By **Beth Geraci** / Senior Editor

Playing their cards right

Landscape professionals are taking their time on the M&A front, strategically crafting their next moves instead of taking risks.

With the economy still resting on a slowly spinning axis and with recent changes at the top for some of the Green Industry's largest players, a blockbuster merger in 2013 would come as a surprise, consultants say.

But that doesn't mean businesses are sitting idle, either. The mergers and acquisitions (M&A) market simply is trending toward more small and mid-sized deals. And behind those deals is a greater amount of scrutiny and wisdom than in past times.

Ruppert Landscape, based in Laytonsville, Md., has made three acquisitions in the last four months. Among them, Raleigh, N.C.-based commercial grounds management companies Eco Scapes and New River Landscape, and site development project management firm the Watchman Group out of Kensington, Md.

The first two acquisitions have led Ruppert to grow by about $1.8 million and have brought it outlets for more diverse services, says company President Chris Davitt. The Watchman Group acquisition, meanwhile, will bring Ruppert millions of dollars more in opportunities.

With its Raleigh buy-ups, Ruppert acquired businesses that already were well established in the local market, giving it a foothold in the city and putting its Raleigh branch in the fast lane to profitability.

"It's gotten us to size a lot sooner, it's gotten us a group of partners who know the market and we now have more jobs to use as references," says Davitt.

Raleigh is a strong market now for a couple reasons, says Ron Edmonds, a consultant at the Principium Group. "Not only is there built-in growth, but also in markets that are expanding, the competitive fire might not be as severe," he says.

Being more selective

Before making its newest moves, Ruppert hadn't made an acquisition in six years. And though it's become more active lately, Davitt says it looks at eight or nine companies for every deal it strikes.

Edmonds says that selectiveness is in line with what he's observed in the last couple years. "The predominant trend is playing it safe," he says. "The process of acquiring companies is very disciplined now."

Jeff Harkness, a landscape management consultant with 3PG Consulting, agrees, saying buyers' due diligence is more focused today. "Buyers are more detailed and cautious in their analysis of a company," he says, adding they're taking a closer look at everything from job pricing to equipment condition.

Harkness also sees more discipline on the side of sellers. "Selling your business is becoming much more strategic," he says. "You really plan for it over a 12- to 36-month period, if you're wise. If you're waking up and saying, 'I want out of this,' it becomes more of a liquidation at that point."

To bring stability to the company during the transition, buyers are asking sellers to stay involved in the business longer, Harkness says. So, sellers need to be prepared for employment agreements that keep them in the business for two or three years after the sale. "The days of taking money and heading to the beach are over," he says.

Like Ruppert, Denver-based Swingle Lawn, Tree and Landscape Care looks at several companies for every deal it strikes. It made its most recent move in August, when it purchased Saratoga Ventures, a lawn services company in Boulder/Longmont, Colo.

Practicing patience and making the right buy is crucial, says Swingle CEO Tom Tolkacz. "The right acquisition enables us to eliminate a competitor and bring density to routes," he says. "It also demonstrates to staff and customers Swingle's commitment to growing the company."

Edmonds believes the market will remain disciplined for the foreseeable future. "I doubt we'll see a big change in it anytime soon," he observes. "Nobody wants to repeat mistakes."

Lessons learned is one reason for the discretion; the economy is another, says Kevin Kehoe, consultant at 3PG Group. "People's appetite for taking risks is lower, and their profits are lower," he says.

"I think people will rest on their pain a little bit more—not rest on their laurels but rest on their pain," he adds. "They're looking at their house in a good neighborhood and can't sell it right now. I think the real estate industry right now is a good analogy for the landscape industry."

Deals to learn from

Edmonds says he sees M&A movement most among mid-sized landscape companies and that more buyers and sellers are emerging from the recession. Among 2012's most notable transactions, Edmonds says, is Austin Outdoor's acquisition of Cornerstone Solutions Group's maintenance operations in Florida and McKinney Capital's investment in Landscape Workshop, Alabama's largest landscape company.

"I believe there are several groups looking to do the exact same thing as McKinney in other markets," Edmonds says. "I could see that kind of thing working in other areas that have long-term positive economic outlooks, such as Austin, Raleigh and Nashville. Those are all markets that attract attention."

2013 predictions

Former CoCal Landscape co-owner Tom Fochtman now owns Arvada, Colo.-based consulting firm Ceibass Venture Partners, which helps prepare Green Industry owners to sell their companies. Fochtman says he is observing interest in the landscape business among private equity firms and wouldn't be surprised if in 2013 they begin investing in landscape companies in a larger way.

Fochtman predicts firms will invest in the lawn care, irrigation and commercial landscape maintenance sides of this business.

"They like the reoccurring revenue part of the landscape maintenance business model and the predictability of the service side of our industry," he says.

While Fochtman theorizes about potential interest among private equity companies in 2013, Edmonds says people can expect to see more regional transactions and activity among lawn care businesses.

But today's sales are driven not so much by a rebounding economy as by retirement-ready owners looking for an exit.

"They've waited out the economy for quite a while, and now people are tired of waiting," says Edmonds. LM

At a glance: **GREEN INDUSTRY M&A**

GOOD People can expect to see many deals involving small and mid-sized companies in 2013, and things will heat up regionally.

BAD M&A activity in 2012 to 2013 will be driven not by a strengthening economy, but by the fact that people are just tired of waiting.

UGLY A seller's market is still two to four years away.