

# **Mergers & Acquisitions**

## **Industry Review:**

# **Landscape Services**

Ron Edmonds  
The Principium Group

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### To our clients & friends:

We are pleased to present this merger & acquisition industry review for the landscape services sector. This report is intended to be an overview of the merger & acquisition environment for commercial landscape services along with our observations about current trends and our predictions for the next few years.

If you would like to discuss any of the information in this report, including how it may apply to your specific situation, we would be happy to speak with you.

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### Industry Overview

This merger & acquisition market review covers the commercial landscape services industry. The landscape services industry comprises businesses whose primary service line is commercial landscape maintenance and enhancements. A portion of the companies in this industry also perform construction services. Typically, enhancement services represent landscape installation projects for existing landscape maintenance customers, while construction services represent projects undertaken for customers who are not maintenance customers. Construction services may be further broken down into design-build projects and bid-build services. With design-build services, a landscape services company undertakes to both design and construct a project, while with bid-build services, the landscape services company submits a bid to

construct a project according to specifications produced for a client by a landscape architect. The landscape services industry also includes companies that design, install and maintain irrigation systems and companies that perform tree-related services.

### Recent Developments

By far the most significant development over the past year in the landscape services M&A market has been the acquisition of industry leader The Brickman Group, Ltd. by one of the largest firms in private equity, KKR& Co., along with the subsequent merger of the other large industry player, The ValleyCrest Companies into The Brickman Group. The initial acquisition was completed in late 2013, and the merger with ValleyCrest was completed in mid-2014. Details on the integration of the two companies are still emerging.

The acquisition of The Brickman Group by KKR&Co. was the result of an auction process which involved many high-profile large private equity firms.

This transaction has resulted in a much higher level of interest in the landscape services industry private equity as a whole.

- Several firms studied the industry in depth during the auction for Brickman, so they already have a level of knowledge of the industry making them potential investors in subsequent deals.
- Because KKR&Co. has a powerful track record, there is something of an assumption that if a landscape

services investment is desirable for KKR&Co., it is worth looking at.

- Because The Brickman Group is planning for significant growth, partly to justify the high valuation reportedly achieved in its acquisition, many potential private equity firms view a sale to Brickman as a likely exit strategy in the longer term.
- Private equity firms in general are hungry for acquisition targets.
- There seem to be a greater number of acquisition targets coming available, partially in light of the higher industry focus on mergers & acquisitions.

### Major Industry Players

#### The Brickman Group, Ltd.

The Brickman Group, Ltd. is the largest company in the landscape services industry by a wide margin.



**BRICKMAN**

With a coast-to-coast national network of branches, its primary focus is commercial landscape maintenance, but it also has operations in landscape construction, golf course maintenance, and franchising commercial landscape maintenance through the US Lawns brand. Brickman was acquired by KKR&Co. in December 2013. Subsequent to the acquisition by KKR&Co., Brickman merged with The ValleyCrest Companies, the other big player in the industry. The Brickman-ValleyCrest merger was completed in June 2014. ValleyCrest's previous majority owner, MSD Capital, is a minority owner in the new entity.

The combined company has yet to announce details of its integration strategy, including which branches may be closed or merged, what business units will fit into their long-term strategy and what their acquisition strategy may look like.



**ValleyCrest**

COMPANIES

Brickman has traditionally focused nearly exclusively on commercial landscape maintenance and its facilities services unit, while ValleyCrest has a broader portfolio of business units, including a substantial landscape construction unit, golf course maintenance business and the US Lawns commercial maintenance franchise business. Brickman is expected to reveal at least some details of their integration plan in the near future. They are also expected to reveal their planned branding going forward.

Both Brickman and ValleyCrest have been major players in mergers & acquisitions of landscape businesses over the last ten years, although the pace has diminished over the past three years. Brickman reported no acquisitions from June 2011 through its sale to KKR&Co. It did complete an acquisition in Dallas shortly after its own sale was completed. ValleyCrest has not reported any acquisitions since late 2010.

It appears that acquisitions will be a part of Brickman's aggressive growth strategy going forward, but it is hard to evaluate what their strategy might look like. In the past, both Brickman and ValleyCrest had focused their acquisition strategy on "adding pins to the map."

**TruGreen Landcare**

TruGreen Landcare has been a portfolio company of Aurora Resurgence, a unit of Los Angeles-based Aurora Capital Group, since April 2011 when it was acquired from The ServiceMaster Company. Aurora focuses on investments in which they believe they can create value, investing in complex situations that arise from operational or financial challenges.



TruGreen Landcare had been created in 1997 as an operating unit of ServiceMaster. It completed acquisitions of a number of regional landscape services companies and also acquired Landcare USA, a separate roll-up landscape services company with revenues in excess of \$200 million in 1999. This produced a business with well over \$400 million in revenue. TruGreen Landcare’s revenues declined over a number of years, reflecting a variety of operational issues, to \$238 million in 2010, its last year as a ServiceMaster unit. *Lawn & Landscape* reported revenues of \$200 million for TruGreen Landcare for 2013.

TruGreen Landcare has been exceedingly low profile since its acquisition by Aurora Resurgence. It is not clear what Aurora’s strategy for this investment is, whether that might be a near-term exit or further investment in this business.

**Davey Tree**

The Davey Tree Expert Company (Davey Tree) is the largest company operating in the tree care segment. Davey has been moving into commercial landscape maintenance in

recent years, primarily through acquisitions. The Company does not break out its commercial landscape revenues in its financial statements. It is not known what portion of its \$714 million in annual revenues may be commercial landscape maintenance.



Davey is an employee-owned business, with significant ownership through an employee stock ownership plan. We anticipate that Davey will continue to be an acquirer of both tree and commercial landscape maintenance businesses in the future.

**Yellowstone**

Yellowstone Landscape Group was created by GridIron Capital in 2008 as a vehicle for consolidation in the landscape services industry. It initially acquired large businesses in Houston, Atlanta and Florida and made a number of follow-on acquisitions. Yellowstone has not reported any acquisitions in several years. *Lawn & Landscape* reported its 2013 revenues as \$83.7 million. It is believed that GridIron is seeking an exit from Yellowstone.



**Regional and Multi-Regional Companies**

Regional companies have played a significant part in landscape services mergers & acquisitions recently.



Such companies as The Ruppert Companies (Mid-Atlantic), The

Greenery (South Carolina/Georgia), The Groundskeeper



(Arizona, Texas) and Landscapes USA (multiregional) have completed multiple acquisitions. This type of buyer has been the most active over the past three years, and this trend seems to be



continuing as these companies see opportunities to expand their operations in the face of the uncertainty brought on by the Brickman-ValleyCrest merger.



There is also a perception that there is a larger pool of talent available to strengthen their management ranks and make expansion more feasible.

**Employee Stock Ownership Plans**

There are a number of companies with large ownership positions held by employee stock ownership plans within the landscape services industry. This includes, in addition to Davey Tree, such companies as The Greenery (South Carolina), The Groundskeeper (Arizona), DLC Resources (Arizona), Jensen Corp (California), Mission Landscape (California) and Gardeners Guild (California), AAA Landscape (Arizona), Sunflower Landscaping and Maintenance (Florida), Webb Landscape (Idaho) and Michael Hatcher Landscape (Tennessee).

A number of these ESOP-owned companies have been active acquirors, including The Groundskeeper, The Greenery, Jensen Corp, along with Davey Tree.

**Private Equity**

Private equity firms have been active owners among the largest companies in the industry for a number of years. Brickman Group was controlled by Leonard Green & Partners prior to its acquisition by KKR&Co., while The ValleyCrest Companies were controlled by MSD Capital. As noted above, TruGreen Landcare is currently owned by Aurora Resurgence, and Yellowstone landscape was developed by and is controlled by Gridiron Capital.

Other private equity investments in the landscape services space include Terracare



(owned by Progress Equity), Landscape Workshop (owned by McKinney Capital), and Merit Service Solutions, (owned by L2 Capital), all of which have been



active acquirors. There are a number of other private equity or family office ownership positions in the industry which have not been publicly announced.



We expect private equity interest in the industry to increase over the next couple of years. We also believe that the issue of an established exit opportunity is the main deterrent to a higher level of private equity interest at the present time. Developments such as greater visibility as to Brickman’s future acquisition plans will likely further increase the interest in the industry.

**Facilities Management**

Landscape services companies are a part of the larger facilities management and maintenance industry. Facilities management companies typically contract with end users (building owners or managers) to provide a range of



facilities services from janitorial, security, parking lot maintenance, landscape, snow removal and other. These businesses may self-perform the services or, in many cases, subcontract



with the ultimate service provider. The rationale for the development of these companies includes providing one-stop shopping opportunity for property owners while providing quality assurance and negotiating power



Several facilities management companies have significant landscape operations, including EMCOR/USM, ABM and ISS.



In addition, some landscape contractors have significant facilities management operations, including Ferrandino & Son and Merit Service Solutions. Many other landscape contractors sell and subcontract various facility services.

Brickman/ValleyCrest participates in the facilities management arena through its Brickman Facilities Services unit and also through US Lawns, which also operates a facilities management contracting business.

There has been some speculation that Brickman may move in the facilities management direction, either by expansion of Brickman Facilities Services or through mergers & acquisitions. This speculation has been fueled somewhat by Brickman CEO Andrew Kerin’s background in facilities management as a senior executive of Aramark.

**Franchising**

Franchising has begun to receive a significant amount of attention in the landscape services industry. US Lawns, formerly a unit of The ValleyCrest Companies and now a unit of the combined Brickman, is the industry leader, with over 260 franchises. It was founded in 1986. The second largest player is The Grounds Guys, a



unit of multi-brand franchisor The Dwyer Group.

After launching the brand in the US in 2010, they have grown rapidly and now have over 160 franchises. The third largest player is Clintar. Based in Canada, Clintar was founded in 1984 and has 22 locations in the United States and Canada.



Many new landscape services franchise owners start their franchise by converting their existing landscape business to a franchise to take advantage of the systems provided by the franchisors. This is sometimes a step in the process of preparing a smaller landscape company for sale –

converting it to an established brand name and strengthening its internal systems.

Sales of landscape franchises have been strong in recent years, and this trend is expected to continue. A robust franchise resale market seems likely to develop as well.

### **Recent Transactions**

In 2013 and 2014, there have been several major merger & acquisition transactions in the landscape services space, in addition to the acquisition of Brickman and its merger with ValleyCrest.

Here are some of the more significant ones:

Greater Texas Landscapes, a unit of The Groundskeeper, acquired Hadden Landscaping in Dallas.

The Brickman Group acquired Metheny Commercial Landscape Maintenance in Dallas.

Merit Service Solutions acquired SunTerra Landscape in Austin.

LUSA Holdings (Landscapes USA) acquired Peach Tree Landscape in Nashville.

Terracare acquired VMC Landscape in Dallas.

Ruppert Landscape acquired AR Star Services in Maryland.

Davey Tree was a very active acquirer, completing a number of acquisitions, including Lawn Logic in Florida, Cortese Tree in Tennessee, Green Tree in Raleigh, S&S Tree and Meier Forest & Tree in Minnesota, Superior NW Tree & Shrub in Washington, and Wetland Studies & Solutions.

### **Trends**

The level of merger & acquisition interest and activity in the commercial landscape services industry is the highest in recent memory – probably since the consolidation wave of the late 1990s when TruGreen Landcare, Landcare USA and others were competing to acquire many regional landscape services businesses.

Landscape services companies are again receiving serious investment interest. The interest is the result of industry fundamentals, including a high level of recurring revenue and the fact that the industry demonstrated a higher level of resilience during the great recession than many observers expected. The expectation is that the industry will grow at a rate at least that of the overall economy and that during the next few years of rebound in commercial real estate, it will grow at a faster pace. In addition, the industry remains highly fragmented, with considerable opportunities to consolidate.

The major impediment to further capital inflows to the industry is a lack of transparency as to exit opportunities for private equity investments. As there is more clarity on this topic, including successful exits for mature investments, it is likely that there will be significant additional investment.

### **Threats**

There are, however, issues that can threaten that scenario. Among the more significant issues facing the industry are:

### **Immigration Reform**

Access to an adequate workforce is a continuing challenge to the industry. Many companies in the industry have come to rely on guest workers through the H-2B visa program. The government has made it very challenging for business owners to have confidence that they can expect to meet their employment requirements through this program. Many in the industry had been encouraged by immigration reform proposals that tied an expansion of the guest worker programs to the implementation of mandatory E-Verify. Many of the states that have implemented aggressive immigration enforcement have had even more challenges in having an adequate workforce. Stronger immigration enforcement without a corresponding improvement in the guest worker programs is a major industry worry.

### **Minimum Wage Legislation**

The Administration's proposal to raise the federal minimum wage from \$7.25 per hour to \$10.10 per hour has the potential to raise the labor costs of many companies in the industry dramatically. Prevailing wages or state or local minimum wage laws have already raised wages in many areas, but many companies in the commercial landscape maintenance industry still have many employees at or near federal minimum wage rates.

### **Obamacare**

The impact of Obamacare on those companies within the industry to which it applies may be very significant. Because of implementation delays, it is not clear what

the ultimate impact will be. Companies in the industry are exploring various alternatives.

### **General Economic and Political Conditions**

The economic recovery, which began in a relatively anemic way, seems to be picking up steam. Any downturn in the economy, including the specter of a double-dip recession, would be negative to the industry. In addition, the simple impact of the eventual end to the historically low interest rates currently in place may also be significant.

The political climate has created a great amount of uncertainty in recent years, including serial impasses between Congress and the Administration. When these impasses have developed in the past, the level of deal activity has fallen significantly. In addition, the concern over developments in the Middle East has the potential to damage investor confidence.

### Our Predictions

Here are our predictions for merger & acquisition activity within the landscape services industry over the next few years.

- Market conditions are likely to continue to be favorable for M&A activity in the landscape services industry for several years.
- Brickman/ValleyCrest will return to the acquisition market in due course in order to meet its aggressive growth goals.
- A significant amount of private equity will flow into the industry through new platform investments and many bolt-on transactions.
- Regional landscape services companies will continue to grow in significance as they expand as opportunities present themselves.
- Although national, regional and private-equity-backed companies will all be chasing acquisition opportunities, the market will not become overheated in the way that it did in the late 1990s and early 2000s. Mistakes made in that earlier consolidation will not be forgotten or repeated.
- Valuations will not increase dramatically. The limited availability of acquisition targets at current valuations will limit the number of acquisition transactions completed.
- The franchise segment will continue its robust growth pattern.
- Facilities services companies will continue to play a significant role as

- intermediaries between large companies and the ultimate contractor. There will be considerable opportunities for those facilities services companies that focus on selected industries, such as retail, hospitality, restaurants, etc. New facilities services companies will emerge and there will be consolidation among them as well.
- There will always be a significant opportunity for independent operators in the industry as fundamentally, landscape services are a professional service and many users of landscape services prefer having a personal relationship with the owners and managers of their service providers. In this way, the industry will continue to regenerate itself.

## About The Principium Group

The Principium Group is an advisory firm serving lawn, landscape and other facilities services companies in the areas of mergers & acquisitions and exit planning.

We assist sellers with exit planning, preparing their business for sale, valuation, exploring alternatives, family and employee transitions and third-party sales.

We assist buyers with the development of acquisition strategies, identifying and screening acquisition targets, and assistance with negotiations and due diligence.

We also provide information and resources to the industry, including a monthly newsletter, *Green Industry Merger & Acquisition News*, a blog covering industry M&A activity, books, including *Green Exit – Exit Planning for Lawn & Landscape Business Owners* and *Charting a Course – Acquisition Strategies in the Green Industry*. We frequently speak at industry events and our articles regularly appear in industry publications. We are often quoted as experts in green industry M&A.

We can tailor a presentation or planning retreat for your business or trade organization.



## The Principium Group

Ron Edmonds  
*President*

[www.principiumgroup.com](http://www.principiumgroup.com)

[info@principiumgroup.com](mailto:info@principiumgroup.com)

888-229-5740

Mailing Address:

The Principium Group  
PO Box 414  
Cordova, TN 38088

Street Address:

The Principium Group  
1138 N. Germantown Pkwy  
Suite 101-226  
Cordova, TN 38016

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