Griffin embraces Audubon program

COLD SPRING, KY — Griffin Industries, based here, has registered 22 of its facilities throughout the United States in the Audubon Cooperative Sanctuary System's (ACSS) Corporate and Business Certification Program.

The ACSP for Businesses is similar to the Sanctuary Program for golf courses. Businesses are certified in 5 areas: environmental planning, wildlife and habitat management, outreach and education, resource conservation and waste management. Of the 93 businesses registered in the ACSP, 11 have reached full certification so far. Over half of the fully certified businesses are Griffin facilities. Griffin Industries is the maker of Nature Safe Natural and Organic Fertilizers.

Evergreen funds continue to grow

RALEIGH, NC— John Deere donated $25,000 to the Evergreen Fund (formerly known as the PLCAA Education & Research Foundation) which is promoting greenways and a national greenway system.

Green industry associations are working with the Evergreen Foundation to

form a Green Industry Coordinating Group. When a greenway project is approved, associations can ask members in the geographical area to volunteer time and services, donate equipment and materials and provide other kinds of assistance.

Part of the John Deere contribution will help fund a Greenways Archive at North Carolina State, bringing together many sources of information and making the information accessible through the Internet.

The Evergreen Foundation is at 1000 Johnson Ferry Road NE, Ste. C-135, Marietta, GA 30068-2112. Call Betsy Demoret at 770/977-5222 for more information.

Make consolidation work for you...

first of a three-part series

New players, new rules

Consolidation in the landscape industry is here to stay. How you respond is what counts.

LM STAFF REPORT

Consolidation, mergers and acquisitions, and even popularity on Wall Street aren't new to the green industry, but the dollars available for investment in our market is new. Before this year's end, there may be upwards of a billion dollars or more invested in landscape and related services.

A similar trend of growth in the late 1960s and early 1970s encouraged several firms to go public. According to Burton Sperber, president, CEO and founder of Environmental Industries Inc., Calabasas, CA, that was the time that "Wall Street investment analysts discovered the potential of the landscape industry." EII, The Toro Company, American Garden Products in Boston, Leisure Gardens in Texas and Bonanza Steakhouse of Dallas (which owned Lambert's Landscape) all went public.

Few of those are around today, he notes. EII bought back its stock and went private again. Only Toro is still a public company.

Maybe the time just wasn't right. The industry fragmented again into small, medium and large regional firms handling a variety of lawn, landscape maintenance, design/build, tree, irrigation and related services. Until 1997, the largest industry companies included Asplundh Tree Expert Company, the Davey Tree Expert Company, EII, The Brickman Group, the F.A. Bartlett Tree Expert Co. and TruGreen-ChemLawn.

Big-ticket buyers

According to James Hermann, M&A Advisor with The Geneva Companies, Irvine, CA, the United States is on the crest of a consolidation wave last seen in this powerful form in the 1890s. Some experts estimate "trillions" of dollars are available in the market searching for growing firms. Reports that green industry firms typically grow faster than the stock market are music to investors' ears.

What's driving consolidation

So why are all the dollars heading your way? There are a number of trends that contribute to the consolidation movement:

Economic boom. It may have been the Asian economic crisis, America's long-standing bull market, consistently low interest rates and low levels of inflation or just creative financiers looking for a new glamour stock, but someone became interested in the green industry as a serious, lucrative source of growth.

Formation of REITs. The same economic growth that has driven the economy also contributed to the formation of real estate investment trusts (REITs), where investors purchase real estate for high return on their investment. Is this important to the green industry? You bet. According to Hal Cranston, president and CEO of LandCare USA, half of all multifamily developments in the United States will be owned by REITs by the year 2005.

Related industry consolidations. Close on the heels of the REITs trend are consolidations in industries serving real estate: builders, contractors, roofing, plumbing companies, HVAC, etc.

Make a killing on fragmentation. The stunning impact of unifying a fragmented group of companies into powerful, national service firms has tremendous potential to be profitable.

Economies of scale. For the past few years, the trend in consolidation has accelerated to the point that you can hardly turn on the television without hearing about a new mega-merger which is consolidating an industry: automotives, banking, telecommunications, internet, even publishing. It makes economic sense for many industries to consolidate, use their resources more efficiently and get strategic advantage from natural economies of scale.

Great economic outlook. Cranston and others point to studies documenting the value of landscaping, municipalities requiring landscaped open areas in new building developments, the trend toward outsourcing and overall economic growth that spurs new construction as factors influencing consolidation.

Miscellaneous benefits. Consolidators point out that the new, widespread organizations will offer better employee benefits and career opportunities, more professional operations, more sophisticated marketing, comprehensive services for large regional and national clients and opportunities for additional business with other corporate divisions (TruGreen/ChemLawn lawn care, for example) or within certain market segments (golf course management, growers, property managers).

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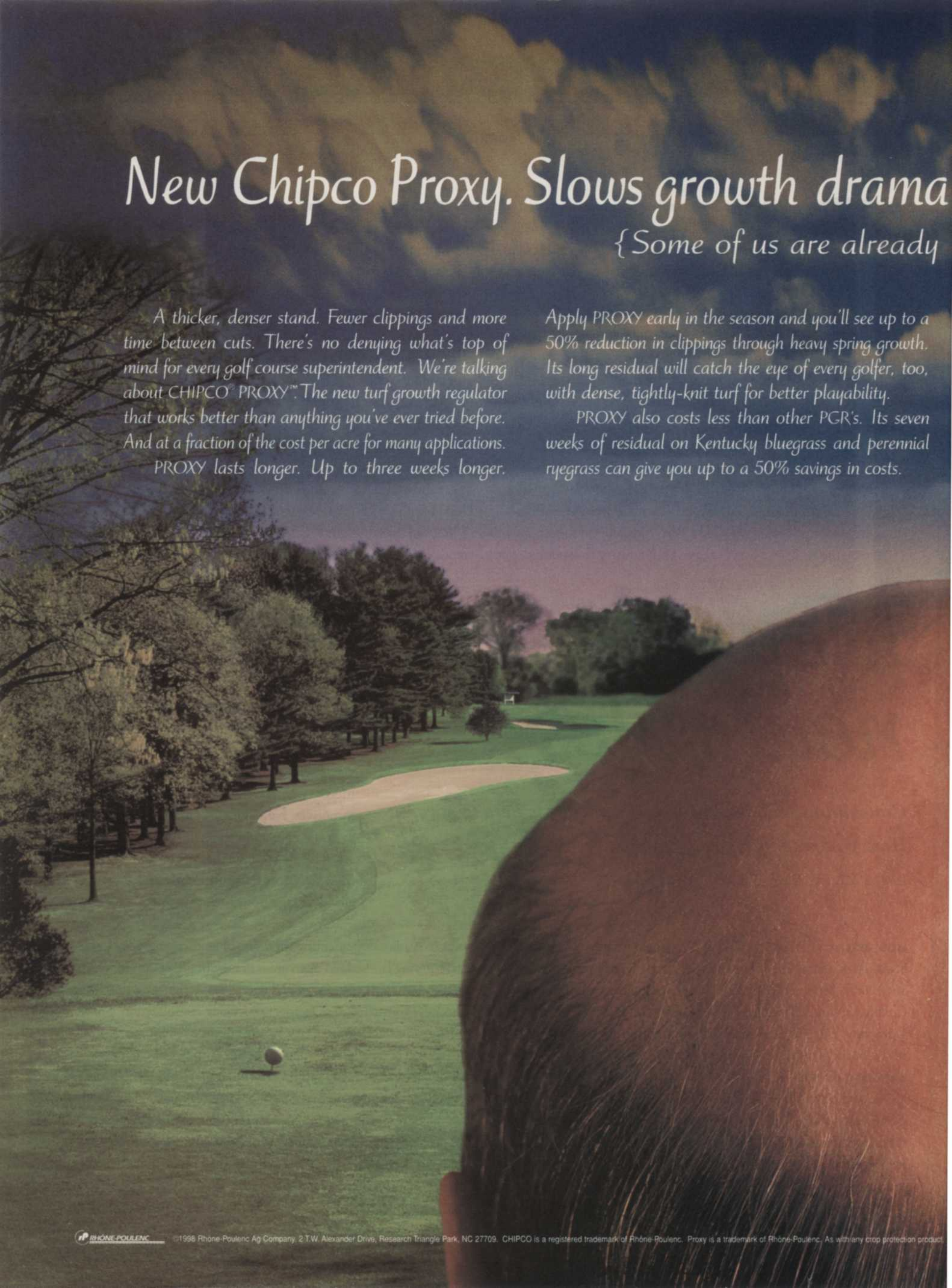
ILLUSTRATION: BARRY EDWARDS



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A thicker, denser stand. Fewer clippings and more time between cuts. There's no denying what's top of mind for every golf course superintendent. We're talking about CHIPCO® PROXY™. The new turf growth regulator that works better than anything you've ever tried before. And at a fraction of the cost per acre for many applications.
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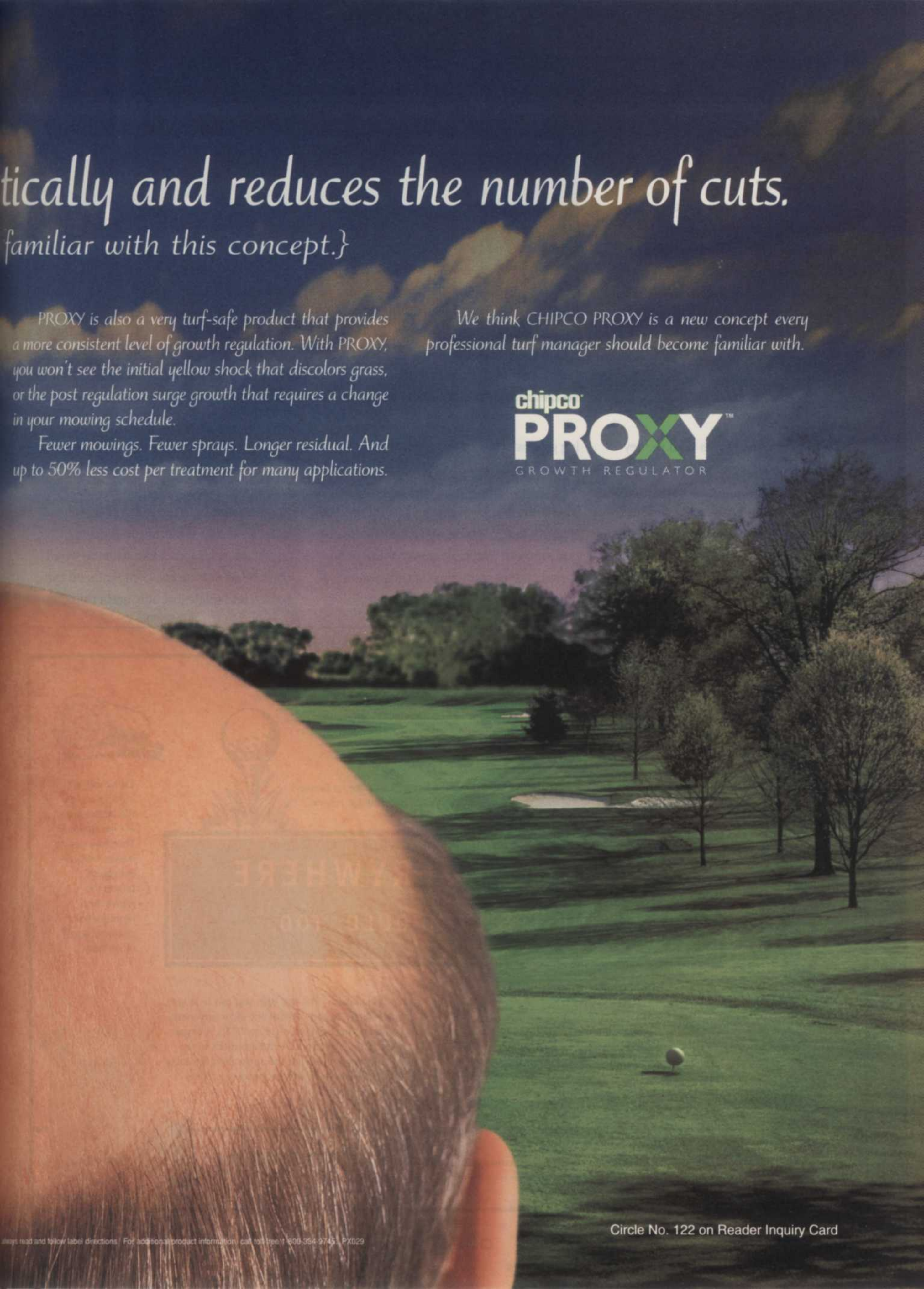
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Fewer mowings. Fewer sprays. Longer residual. And up to 50% less cost per treatment for many applications.
We think CHIPCO PROXY is a new concept every professional turf manager should become familiar with.
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Who's investing?

Money flows into our industry at an amazing pace, in several ways:

* Established consolidations like Tru-Green-ChemLawn/LandCare USA purchase firms with funds from public stocks

* New rollups like GreenScape LLC form, funded by venture capital and investment banks

* Landscape companies form their own consolidations and finance their purchases with equity

* Brokers purchase firms with money from institutional investors

* Venture capital groups either bankroll new rollups or become financial and strategic partners with established firms (like The Brickman Group).

Consolidation discussion at the ALCA Conference last November drew a full house. (l. to r.): Ed LaFlamme, Bill Murdy, Ron Schmoyer, Bruce Wilson, Craig Ruppert, and Scott Brickman.

Landscape Management has heard there are nearly 20 different consolidation or buying groups active in the green industry. Some have been widely publicized and others still forming. While large players like EII, The Brickman Group and The Davey Tree Expert Company will try to build and continue growth internally, most of the new consolidations grow through acquisitions of other companies.

This will have some strange effects in certain markets, at least temporarily. For example, one panel at the San Francisco seminar discussed how the rollups have already radically changed bidding in Atlanta.

"I look at a market like Atlanta, where consolidation took five companies off the bid list and made just one, and I think it's just great," joked Scott Brickman, president of The Brickman Group, Langhorn, PA. "We hope they come to all of our major markets and do the same thing because the competitors they bought were all great competitors and now, there's just one. This is an advantage for the smaller guys."

"The smaller companies can grow in a market like that because the competition is less," agreed Richard Sperber, senior vice president of EII.

Asked if less competitors means lower prices, David Minor, chief development officer for TruGreen/ChemLawn, Memphis, disagreed. "There is an issue of less competitors but the competition will be stronger," he maintained.

"The larger companies bring best practices to the table and have their systems in place...it takes up the level of service that small companies will have to deliver."

Participants at the seminar agreed the inconsistent nature of landscape design/build and the entirely different nature of residential services make those areas less desirable for consolidation right now.

Some things won't change

No matter if a firm is a large consolidation or a single firm servicing residential customers, some constants remain: managing customer relationships, managing labor and growing profitably.

Consolidators and other contractors who are forward-thinking talk of incorporating "best practices" and staying close to the customers. Some companies like TruGreen-ChemLawn will organize around a strong central management. And it will be different from the company's lawn care operation. According to Dave Slott, president, it will be an organization "based on collaboration, not domination."

Other groups will pattern themselves after Brickman's "model branch" or Valley Crest's decentralized branch operations. Some will focus on attracting the best people, others on providing the best return.

Because larger organizations will provide extensive employee benefits, defined career paths, opportunities to transfer to other markets and a variety of new responsibilities, smaller firms may feel an even harsher labor pinch. Then again, "economies of scale" also means "eliminating duplication" in the form of administrative and middle management at consolidating firms. This can be a great chance for independent firms to grab experienced employees.

"Our focus is to give high quality service, keep our prices down and constantly grow the business," said Scott Brickman, echoing most contractors, large or small. **LM**

Who's consolidating?

TRUGREEN-CHEMLAWN /LANDCARE USA,

Memphis, TN—$650 million

By combining assets with LandCARE 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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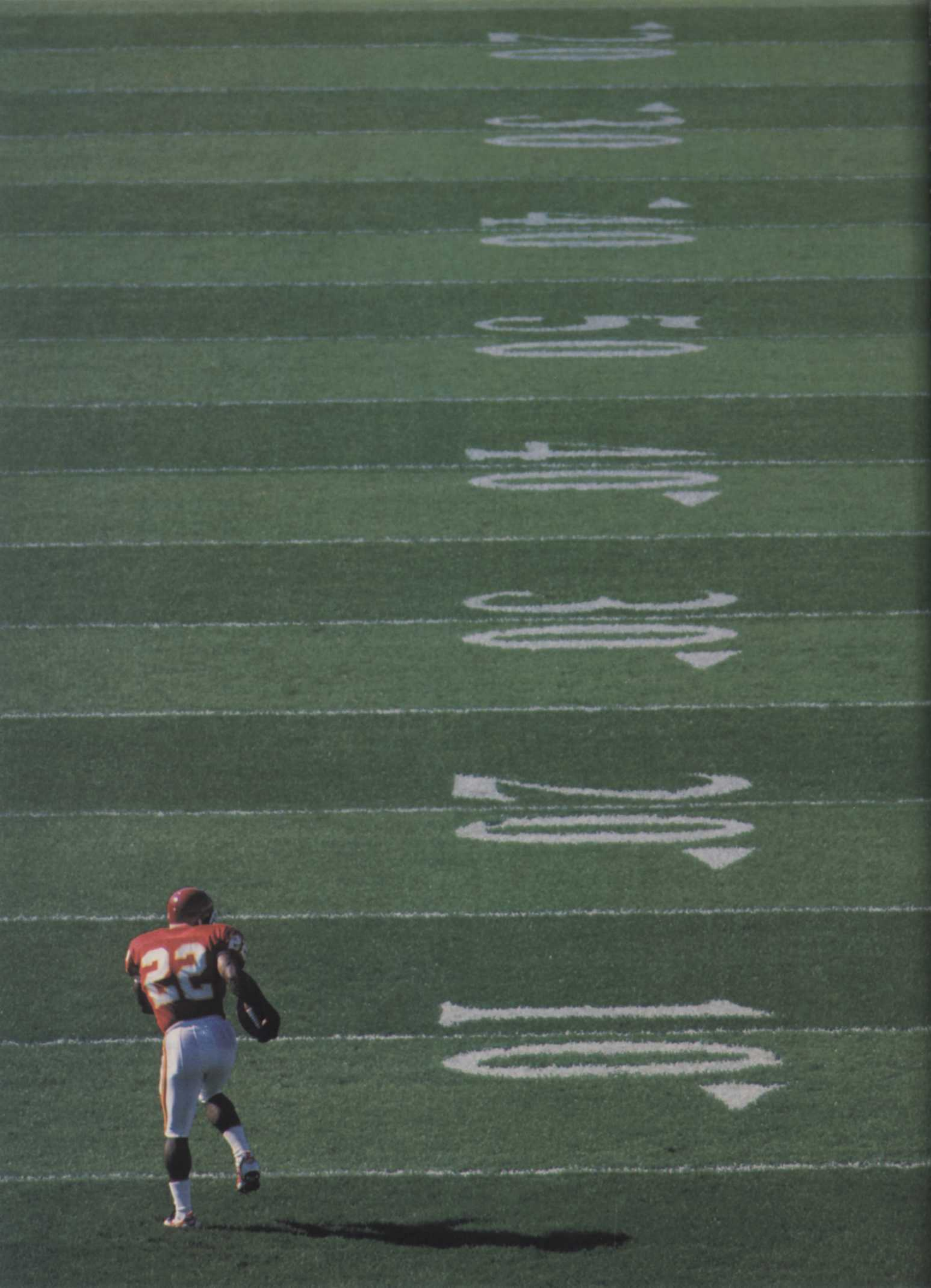
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