

What the Pest Control Industry Can Learn From Green Industry M&A: Is the Market Too Hot For Its Own Good?

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- President of Principium Group, Specialty M&A Firm
- Facilitated hundreds of transactions over last 15 years
- Based in Memphis, Tennessee
- Focuses on Lawn & Landscape & Facility Services, including Pest Control
- Frequent writer in green industry trade publications and speaker at green industry events
- Author of *Green Exit – Exit Planning for Lawn & Landscape Business Owners*

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Pest Control and the Green
Industry are very similar...
but, in some ways, very different.

Similarities Between Lawn & Landscape and Pest Control

- Recurring revenue
- Necessity or near-necessity
- Regulated for use of pesticides
- Similar delivery systems by routes
- In some areas, many companies are active in both industries

Differences Between Lawn & Landscape and Pest Control

- **The percentage of recurring revenue is very high, but**
 - Landscape maintenance has high recurring revenue
 - Lawncare has very high recurring revenue
 - Pest control may have the highest percentage of recurring revenue
- **Customer retention rates tend to have a similar pattern, but**
 - Landscape maintenance – high
 - Lawncare – higher
 - Pest control – higher still
- **Pest control is more “necessary” and resistant to business cycles.**



A Look at Pest Control M&A

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Pest Control

- **Highly attractive to strategic buyers**
- **Tuck-in and add-in acquisitions can be highly accretive to earnings**
- **Many active strategic buyers**
- **Comparatively high valuations**

Strategic Buyers for Pest Control Businesses

- **National (and international) pest control companies**
- **Regional pest control companies**
- **Local pest control companies**

Strategic Buyers for Pest Control Businesses

**Many Strategic Buyers =
Higher Valuations**

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Typical Goals of Strategic Pest Control Buyers

- Added route density in existing markets
- Open new markets
- Added product lines (wildlife, etc.)

Few Financial Buyers for Pest Control

- High valuations make deals hard to do.
- Competition for consolidation.
- Transactions are hard to finance at current valuations.

Little Private Equity Interest in Pest Control

- **After ServiceMaster's IPO, the only significant private equity-backed pest control company is Environmental Pest.**
- **Even with lots of dry powder held by private equity firms.**



A Look at Green Industry M&A

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Green Industry Scenario

- Many strategic buyers, BUT there are not nearly as many national and regional players in place.
- Valuations are more modest than for pest control.
- Consolidation opportunities are great - at reasonable valuations.

Green Industry Scenario

- Many financial buyers have emerged for landscape businesses, mostly private equity and similar.
- Similar financial buyers include family offices, other investment firms, search funds and more.

What's Happening in Landscape Maintenance

- Many strategic buyers
- Many financial (private equity-backed) buyers
- Regional companies active as strategic buyers
- Prices still restrained, but increasing for the best sellers
- Consolidation opportunities abound

What's Happening in Landscape Maintenance

- One true national player – BrightView
 - Private equity-controlled (KKR and MSD Capital), Recent IPO
- Other emerging super-regional players
 - LandCare , Yellowstone, Aspen Grove. Monarch
- Many other private equity-backed players
- Regional companies active as strategic buyers

What Happening in Lawn Care?

- Fifteen years ago TruGreen and Scotts were both buying very aggressively.
- Various events caused both TruGreen and Scotts to slow or stop buying at various points.
- Ultimately Scotts merges into TruGreen leaving only one national player.

What Happening in Lawn Care?

- **Valuations moderated.**
- **Transaction volume declined because there were fewer buyers AND sellers believed their businesses were worth more than many valuations.**

What Happening in Lawn Care?

- While TruGreen has re-emerged as an independent company, (private equity-backed, for now) and begun buying aggressively, valuations have continued to be restrained.
- Other players beginning to emerge, but very slowly. (Private equity-backed SavATree, etc.).

What Happening in Lawn Care?

- **The market is still characterized by:**
 - **Less competition**
 - **More financial discipline**
 - **Valuations that are often not exciting to business owners.**



What Does the Future Look Like?

If I really knew, I would be much wealthier.

What Does the Future Look Like?

- M&A activity is ALWAYS cyclical.
- BUT we don't know what the cycle is.
- There will be a limit to the pace of M&A activity among strategic buyers. Acquisition transaction volume will decline.
- BUT we don't know when.

What Does the Future Look Like?

- When strategic buyer transaction volume comes down, pricing will moderate.
- When pricing moderates, the industry will become attractive to financial buyers (e.g. private equity).

What Does the Future Look Like?

- If you need (or want) to exit in the next five years, examine your options now while the market is robust.
- When the M&A cycle does turn, it may be several years before we see the combination of deal volume and valuation we see now.

What Does the Future Look Like?

- **Because current valuations are more sustainable, the green industry is likely to see less fluctuation in the next few years.**



Questions and Answers

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Thank you!

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