

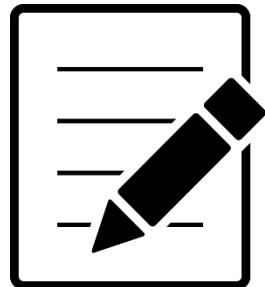
THE PRINCIPIUM GROUP

Mergers & Acquisitions | Exit Planning | Capital Strategies

Merger & Acquisition Market Review – Lawn Care – August 2014

The Principium Group is pleased to provide this Merger & Acquisition Market Review as a service to the industry.

This market review covers the lawn care industry. For purposes of this market review, the lawn care industry consists of those



businesses engaged in fertilization, weed control and related services, but not lawn mowing.

The lawn care industry consists of two companies with a national foot print – TruGreen and Scott's Lawn Service, a number of relatively large regional players and a great number of relatively small local lawn care companies. In addition, there are a number of lawn care franchisors, including Lawn Doctor, Weed Man, Spring Green, Naturalawn and a number of others, in addition to TruGreen and Scotts Lawn Care which have franchisees in addition to their primarily company-owned units. TruGreen is not presently selling new franchises.

The market for lawn care mergers & acquisitions has been pretty quiet for a couple of years now. The two companies with a national footprint have not been active acquirors. TruGreen, the largest player in the industry has been an active acquirer for more than ten years, but has not made any acquisitions in the past year and a half. The number two player, Scotts Lawn Service, a unit of Scotts-Miracle Gro, has also been largely quiet in recent years, except for

franchise reacquisitions. However, both of these industry leaders have indicated a renewed interest in acquisitions recently. During the recent past, most of the action in lawn care acquisitions has been with regional companies.

National Players

TruGreen, the largest company in the industry by a wide margin, experienced a variety of operational problems that led to declining customer counts and operating losses. As a result it had limited acquisition activity in early 2013 and none in the later part of 2013 or 2014. Its parent company, ServiceMaster, spun it off as a separate company in January 2014 in advance of ServiceMaster's initial public offering. TruGreen remains a portfolio company of

ServiceMaster's private equity owners, Clayton, Dubilier & Rice. The Company's president, David

Alexander, has been quoted as having said that TruGreen, while continuing to focus on its fundamentals, "In 2015 and beyond, you'll see us doing acquisitions again." Reportedly, they are beginning to review potential acquisitions for 2015 in the very near future.

Scott's Lawn Service was an active acquirer for a number of years but has curtailed its acquisition activities in recent years. They have indicated that they intend to pursue





acquisitions in the near future. However, it appears that their primary interest will be pest control companies, which will be added to the Scotts Lawn Service unit and marketed under the Ortho brand. We expect them to make a platform acquisition in the pest control space and then pursue additional pest control acquisitions. We expect lawn care acquisitions to be minimal, probably limited to franchise reacquisitions and an occasional pest control business that also offers lawn care services.

Barry Sanders, president & COO of ScottsMiracle-Gro, said during a February conference call “While lawn care remains the overwhelming piece of the business, SLS [Scotts Lawn Service] continues to expand in this service as well -- into pest service as well. We currently are exploring acquisition opportunities in this space, and I wouldn’t be surprised if we make -- if we don’t make our first test acquisition in 2014.”

Regional Players

There are regional lawn care companies, mostly with \$5 to \$20 million in annual revenues active in most parts of the United States. Several of these regional lawn care companies have been active acquirors in recent years. Among them are: Lawn Dawg (new England), Noon Turf Care (New England), SavATree/SavALawn (Northeast and Midwest), Massey Services (Florida and Southern United States), Swingle Tree and Lawn (Colorado) Ryan Lawn (Midwest) and Senske Services (Pacific Northwest and Mountain West). There are a number of other

regional players who have not been active acquirors.



Local Players

Local players generally have \$5 million in annual revenue or less. There is a significant difference between a local player with revenues of approximately \$1 million or more and smaller companies. The smaller companies often feature a high level of personal interaction between the owner and individual customers, which may tend to attract a different type of customer than the larger local companies, whose customers

may be very similar to the national and regional players.

Private Equity Involvement

Private equity involvement in the lawn care industry is largely limited to TruGreen, a portfolio company of the giant private equity firm Clayton, Dubilier and Rice and Lawn Dawg, Inc., a portfolio company of Brighton Partners, a private equity firm focused on the lower middle market.

We believe that the market is ripe for the



entry of another private equity player. The market has many characteristics that make it desirable

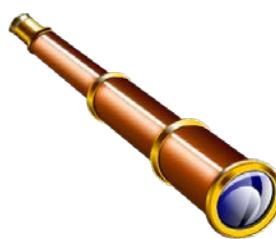
including a largely recurring revenue base and a high degree of fragmentation that could benefit from improved procedures and marketing. We believe that the reason this has not yet developed is that there are relatively few lawn care companies that are large enough to meet most private equity firms' requirements for a platform investment. However, we believe it is just a matter of time until a platform is assembled from two or more regional players.

Industry Outlook

The overall industry is performing well after several years of moderate performance after the recession. The improvement is driven by overall economic conditions and the rebound in the construction sector.

The sector does face some regulatory challenges in certain markets due to restrictions on the use of pesticides and other chemicals. There is some growth in the non-

chemical organic lawn care segment; however, that area has not grown as rapidly as had been anticipated due to the higher costs involved to the consumer and the fact that organic programs have often not met consumer's expectations. This scenario has



led to the emergence of so-called organic-based programs that combine organic treatments with traditional treatments, especially weed control. In addition, integrated pest management programs have evolved which emphasize minimizing the use of chemicals when possible.

In addition, drought issues and a focus on water conservation have affected the industry in some areas of the country. In some cases, this has led to a reduction in the size of traditional lawns. Restrictions on watering have impacted the effectiveness of lawn care in some areas.

Valuation

The industry has been in something of an adjustment period when it comes to valuation. A few years ago, the two national

players tended to pay relatively high "strategic" values for acquisitions of even small lawn care companies. These valuations, which were driven by perceived synergies that a large firm would derive from an acquisition, were often much higher than



a traditional fair market value. This phenomenon had a big effect on the expectations of sellers. A number of factors working together has lowered valuations: The retreat of Scotts from acquisitions left only one major national player, so competition was greatly diminished. TruGreen's operational issues appear to have caused them to re-evaluate the valuations they had placed on acquisitions previously, especially in light of decreased competition. As a result, market valuations have fallen significantly. Strategic valuations are usually limited to larger acquisitions, generally above \$1 million in annual revenues. The

market is likely to remain moderately robust for these larger local players. Smaller local players will have more

limited business sale opportunities and valuations will be restrained.

While every buyer will analyze potential acquisitions differently, some of the factors with the greatest impact on valuations in this market sector are pricing at or above market averages, customer retention, compatibility of fertilizer and weed control programs and compatibility of marketing programs. The best target companies are usually able to command premium valuations.

Recent Transactions

The following transactions have been publicly reported recently. It should be noted



that companies like TruGreen do not usually make public announcements of acquisitions.

Noon Turf Care acquired Premier Lawn Care's residential business, Fuller Green and the lawncare division of Driven Landscape in Massachusetts and Grasshopper Lawns in Connecticut.

SavATree acquired St. Croix Tree Service and Country Tree.

Swingle Tree & Lawn acquired Advanced Lawn and Tree Concepts.

Ryan Lawn & Tree acquired Simply Green Lawn Sprinklers in Missouri and Reid Irrigation in Oklahoma.

In Ohio, Evergreen Turf & Tree merged with Powell's Tree Care and Anderon Tree Tech.

Tyler, Texas based Lawn Master and Salcido Lawn have merged to form Clear Choice Lawn Care.

The Outlook

We believe the market for lawn care mergers & acquisitions is likely to improve over the next year as a result of the improved economic climate for the industry and the re-emergence of TruGreen and possibly Scotts as an acquirer. Regional companies will continue to be moderately aggressive in pursuing acquisitions. Larger regional companies will develop as a result of consolidation, which is likely to attract interest from private equity.

Valuations will likely to continue to be constrained; however, the best acquisition targets will command a premium.

THE PRINCIPIUM GROUP

The Principium Group is an advisory firm serving lawn, landscape and other green industry businesses in the areas of mergers & acquisitions, exit planning and capital strategies throughout North America. In select circumstances, Principium represents the sellers of lawn care businesses and in other situations advises potential buyers of lawn care businesses.

Ron Edmonds, president of The Principium Group, is one of the most experienced merger & acquisition advisors serving the lawn care industry.

If you are interested in buying or selling a lawn care or similar business, please call Ron Edmonds at 888-229-5740 or email him at ron@principiumgroup.com. We would be happy to discuss your situation on a confidential, no commitment basis.

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