

BY DANIEL G. JACOBS MANAGING EDITOR

DEEP ROOTS

In business 130 years and counting, employee-owned **Davey Tree** serves as a case study on surviving and thriving in any economy.

EMPLOYEES OF The Davey Tree Expert Co. always have direct access to at least one of the company's owners. One can simply walk over to the nearest mirror and look the reflection squarely in the eye.

Since 1979, any full-time Davey Tree employee with at least 90 days of service is eligible to purchase stock in the 130-year-old, \$600-million-a-year business. Davey Tree is one of the largest and oldest ESOPs (employee stock ownership plans) in the country.

Granted, a heart-to-heart with the person in the mirror won't resolve all issues, but employee ownership is one reason the company has survived a dozen recessions and the Great Depression — and expects to handle the current recession without too many troubles.

"We essentially have 6,000 employee-owners," says Karl Warnke, chairman, president and CEO of the Kent, OH-based company. "Our company has really blossomed in great part because of employee ownership. We pride ourselves on strong internal leadership and have grown without direction from outside investors or partners who have equity or management interests in the company. The ESOP business model has served us well."

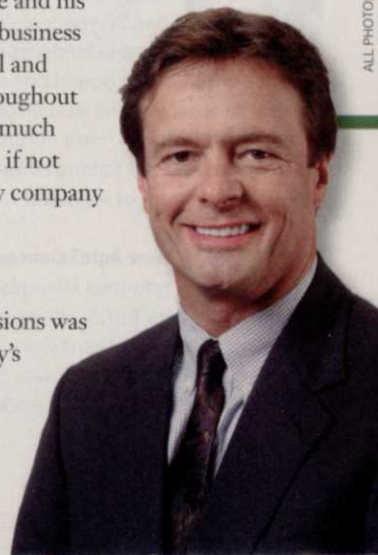
It's that combination of strong management and employee ownership that has allowed the company to develop deep roots that serve as a strong foundation on which to grow and support healthy branches throughout the country.

"Just having employee ownership is not the answer," Warnke says. "It's what those employees commit to and accomplish."


Employee ownership helps motivate staff, but it's also essential Warnke and his co-workers make savvy business decisions at the top level and communicate them throughout the company. "That, as much as employee ownership, if not more, is what makes any company successful," he says.

Balanced offerings

One of those good decisions was to diversify the company's offerings. As the company's name implies,



ALL PHOTOS COURTESY: THE DAVEY TREE EXPERT CO.

A large, mature tree is being moved by a crane. The tree is supported by a large, cylindrical structure wrapped in burlap. The crane is yellow and has a sign that says "DAVEY LARGE TREE MOVING". The scene is outdoors with a clear blue sky and other trees in the background.

Davey Tree ranked
No. 4 in our June
2009 LM 150.

« Just having **employee ownership** is not the answer. It's what those employees **commit to and accomplish.**

— **KARL WARNKE**, CHAIRMAN, PRESIDENT AND CEO

COVER STORY

it started as a tree care operation, and throughout the years added and subtracted services to find the right mix. Currently, the company comprises four major divisions: tree and lawn care services, commercial landscape services, utility services and the Davey Resource Group, which offers technical consulting to utility, commercial and municipal markets.

The mixing continues.

"We started working in '07 to change our business direction and reduce the emphasis on businesses that don't fit us," says George Gaumer, vice president and general manager of the commercial landscape services division.

The willingness to adjust services allows Davey Tree to focus on its strengths, offer just what's needed in a given part of the country and keep the company strong amid the ebb and flow of the economy.

For a while, the commercial landscape services division delved into the bid/build arena. But in past few years, Davey Tree has begun to downscale that part of its business.

"Right now, the landscape construction part of our business is struggling," Gaumer says. "It would have been good if we'd been able to downscale services to that segment two years earlier because it was going to do it to itself anyhow."

In any operation where struggles exist there are also opportunities.

"In the utility side of the business, while it could be perceived as a frustrating time, it's also an exciting time for us," says Steve Marshall, executive vice president. "Our acquisition of Wolf Tree has given us deeper penetration into the southeastern market. It also has provided a link between our eastern and western utility operations and given us a better ability to service our customers. It provides increased mobility and diversity."

It also gives the company strength.

"Our four divisions are like auto-

» If one of our divisions slips a little, another one makes up for it.

— **GEORGE GAUMER**, VP & GM,
COMMERCIAL LANDSCAPE
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mous companies within this corporate container," Gaumer says. "We're four independent organizations, each with our own set of plans, goals and strategies. It's because of that, there's strength. I don't think any of the four divisions has ever had a banner year at the same time. If one of our divisions slips a little, another one makes up for it."

Seeking opportunity

An economic recession isn't preventing Davey Tree from looking at all avenues for growth. The company keeps a close eye on, and has improved, its balance sheet — even since last year. But that doesn't mean the company won't act if the right opportunity presents itself.

"We're \$15 million better off than we were last year at this time," Warnke says. "We're paying off debt despite the economic situation. We're focusing on our cash management. We've curtailed our capital spending for equipment; however, we're continuing to seek out acquisition candidates."

Such attention to detail means the company can survive the current economic crisis and be in prime position when the turnaround comes.

"The greatest opportunity we have is positioning the company in such a way that we'll be able to gain and exploit opportunities more so than anybody else in our industry,"



While most landscape contractors experienced significant revenue declines in 2008, Davey Tree topped its 2007 sales by 18.5% — growing its business nearly \$94 million last year.

Warnke says. "Financially, we'll be as strong or stronger than anybody, including the biggest companies in the industry.

"We're in a more prolonged situation, but our management team is optimistic. We know we can get through this," he adds. "I'm optimistic, too — although sometimes it hurts to know so much of what's happening to you isn't your fault."

But Warnke and his team don't dwell on what they can't control.

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COVER STORY

"Without question, the biggest challenge is trying to control that which is difficult to control — the marketplaces in the residential and commercial segments," Warnke says. "How do we affect our customers and prospects? How do we affect their buying decisions? How do we encourage them to spend? That's the toughest challenge."

The company must be doing something right. In 2008, when some larger companies were headed toward bankruptcy and several smaller ones disappeared, the value of Davey Tree's stock increased 3.8%. Most executives would be happy with that. Not Warnke.

"How many companies do you know that *increased* their stock values 3.8% in

2008?" he says. "However, because our stock value *had* been averaging 17% annual growth since we became an ESOP, the valuation was painful."

The stock valuation also hurt because the company had one of its best years ever, Warnke says.

In 2008, Davey Tree merged with The Care of Trees and acquired Wolf Tree. And hurricanes Ike and Gustav led to one of the largest storm responses in company history generating significant unanticipated revenue. The company ended the year with its second-highest operating profit percentage since becoming an ESOP.

Managing the company

Even with growth in 2008, Warnke and his team are taking a cautious approach to the rest of 2009 and beyond.

EMPLOYEE OWNERSHIP

It was the late 1970s. The family members who owned the then-\$52 million The Davey Tree Expert Co. were in their 60s and 70s and had no heirs prepared to take the reins. So a few members of the executive team put together a plan for the employees to buy the company.

"They had to get the employees to come up with a down payment to be able to finance the rest," says George Gaumer, vice president and general manager of the commercial landscape services division. "It was touch and go. There were 113 employees who were part of that initial acquisition."

Of those 113 employees, of which Gaumer was one, nine still work for the company. Those original employee-owners, and those who have come along since, have averaged a 17.1% annual rate of return on their

Davey Tree has about 6,000 employee-owners.



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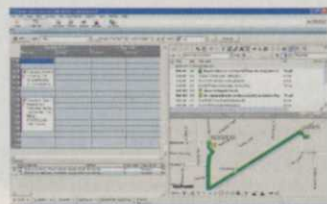
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Davey is renown for its tree care but provides a host of other services.



investments throughout the years.

"I love to beat the markets," says Karl Warnke, chairman, president and CEO. "I love to see privately held companies lay one on the public markets. As they continue to decline, we've outperformed them by a long shot. I love to see our stock go up. I like to see hard-working people — a lot of whom are overachievers — find success financially and in their careers. That's the biggest driver I have."

Warnke has had a lot to be happy about. Take two investors in 1979, the year Davey Tree became employee owned. One, a Davey Tree employee invests \$100 in the company's stock. The second investor puts the same amount into an S&P Index fund. Both reinvest their dividends. In 2008, the S&P investor's stock would be worth \$2,284, while the Davey Tree employee's investment would be worth five times as much — \$12,518.



"We're going to come out of this recession the same way we went into it," Warnke says. "You're not going to see it. You're not going to feel it. It's going to be painfully slow. We're going to be in this recession all this year. And it is going to have a lingering effect into 2010."

Like most companies, Davey

Tree has had to cut costs, including not hiring back many seasonal workers and laying off other employees.

"People say you can't cost-cut your way into profitability," Warnke says. "That doesn't make any business sense. We're attacking the cost and revenue sides — building business is equally important — in a number of ways."



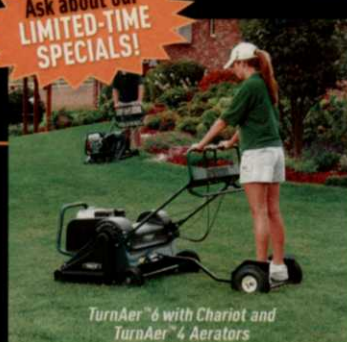
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PLANTING THE SEEDS

John Davey came from England in the latter part of the 19th century and worked as a cemetery grounds manager where he developed a passion for large-tree preservation. It's that passion that developed into the \$600-million-a-year enterprise known as The Davey Tree Expert Co.

It'd be easy to understand why Karl Warnke, Davey Tree's chairman, president and CEO, might feel a little intimidated walking into the office every day. An economy that grows like an unwatered sapling and no rain in sight might give any executive pause. Add to that the remains of the com-



Founder John Davey passionately preserved trees.

pany founder resting in a cemetery plot across the street from the Kent, OH, headquarters of the 130-year-old company.

Still not enough? In the lobby of the company's headquarters hangs a portrait of Martin Luther Davey, Sr., the founder's son, who not only ran the company for 36 years, but also ran the state for two terms as Ohio's governor (as well as served as Kent's mayor and a member of the U.S. House of Representatives.)

"Once in a while, I think about it," Warnke admits. "It almost becomes overwhelming. I intentionally try not to think about that. I think about what we see, what's in front of us, what our opportunities are going forward, and treat it as though it's just a crusade to make Davey Tree — whatever size it is today — bigger, better and more profitable tomorrow."

That takes constant focus by everyone from Warnke down to the employees in the field.

"The biggest change is in the way we manage," Marshall says.

"We monitor our activities weekly and daily," he adds. "Each business unit has to understand where they are in achieving their goals. It's important we're on time to meet the expectations of our pricing."

When the management team does its job and employees in the back office and field are doing their work, Davey Tree isn't just a top Green Industry operation, it's as good as any enterprise, anywhere, Warnke boasts.

"Our company can compete with any company, in any industry, in terms of financial performance and financial and personal rewards for employees," Warnke says.

"That's a feel-good thing," he concludes. "We don't have to be dictated to by a majority shareholder or institutional shareholders or anybody else. That's exciting. That's why we get up and go to work every day." LM



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