys aren't going to be pricing at a loss. They're still going to be pricing at a profit; not only did they have profit to begin with, but now, they've added to it."

Though very few companies will ever become part of a roll-up, Ross says the challenge is clear. Make it work, or make your way out. We've got to be a little bit better.

"We've got to become better business people."

Terry McIver