

M&A OUTLOOK

Eyeing their moves

Green Industry buyers and sellers aren't making many moves just yet.

By **SARAH PFLEDDERER** / Associate Editor

The mergers and acquisitions (M&A) market has been the equivalent of an ever-long chess game for the Green Industry in 2013. Buyers and sellers are simply strategizing and waiting to make a move before yearend—or in some circumstances make no move at all.

For this reason, M&A activity has been relatively low, consultants say, but they caution to “stay tuned” for an upswing in activity the remainder of the year and trickling into the next.

Jeff Harkness, partner with the 3PG Group, credited looming costs of Obamacare, a rise in workers' comp rates and immigration concerns that could affect the H-2B guest-worker visa program as reasons for companies moving at a sluggish pace on transactions.

“We're not seeing companies or acquisition targets that have fantastic earning numbers,” he says. “We're still not in an environment where we can go charge more to the customer.”

Harkness says it's small- to medium-sized companies that have been the most active this year.

Landscapes USA, for instance, acquired Peach Tree Landscapes, based in Nashville, Tenn., in June for an undisclosed sum. The company has completed an acquisition every year in the last four years, accruing seven locations.

“They're certainly becoming more visible, and it wouldn't surprise me if they did more deals,” says Ron Edmonds, president of the Principium Group. He adds it seems the company's growth has been “intentionally kept below the radar screen.”

The strategists

Other companies' growth schemes, however, are making headlines.

Leonard Green & Partners is preparing for a \$1.5 billion sale of The Brickman Group, Reuters reported in mid-August. The Los Angeles-based private equity firm acquired a majority stake in Gaithersburg, Md.-based Brickman in 2007.

“It's conceivable that a transaction could get done by the end of the year, but that would be very quick,” Edmonds says. “A lot of it depends on who is interested.”

Edmonds points to private equity firms and large facility service companies with smaller landscape divisions as prospective buyers.

Those types of companies, he says, have been most active in strategizing this year.

Other major Green Industry players ValleyCrest Landscape Cos., based in Calabasas, Calif., and Memphis, Tenn.-based TruGreen have been directing their attention toward internal restructuring instead of expansion, consultants say. Meanwhile, Scotts Lawn-Service, based in Marysville, Ohio, has indicated it's looking for acquisition targets and has been buying back well performing franchise locations, *Landscape Management* reported in September.

Brian Corbett, managing partner at CCG Advisors, says there are a number of private equity groups with

investments in the Green Industry possibly interested in making M&A transactions.

Those most notable include:

- L2 Capital Partners, with investments in MERIT Service Solutions (formerly Lipinski Outdoor Services), Marlton, N.J.;
- Gridiron Capital, with investments in Yellowstone Landscape Group with several locations in the South;
- Progress Equity Partners, with investments in Terracare Associates, Littleton, Colo.; and
- McKinney Capital, with investments in Landscape Workshop, based in Bessemer, Ala.

He also listed facility services companies with smaller landscape divisions he anticipates will make moves, including Norwalk, Conn.-based EMCOR Group, which owns U.S. Maintenance, and ABM Industries, which owns OneSource Services, based in Tampa, Fla.

“One would assume they would either begin looking to grow, including via acquisition, or it would seem to make sense they might look to spin off what are obviously not core operations,” Corbett says.

In August, facility services firm ISS Group chose to spin off when it sold the California portion of its landscaping division, Grounds Control, to Four Seasons Landscape and Properties Services, based in Santa Clarita, Calif.

Trends: The downslope and the upslope

On the sellers-end of the market, Edmonds says, for small- to medium-sized companies looking to sell, the market is more in their favor than past years.

“As some \$5 million to \$10 million companies are stronger coming out of the recession and a little bit more confident in the economy, they’re interested in making acquisitions,” he says. “The odds for those kinds of businesses have increased significantly.”

Another foreseeable trend is an increase in employee stock ownership plans (ESOP) as opposed to M&A transactions, Corbett says. He attributes the projection to a raise in the capital gains tax.

ESOPs create a retirement plan for employees that acquire stock from the owners, allowing owners to sell interest to employees. Some plans also allow employers to take money out on a tax-advantaged basis through investment banking-led financial transactions.

“This is called a leveraged ESOP and has been utilized by many companies in the market, especially

those who are not an ideal fit for the strategic buyers,” Corbett says.

Companies such as Sunflower Landscaping & Maintenance, Delray Beach, Fla.; The Groundskeeper, Tucson, Ariz.; AAA Landscape, Phoenix; and The Greenery, Hilton Head Island, S.C.; are engaged in ESOPs, he says.

On the downslope as a substitute for M&As are partnerships, Harkness says.

While alliances, such as the one formed between The Bruce Co. of Wis., and Reliable Property Services, based in St. Paul, Minn., may have shown promise at the beginning of the year, Harkness says the 3PG Group discourages them.

“We’ve undone more partnerships than encouraged partnerships,” he says.

The Bruce Co. and Reliable’s partnership allows the companies to remain separate entities but share operations. For example, Reliable took over golf course maintenance operations, yet The Bruce Co. continues to oversee its own golf course construction operations.

“You really have to have some good personal and financial synergy to make it work,” Edmonds says, echoing Harkness’ insights on partnerships.

Something the industry won’t see changing, Edmonds concludes, is the unbalanced amount of buyers versus sellers.

“There are always more buyers than sellers,” he says. “It’s rare that a business owner in this industry started their business with the idea of wanting to sell it. They’re in it because it’s what they want to do; they have a passion for it.” LM

AT A GLANCE

+ POSITIVE

Immigration and H-2B reform, health care requirements and a rise in workers’ comp rates are causing uncertainty, resulting in less M&A activity.

Despite sluggish M&A activity in 2013, market watchers say to “stay tuned” for an uptick.

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