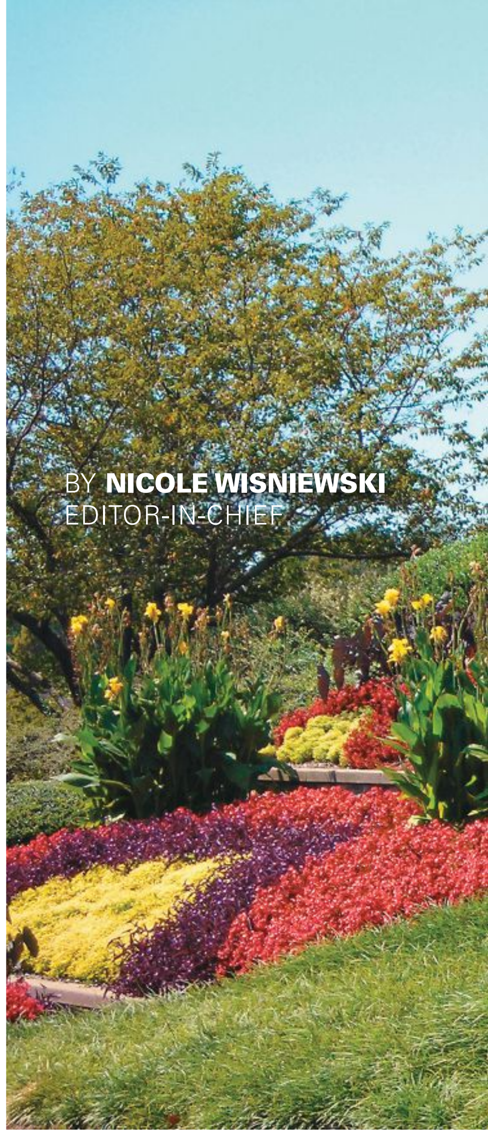
BUY & BUILD

Yellowstone's focus proves to be its greatest strength.



BY **NICOLE WISNIEWSKI**
EDITOR-IN-CHIEF

WHEN GRIDIRON Capital-backed Yellowstone Landscape Group first debuted in 2008 with the acquisitions of Houston's BIO Landscape & Maintenance, Atlanta's Piedmont Landscape Contractors and Bunnell, FL's Austin Outdoor, it had a specific focus: "Create regional platforms that didn't compete with Brickman and ValleyCrest on a national level but competed well with them in a tight geographic region. Buy good brands in local markets and bring value to the table by creating infrastructure to accelerate and support organic growth and providing capital to do acquisitions," explains Owen Tharrington, principal of private equity firm Gridiron.

The purchase of these three companies — $19 million BIO, $30 million Piedmont and $42 million Austin Outdoor (as reported in the *LM*100 list at the time) — was to create critical mass out of the gate, giving them an instant industry presence. Then those three companies were charged with growing organically and making additional acquisitions in their respective markets. By 2010, they were No. 11 on the LM150 list with more than $80 million in revenue.

While Austin was predominantly commercial maintenance, BIO and Piedmont had more design/build in their service portfolios. Though based in a tight geographic spread across the Sunbelt states of Texas, Arkansas, Mississippi, Alabama, Tennessee, Florida, Georgia, the Carolinas and the Bahamas, this was enough diversification to counter economic challenges during the recession — even with that bit of design/build in the mix. "We had planned on the construction business trending downward, not jumping off of a cliff," Tharrington says. "We focused the companies on building their maintenance business from day one and had just enough geographic diversity to have balance in a tough economy."

While the economy's total effect on design/build hit many businesses, it was also a reminder for Yellowstone, which is now altogether 80% maintenance. "If the economy were better we might have been more inclined to keep expanding beyond what we laid out in our original business plan," Tharrington says, explaining they could have acquired more companies in new states that may have veered from their core focus. "Now, we say here's what we set out to do, let's focus on this and not get distracted chasing what might be a good deal in an area in which we're not yet established."

And this eagle eye focus on its core goals is proving to be Yellowstone's greatest strength.

Shared business intelligence

Contrary to popular belief, Yellowstone's plan isn't all about acquisitions.

"We've passed up some opportunities because we were unwilling to grow for the sake of growing," says Edward Schatz Jr., president, Yellowstone's Southeast Region, and founder of Austin Outdoor in 1994. "We want profitable growth."

PHOTO COURTESY: YELLOWSTONE LANDSCAPE GROUP

Today, Yellowstone Landscape Business is an overall 80% maintenance company, with a large focus on commercial properties.

Tharrington agrees. In today's economy, "maintenance is stable — it's not explosive growth, but it's solid, steady growth that brings good cash flow," he says. "If you have a good base of business in an industry that's so fragmented like the Green Industry, that leaves you opportunity to grow organically, set up branches in new local markets and upsell enhancement work at good margins.

"And if we also get an acquisition done in that market, that's great — it's gravy," he adds.

A good example comes with Yellowstone's initial Texas-based acquisition BIO. BIO's founder and president of Yellowstone's Southwest Region Robert Taylor is looking at $38 million in revenue in 2010 — more than doubling in size after selling to Yellowstone at $17 million in 2008. The majority of that growth was organic ($11 million) with $10 million coming from acquisitions. The driver was growing the sales team from two to 15 people, Taylor says. "The goal I set when we sold was I wanted to be at $50 million by the year 2013, and we're on track."

When acquiring companies, Yellowstone has stuck to its mission — "local knowledge and focus with a national presence," Schatz describes. This means acquiring people in addition to companies. "Yellowstone buys companies where the owners want to stay on board and remain engaged, bringing their own strengths in operations or sales to the organization," Tharrington explains. "We haven't done a deal yet where the owner hasn't come to work for us."

To create infrastructure, Yellowstone, the holding company, has relied on people with experience outside of the industry to bring a new perspective to operations at its three operating companies in historically challenging areas for landscape business owners, namely finance, IT, HR, acquisitions and other business management support. The company's CEO John Miller is one example. He's worked for General Motors, General Electric and telecommunications and renewable energy businesses. CFO Cork Van Den Handel also has more then 30 years of experience in finance and engineering. Even BIO's Taylor brought outside industry experience to the organization with a history as an accounting exec at Exxon before he started BIO in the 1980s. "We create value by identifying areas of improvement and bringing business best practices to the table," Tharrington says.

This is something they call "shared business intelligence" or "support that brings a fresh perspective, yet still let's you operate solo," Taylor says. "You come up with a strategy and decide how much you can grow organically and how much will come from acquisitions and you build a plan. But you also have some direction — instead of being a small boat bobbing in the ocean, you're an ocean liner charting a careful course."

Long-term focus

Just like any other business today, Yellowstone has had to battle the challenges that come with recession.

In Florida, for instance, "it feels like no one can call the bottom but it seems to have slowed down to the point where we're starting to see incremental improvements in certain areas," Schatz explains. "Florida is so overbuilt and there's so much lagging inventory. During the past three years, we've been dealing with service reductions and becoming more efficient so we can still deliver on the expectations of clients."

Tharrington "can't imagine the industry can get much worse than it's been the past 18 to 24 months. "It's somewhat energizing to know we've gotten through the worst of it. The management team is

continued on page 26

continued from page 25
still motivated, and if we can get a tailwind from the economy, the hard work we put in the past 18 to 24 months will pay off in terms of having picked up marketshare, improved operations and streamlined systems. If you take corrective measures when things are down, you rebound much quicker."

But at the end of the day, an investment isn't a successful one until the money is in the bank, Tharrington says. "We're focused on our end goal: creating a significant, regional landscape maintenance organization with an established leadership team and good business practices that should be attractive to a strategic or financial buyer."

And to achieve this takes long-term focus, which is a natural part of the commercial maintenance game plan. "Maintenance is a much harder business to grow compared to design/build," Tharrington says. "The sales cycle is longer with annual or multi-year contracts. If you're targeting a specific property, that work doesn't always come up for bid very often, especially if the existing service provider is doing a good job. You have to keep account attrition low to grow the business. So, as an investor, you can't expect to get in and out very quickly.

"We were unwilling to grow for the sake of growing. We want profitable growth." — ED SCHATZ

In 2011, "we are starting to see signs of an economic recovery, and the improvements we've made to the business over the past three years are paying off," Tharrington adds. "Plus, the lending and economic markets haven't killed mergers & acquisitions activity, and we have plenty of capital." LM

POWERED BY DELL

The largest family business in the industry is backed by the largest family investment firm in the country.

BY **NICOLE WISNIEWSKI**

IN DECEMBER 2010, two name brands in Florida landscape maintenance ($34.5 million, Longwood-based Nanak's Landscaping and $12.5 million, Oldsmar-based Raymow Enterprises) merged with Calabasas, CA-based ValleyCrest Cos. Combined, the deals increased the size of ValleyCrest Landscape Maintenance 10%; the company now employs more than 3,100 people in the state.

But what does this acquisition show above all else? According to Brian Corbett, managing partner of Atlanta-based CCG Advisors, "it shows that MSD Capital is committed to continuing to help ValleyCrest grow with the focus on acquiring exclusively maintenance businesses."

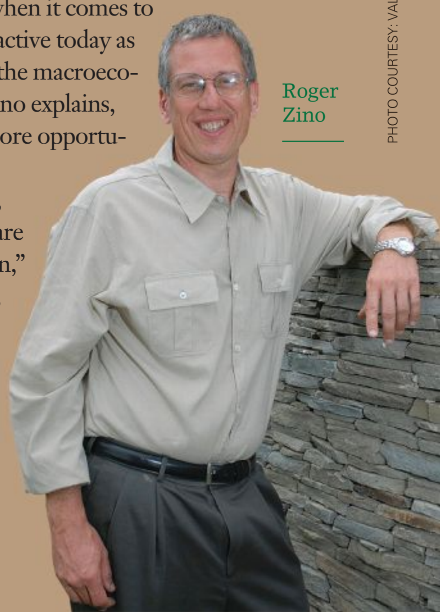
MSD Capital is the firm computer mogul Michael S. Dell created to manage the majority of his fortune. MSD Capital bought 51% of ValleyCrest Cos. in 2006 and has an estimated $17 billion fortune that is spread across a diverse portfolio of companies, including restaurants, car-related companies and landscaping, as reported in *The New York Times* in November 2009. "MSD Capital has set a pattern of jumping into consolidated markets and using its capital to give one player an edge in scale and efficiency," *The New York Times* reported.

And Dell's investment in ValleyCrest has done well. "Despite the roughest economy in decades, ValleyCrest … is growing, as it has historically, by about 12% a year," *The New York Times* explained.

These most recent acquisitions by ValleyCrest in Florida also show the company's focus on design/build is changing when it comes to buying businesses. "Design/build is not as attractive today as it once was from an investment standpoint — the macroeconomics aren't as healthy as they once were," Zino explains, adding the company's acquisition strategy is more opportunistic than planned.

It also gives hope to landscaping in Florida, one of the first states hit by recession. "There are pockets of Florida now coming out of recession," Corbett says. "Construction in Florida is dead, but maintenance is still strong."

As Zino says, "the landscape is not a static thing — it's a living, breathing organism that needs maintained. And, luckily, trees and turf don't read *The Wall Street Journal* — they're still growing." LM



Roger Zino

PHOTO COURTESY: VALLEYCREST COS.