Who's consolidating?

TRUGREEN-CHEMLAWN /LANDCARE USA,

Memphis, TN—$650 million

By combining assets with Land-CARE USA, TG-CL currently ranks number one, with an annual revenue run rate of approximately $650 million. When the deal closes in mid-March, it will look like this:

Characteristics:

- Platform companies include highly successful and visible firms in their markets
- Operated by ServiceMaster Corp., referred to as "the next best thing to cash"
- Coverage in major Sun Belt and other northern metropolitan markets, building density in those markets with acquisitions of many tuck-ins
- Plans to take advantage of existing TG-CL operations, branch structure, marketing, integration methods

Target goals: $3 billion to $4 billion in commercial landscape services in five years

Looks for: Opportunities to build a complete one-stop shop for services on a national account basis, leverage existing operations, acquire leading platform and tuck-in firms

Questions:

▶ Even for a firm used to acquisitions, integration will be a large and complex task.

▶ Will this division develop a separate identity, reputation, customer focus than other areas of business? Platform companies' high-end commercial clients are not the same people buying chemical lawn care. And landscape contracting operations are very different from lawn care services.

ENVIRONMENTAL INDUSTRIES INC.,

Calabasas, CA—$450 million

Former number one in revenues. Established and respected, EII knows how to sell green industry services: landscape design/build, installation, maintenance, arbor care, golf course management.

Characteristics:

- Strong family orientation and traditions
- High profile and tenure in the industry
- Innovative and successful operation and service delivery systems
- Experience selling to large national/regional property management buyers
- U.S. Lawns franchises smaller landscape maintenance operations in many markets.

Target goals: Strong focus on internal growth for most operations, development of people, building stronger presence in key markets, building strong customer relationships

Looks for: Acquisitions limited to franchises of its U.S. Lawns division — usually smaller landscape maintenance firms or those in specific markets

Questions:

▶ How will EII react as consolidators bring new pressures to the markets they serve?

▶ Will EII get a head start as the consolidators learn to integrate?

▶ What new markets will EII enter?

THE BRICKMAN GROUP,

Langhorn, PA—$175 million

A recent infusion of venture capital, as well as top-notch financial and management input from investors and officers has put Brickman on the fast track. Aggressive growth plans and the means to accomplish it will mean more acquisitions and expansion into new markets.

Characteristics:

- Strong family orientation and traditions
- High profile and tenure in the industry
- Innovative and successful operations and service delivery systems
- Follows customers and builds growth in those markets

Target goals: More than 30% growth (5 to 15% through acquisitions), continue to build customer relationships, overcome bigness, build quality

Looks for: Companies up to $20 million in key markets

Questions:

▶ Will Brickman be able to incorporate expansion and continue to service customer relationships like it wants?

▶ What happens when its venture capital partners leave?

THE DAVEY TREE EXPERT COMPANY,

Kent, OH—$315 million

Davey wants to build on its strong and widespread arbor care and utility line-clearing businesses, in addition to growing its commercial landscape maintenance operations nationally. This also ties in logistically with the company's residential lawn care operations in many markets.

Characteristics:

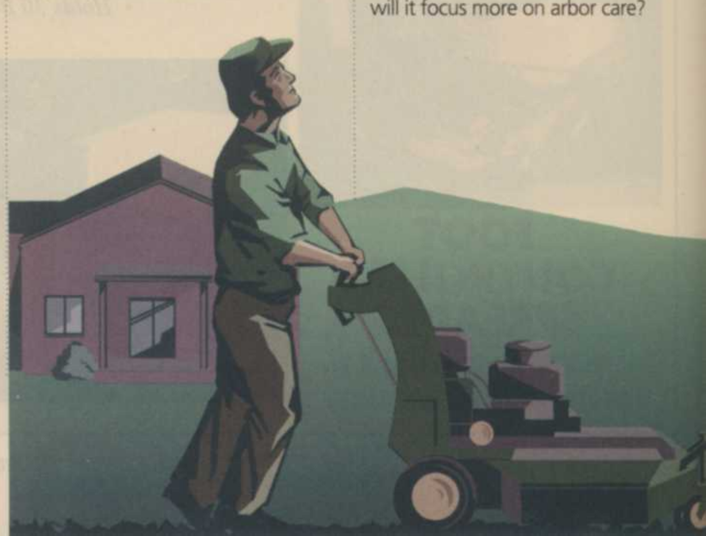
- Long-lived company with strong culture
- Internally generated initiatives in research, education and business development
- Slow-track acquisition mode — integrates new acquisitions carefully
- Experience selling and managing national and large regional property management accounts

Target goals: Growth rate of 8% to 12%, expansion in key residential tree care markets

Looks for: 1 to 3 tuck-in firms yearly, preferably high-end residential tree care experts

Questions:

▶ Will Davey venture into more commercial maintenance segments because of new consolidations, or will it focus more on arbor care?



GROWSCAPE LLC,

Houston, TX—$80 million

New rollup will soon announce its 6 to 12 founding companies. A "buy and build," it targets the same landscape-intensive markets as the rest, but with a vertical twist. This consolidation combines players across the whole green industry spectrum — nurseries, sod growers, garden products, landscape maintenance firms, tree care.

Characteristics:

- Principals are venture capitalists also consolidating in the telecommunications market.
- Expertise in business formation, management, consolidating systems

Target goals: Have a presence in top 25 to 30 metropolitan markets in four years, $250 to $300 million in revenues in the next 12 to 18 months.

Looks for:

- Company with a "specific niche" in the community
- Willingness to integrate to regional platform company

Tuck in: Annual revenue between $1 million and $5 million

Platform: Desirable location, good reputation, growth exceeding 15% /year, revenue between $5 million and $10 million, management to stay and grow business

Questions:

▶ Do the founders know enough about the green industry to make this work?

▶ Is vertical integration too complicated for buyers to handle?

▶ Are their expectations for performance realistic in this scenario?

RBI COMPANIES,

Littleton, CO—nearly $300 million

"Poof" rollup or equity capital offering to debut in June, consolidating various landscape management and construction firms west of the Mississippi. Not into rapid consolidation. Still mum on many details.

Characteristics:

- Point person is Rick Randall, CEO of RBI Companies, Littleton, CO
- Landscape industry focus with some vertical construction elements
- Located in six western states

Target goals: "Good, steady growth; good bottom line; good solid company; good work environment."

Looks for: Established firms, good matches, companies known to founding firms (yet to be announced)

Questions:

▶ Who are the founders and what exactly is their strategy?

▶ Again, will vertical consolidation be feasible?

GROUNDS CONTROL,

San Antonio, TX—$60 million

Parent company is Sanitors, Inc., with majority ownership by Summit Partners, venture capital firm, Boston, MA. Selective consolidation of janitorial contracting and landscape contracting firms to offer "bundled" package of interior/exterior services to commercial, institutional, retail and industrial clients.

Characteristics:

- Landscape acquisitions being handled by Al Honigblum, Grounds Control, San Antonio
- Emphasis on premium companies with "Class A" accounts and management with long tenure
- Locations in three states so far, with several janitorial and land scape acquisitions in pipeline

Target goals: Deliberate growth. Three to five years to build $250- to $300-million company before going public

Looks for: "We want as our partners quality companies that we also would be proud to compete against and the desire to take their business to the next level."

Questions:

▶ Differentiating Grounds Control objective from that of other consolidators, rollups

▶ Will trend of "bundling" of services continue to grow among commercial, institutional clients?

FIRSTSERVICE CORPORATION,

Toronto, Ontario—$275 million

Provides specialty property and business management services in Canada and the U.S. Offers full palette of services from landscape maintenance to security to property management.

Characteristics:

- $35 million in residential and commercial lawn, tree and shrub care and commercial maintenance services in Canada and Florida
- Manager of community associations in North America with '98 revenues of $110 million
- Provides residential and commercial landscape and tree maintenance services in Canada and Florida

Target goals: Grow EBITDA and revenue by 10% and add at least two acquisitions in 1999.

Looks for: Tuck-under firms in key markets to complement services to existing customers.

Questions:

▶ Will this firm become more active in its acquisition search?

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ONESOURCE,

Atlanta, GA—$790 million

Until Jan. 1999 known as ISS. Integrated services designed to fit property managers' needs, operating offices in 39 states. This company seems to tailor to the true property management buyer.

Characteristics:

- OneSource (formerly ISS) is largest operating part of BHI Corp., headquartered in Belize City, Belize, which acquired ISS in 1998
- Janitorial, cleaning services, pest control, landscape services to 10,000-customer base
- Ron Schmoyer is president of Landscape Division of OneSource. Landscape Division generated revenues of about $45 million in 1998
- Landscape branch offices in FLA, GA, VA, TN, and PA.

Target goals: Establish landscape presence in Midwest and West Coast

Looks for: Established firms that can be incorporated into OneSource philosophy of one-stop facility management services

Questions:

▶ Finding additional management to manage growth

▶ Fitting acquisitions into concept of single management culture

QUANTA SERVICES INC.

Houston, TX—$209 million

Rollup consolidation focused on servicing the electrical and telecommunications industries that has bought landscape contracting and utility line-clearing/arbor care firms in California.

Characteristics:

- Located mainly west of the Mississippi
- IPO on the New York Stock Exchange early in 1998

Target goals: Growth servicing its market sectors

Looks for: Acquisitions of firms servicing utilities and telecommunications customers, primarily for utility line-clearing operations.

Questions:

▶ Will it advance more into the arbor/vegetation management portion of the landscape industry? If so, how will this affect existing firms?

Walk the walk, talk the talk

You can understand the consolidators' strategies by understanding their language. Here are some of the key phrases to know.

Rollup — A consolidation that rolls-up into one combined operating unit.

'Poof' IPO — When consolidating companies merge on the day they go public — Poof! — the individual companies magically form one large public firm.

Beachhead, platform, geographic footprint — Consolidators love these military terms. They want a big presence in key markets.

Bolt-ons, tuck-ins — No, it's not plastic surgery. These smaller firms roll into "beachhead" firms to bring "density" to a market. These usually run $1 to $5 million in revenues.

BUYING:

Vulture capital — An unkind term describing private venture capitalists who invest for brief periods of time (2 to 5 years typically) to reap huge returns on their investments (upwards of 30%). Many are consolidators; others become one firm's strategic partners (see Brickman).

Due diligence — Buyers verify seller's information about the company, competition, customers and performance.

"Sniff test" — Due diligence + intuition.

"Missed the deal," "bad deal" — Due diligence turns up misunderstandings, fallout. You still own the company.

SELLING:

Exit strategy — Before you sell, get one. Decide what *you* want to do, then you'll have a plan.

EBITDA — Get used to this one: "Earnings before interest, taxes, depreciation and amortization." It's how investors see real value.

Addbacks — For once, you can forget Uncle Sam and get real about your expenses and earnings.