Private Equity Investment in the Landscape Industry

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PrincipiumGroup

PRIVATE EQUITY INVESTMENT IN THE LANDSCAPE INDUSTRY

Index

PrincipiumGroup

To our clients and friends:

We are pleased to present this special special report, ***Private Equity Investment in the Landscape Industry.*** This report includes an overview of the market and the process of private equity investment, along with a survey if all known private equity investments in the landscape services industry.

We hope that this report will be of interest to both business owners within the landscape industry and to members if the private equity community with an interest in the landscape services industry.

Our intention with this report is to provide information about the extent of private equity investment in the landscape industry. This topic has received a great deal of comment in recent years. The first significant investment by private equity in the landscape services industry took place in 1998 when CIVC Partners first invested in The Brickman Group. Last year, CIVC Partners once again invested in the industry with its acquisition of Yellowstone Landscape Group.

Although private equity firms have invested in the industry for over 17 years, the pace and breadth of that investment has increased significantly after the acquisition of The Brickman Group by KKR in 2014 and its subsequent merger with the other large player in the industry, The ValleyCrest Companies. This trend seems likely to continue.

We look forward to seeing what happens this year, but we are expecting several new private equity platform investments to develop and for there to be many follow-on acquisitions completed as well.

If you would like to discuss the possible implications of this trend on your business, please contact us.

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PRIVATE EQUITY INVESTMENT IN THE LANDSCAPE INDUSTRY

The landscape industry is increasingly appearing on the radar screen for private equity firms. These firms are often considering landscape companies as they seek new investment opportunities for their investors.

Private equity firms have owned some of the largest companies in the industry for years now. BrightView (Brickman and ValleyCrest) is owned by private equity giant KKR. TruGreen Lawncare is owned by Clayton Dubilier & Rice (CD&R), another huge firm. LandCare (formerly TruGreen LandCare) is owned by Aurora Capital.

Over the last couple of years, we have begun seeing private equity firms paying closer attention to much smaller companies in the industry. During 2015, at least five new platform investments were made by private equity firms. Rotolo Consultants in Louisiana, Greenscape Outdoor Services in Pennsylvania, Signature Landscape In Washington, Total Intermountain Facility Services in Utah, Green Leaf Landscaping in Florida, and some others received private equity investments in 2015.

In addition, companies that were already private-equity backed made several add-on acquisitions backed with private equity money. These add-on acquisitions are often much smaller than the size business a firm needs to justify a platform acquisition. Add-on acquisitions multiply the significance of private equity to merger & acquisition activity in the industry.

Notably, one of the first private equity companies to make a landscape investment, CIVC Partners, an early investor in The Brickman Group, returned to the industry in 2015 with its acquisition of Yellowstone Landscape Group from Gridiron Capital. Yellowstone made several add-on acquisitions in 2015 following its acquisition by CIVC.

It looks like 2016 may be even bigger as several private equity firms are looking for opportunities in the industry. Several firms are specifically searching for a landscape platform investment while others are open to the idea as they search among multiple industries for good targets.

What is it that private equity likes about landscape businesses? The most important factors are the basic industry growth outlook, a high level of recurring revenue and, the fact that landscape is a fragmented industry with many potential acquisition targets to further fuel growth.

The industry was somewhat more resilient during the great recession than some had anticipated. Commercial landscape maintenance remained a strong business, although competition did drive down prices and constrain margins in many markets.

What is the big deal about recurring revenue? Private equity firms usually involve a high amount of debt, sometimes in several different categories, such as asset-based loans, senior debt and mezzanine capital, when they "recapitalize" a business. Needless to say, they are very interested in making sure they will be able to make the required payments on the debt they incur. Recurring revenue is part of the answer. Companies with strong recurring revenue that can support a high level of borrowing sometimes produce the most exciting returns for investors.

A Survey of Private Equity Investment in Landscape Companies

The scope of this survey includes companies involved in the landscape services industry, along with related businesses, including lawn care, snow management and landscape supply. We have arbitrarily excluded growers from the survey.

We have attempted to include all known private equity activity in these segments in this survey. Table 1 includes existing private equity investments while Table 2 includes exited investments, those which are no longer held by the private equity firm in question.

The private equity world is far less homogeneous than it may at first appear. There are many different forms of private equity firms, including traditional private equity fund sponsors, independent fundless sponsors, family offices, mezzanine funds and several other flavors. To try to clarify things somewhat, we have included a guide to private equity terminology as an exhibit.

Because there are so many different kinds of "private equity" investments, it is highly likely that we have missed some. Some transactions have not been publicly reported. To the extent that private equity firms have not publicly reported their investment and, for one reason or another, are not ready to disclose the transaction, we have omitted them from this report. To the extent that we have missed investments that should be included, please let us know. After verifying the information, we will include them in future editions of this report.

Recent Transactions

In early 2015, CIVC Partners acquired Yellowstone Landscape Group from Gridiron Capital. This transaction was particularly notable for two reasons. It represented a successful exit for Gridiron which had formed Yellowstone in 2008. Yellowstone had major operations in Texas, Georgia and Florida. This transaction represented a return to the landscape services industry for CIVC Partners, which invested in The Brickman Group in 1998, an investment they exited in 2006. Following the acquisition of Yellowstone, they made follow-on acquisitions in Georgia and Florida.

Several new platform acquisitions were completed in 2015. One Rock Capital acquired Signature Landscape in Seattle with plans to develop a west coast platform. Charles River Equity led a recapitalization of Rotolo Consultants, Inc. of Slidell, Louisiana. Rotolo has five branches across in Louisiana, Mississippi, and Tennessee and plans further expansion in the Southeast.

A group led by CrimStone Partners acquired Greenscape Landsape Contractor in Pennsylvania and has rebranded it Greenscape Outdoor Services. SCG Partners made initial acquisitions in Florida under the name Green Leaf Landscaping.

Other private equity acquisitions in 2015 included Intermountain Total Facility Services in Utah and Winter Services in Wisconsin.

In the landscape supply sector, John Deere Landscapes, a portfolio company of Clayton, Dubilier & Rice, was rebranded as SiteOne Landscape Supply. SiteOne continued making multiple acquisitions during the year and filed for an initial public offering, which has not yet been completed.

In the lawn care segment, industry leader TruGreen, also a portfolio company of Clayton, Dubilier & Rice, returned to acquisitions, completing four acquisitions in 2015. Although TruGreen had anticipated completing a number of acquisitions in 2016, their focus has shifted as late in 2015, they announced a plan to merge with industry number two Scotts Lawn Service in a transaction expected to close in March 2016. With that transaction, which will increase TruGreen's revenue about 30%, TruGreen is expected to focus in integrating the Scott's acquisition and look internally this year.

Although more than 18 months have passed since the Brickman-ValleyCrest merger was completed, the new company, to be known as BrightView, has not reported any acquisitions. The Company has not implemented the new name or graphic identity. It is difficult to assess its progress in integrating the two companies.

International Activity

idverde, a large French landscape company owned by Checquers Capital, acquired The Landscape Group in the United Kingdom from Elysian Capital in March 2015. idverde was created in 2014 with the acquisition of ISS's French landscape operations. With the acquisition of the Landscape group, idverde becomes Europe's first multinational landscaper.

Transaction Structures

There are a wide range of transaction structures represented in this survey. Most transactions were recapitalizations with some rollover equity. Most had capital structures that included bank financing and mezzanine finance. Most transactions retained existing management but several involved management transitions. One of the major differences between traditional private equity fund sponsors and other forms of private equity is that fund sponsors necessarily tend to have a shorter investment timeline than other forms if private equity. Private equity funds usually have a limited life and must exit investments to generate a return of capital to their investors. Although other types of private equity may emphasize that they are free of those constraints, the reality is that the vast majority of private equity investments are made with a view toward a profitable exit in a reasonable amount of time.

Valuation Trends

The details of the 2015 transactions have generally not been announced. The smaller transactions are believed to be largely in the 4 to 5 times EBITDA range. Larger, stronger companies can draw higher valuations. Transactions involving the biggest players have been known to draw valuations much higher than smaller platforms. Higher valuations are often the result of competition among potential investors.

Add-on acquisitions usually do not draw the level of valuation that a platform acquisition does, although again, the most desirable targets, in some circumstances, may draw valuations comparable to a platform investment.

How Private Equity Approaches Business Development

Private equity firms typically have personnel with the specific responsibility to generate leads for investment. Senior private equity personnel are very involved in this process and are assisted by a variety of associates or analysts. The firms seek opportunities to review from a variety of sources. It is not uncommon for a firm to review hundreds of opportunities for every one that they actually invest in. Typically, a large amount of effort is expended in generating a robust deal flow. Firms create deal flow by raising the profile of their firms in specific markets of interest, carefully reviewing trade press and related materials, reaching out directly to business owners, and reaching out to business intermediaries who may either be engaged by potential sellers or aware of potential transactions. Referral fees are commonly offered to business intermediaries.

When a desirable target is being represented by a business intermediary (investment banker, merger & acquisition advisor or broker), the intermediary will usually contact private equity firms that have expressed an interest in similar opportunities, providing basic information abut the target and initiating dialogue in one of several ways.

A common approach is called a two-step auction. Initially, the intermediary seeks interest from private equity firms (possibly along with strategic buyers). After the identified firms have entered into a non-disclosure agreement (NDA), they are provided a package of information about the business, usually in the form of a confidential information memorandum (CIM). Based primarily in their review of the CIM, firms will submit an Indication of Interest (IOI). The IOI will typically indicate a range of values, terms that would likely be requested, due diligence requirements and a time line to closing. Following receipt of IOIs, the Company and its advisors review the interests received and invite selected potential investors to move to a second round. The first step in the second round is management presentations to potential investors, followed by an invitation to submit a more refined offer in the form of a letter of intent (LOI). Once letters of intent have been submitted, he Company and its advisors review the LOIs received and select firms to continue to negotiate with. Negotiations continue until an acceptable letter of intent is negotiated and executed. The due diligence and document preparation phase is next, followed by the closing of the transaction.

Private equity firms may bring in other firms to participate in a transaction, including other private equity firms and mezzanine firms. In addition, there will usually be a senior lender, often a commercial bank, involved in the transaction.

Many, but not nearly all, of the transactions included in this survey were the result of processes similar to the two-step auction outlined above. For the best targets, this process usually produces the best results as it is intended to produce competition among bidders on structure, valuation and terms. It does require a business intermediary to run the process. It can time-consuming and expensive, but it is usually worth the results.

Typical Targets

The targets included in the survey range from small to large, but in most cases, the private equity investors were looking for EBITDA of at least $2 million on revenues of at least $10 million, with 70% to 80% recurring landscape maintenance revenues. Targets with revenues in excess of $20 million and EBITDA of $3 million or more will draw more interest.

Clearly, commercial landscape maintenance draws the most intention from investors. Some investors are looking for businesses exclusively involved in commercial landscape maintenance. We have noted recently that private equity investors have been more willing to embrace some level of landscape construction. Snow and ice management, which is sometimes considered a segment of the landscape industry since many landscape companies in the snow belt offer snow management services, has increased in popularity as snow and ice management companies have become more sophisticated in managing their snow removal business, often making it far less variable based on weather conditions, reducing the risk to investors.

Smaller companies which are a good fit for add-ons to landscape platforms can be much smaller in size, although investors will be looking for both revenue and cost synergies as they consider such add-ons. Very small companies, including those with less than $1 million in revenue, are rarely considered as add-on acquisitions because the types of customers that they attract may have different characteristics from those served by larger, platform-sized companies.

Residential landscape services have been mostly ignored by private equity so far. This is partly due to the perception that the barriers to entry are very low with competition coming from high school students and off-duty firemen. In today's world, those perceptions are not as true as they once were, especially for desirable up-scale customers. The demographics of the aging baby boomer population remain compelling and we expect to see greater interest in this are in the future.

We also believe that the pending merger of TruGreen with Scotts Lawn Service serves to highlight the opportunity that may exist to develop a "new no. 2" in the lawn care segment.

There are many quality acquisition targets although few rise to the level of an ideal platform. Some consolidation may be in order to identify a good platform.

Conclusion

It is clear that the landscape industry has become more interesting to private equity over the past two years.

The investment by KKR in Brickman and ValleyCrest has been seen by some to validate the industry's investment potential and signal the development of a market which may lessen concerns about exit opportunities.

The reality may be a little less glamorous. The private equity industry is always seeking new opportunities to invest its capital. Some private equity operators have noticed the landscape space and taken a look. Some investments have been made and, if they perform well, there is no doubt others will follow.

Table 1 - Private Equity Investment in Landscape Industry and Related					
Target	**HQ**	**Sector**	**Investor**	**Type**	**Original Date**
Allscape Commercial Landscape Maintenance	NC	Landscape Services	ARC Industries	Private Equity	2012
Girard Environmental	FL	Landscape Services	Northcreek Mezzaniine	Mezzanine	2011
Girard Environmental	FL	Landscape Services	Marquette Capital	Mezzanine	2016
Green Leaf Landscaping & Irrigation	FL	Landscape Services	SCG Partners	Family Office	2015
Greenscape Outdoor Services	PA	Landscape Services	Crimstone Partners	Private Equity	2015
Greenscape Outdoor Services	PA	Landscape Services	Diamond State Ventures	Private Equity	2015
Greenscape Outdoor Services	PA	Landscape Services	The Brawler Group	Private Equity	2015
Greenscape Outdoor Services	PA	Landscape Services	Banyan Funds	Mezzanine	2015
Intermountain Total Facility Services	UT	Landscape Services	Lynx Equity	Private Equity	2015
Landcare (formerly TruGreen LandCare)	MD	Landscape Services	Aurora Resurgence	Private Equity	2011
Landscape Workshop	AL	Landscape Services	McKinney Capital	Family Office	2012
Merit Service Solutions	PA	Landscape Services	L2 Capital	Family Office	2011
Rotolo Consultants	LA	Landscape Services	Charles River Equity	Private Equity	2015
Rotolo Consultants	LA	Landscape Services	Kemper Corporation	Institutional	2015
Rotolo Consultants	LA	Landscape Services	Plexus Capital	Mezzanine	2015
Rotolo Consultants	LA	Landscape Services	Triangle Capital	Mezzanine	2015
Signature Landscape	WA	Landscape Services	One Rock Capital	Private Equity	2015
Somerset Landscape	AZ	Landscape Services	Tregaron Capital	Private Equity	2014
Terracare Associates	CO	Landscape Services	Progress Equity	Private Equity	2009
Terracare Associates	CO	Landscape Services	Patriot Capital	Private Equity	2009
Terracare Associates	CO	Landscape Services	Navigator Partners	Private Equity	2009
Terracare Associates	CO	Landscape Services	Harbert Capital	Mezzanine	2009

Private Equity Investment in Landscape Industry and Related Businesses (continued)					
Target	**HQ**	**Sector**	**Investor**	**Type**	**Original Date**
The Brickman Group	MD	Landscape Services	KKR&Co.	Private Equity	2014
The Brickman Group	MD	Landscape Services	MSD Capital	Family Office	2014
Yellowstone Landscape Group	FL	Landscape Services	CIVC Partners	Private Equity	2015
Dwyer Group (Grounds Guys)	TX	Landscape Franchise	Riverside Company	Private Equity	2014
Lawn Dawg	NH	Lawncare	Brighton Partners	Private Equity	2009
Lawn Dawg	NH	Lawncare	Tenth Street Capital	Mezzanine	2009
TruGreen Lawncare	TN	Lawncare	Clayton Dubilier & Rice	Private Equity	2007
Lawn Doctor	NJ	Lawncare Franchise	Levine Leichtman	Private Equity	2012
Environmental Pest (Arrow Environmental)	FL	Pest and Lawn	Concentric Equity Partners	Private Equity	2010
Massey Services	FL	Pest and Lawn	AEA Investor	Mezzanine	2012
Winter Services	WI	Snow Management	S Group Capital	Private Equity	2015
Winter Services	WI	Snow Management	FNB Capital	Mezzanine	2015
Brown Brothers	CO	Snow Management	Prophet Equity	Private Equity	2015
Living Earth	TX	Landscape Supply	Terra Verde Partners	Private Equity	2007
Living Earth	TX	Landscape Supply	NGP Energy Technology Partners	Private Equity	2011
Pioneer Sand Company	CO	Landscape Supply	JLL Partners	Private Equity	2015
SiteOne Landscape Supply	GA	Landscape Supply	Clayton Dubilier & Rice	Private Equity	2013
Kellermeyer Bergensons Services	OH	Facilities Management	GI Partners	Private Equity	2014
SMS Assist	IL	Facilities Management	Granite Creek Partners	Private Equity	2011
SMS Assist	IL	Facilities Management	Pritzker Group Venture Capital	Family Office	2011
SMS Assist	IL	Facilities Management	Symmetric Capital	Private Equity	2015

Table 2 - Private Equity Investment in Landscape Industry and Related - Exits							
Target	**Sector**	**Investor**	**Type**	**Status**	**Original Date**	**Exit Date**	**Comment**
ValleyCrest	Landscape Services	MSD Capital	Family Office	Exited	2006	2014	(1)
The Brickman Group	Landscape Services	Leonard Green	Private Equity	Exited	2006	2014	
The Brickman Group	Landscape Services	CIVC Partners	Private Equity	Exited	1998	2006	
The Brickman Group	Landscape Services	Banc One Investment Management	Private Equity	Exited	1998	2002	
Yellowstone Landscape Group	Landscape Services	Gridiron Capital	Private Equity	Exited	2008	2015	(2)
Yellowstone Landscape Group	Landscape Services	Brookside Mezzanine Partners	Mezzanine	Exited	2013	2015	
Reliable Property Management	Landscape Services	Private Capital Management	Private Equity	Exited	2002	2015	(3)
Shemin Landscape Supply	Landscape Supply	Centre Lane Partners	Private Equity	Exited	2013	2015	

(1) Merged with The Brickman Group..

(2) Sold to CIVC Partners

(5) Sold to Five Seasons Property Maintenance 2015

Private Equity Terminology

The terminology of the private equity world can be extremely foreign to business owners. We have assembled this glossary to help explain some of the terms commonly used.

Private equity firms – Private equity firms invest in businesses under various scenarios. Traditional private equity firms raise limited-life funds from institutional investors and invest the funds in privately-held companies. There are a variety of types of private equity firms. Here are some variations that may be encountered.

> **Family Offices** are investment firms tasked with managing the wealth of a single family or group of families. Family offices may perform other administrative services for their associated families. Like other private equity firms, this term covers a wide range of types of organizations. Historically, many family offices have invested as limited partners in private equity funds managed by traditional private equity funds. Increasingly, family offices make direct private equity investments.
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> **Fundless Sponsors –** Fundless sponsors are private equity firms that originate business investments on behalf of investors. Because these firms do not raise private equity funds, they are called fundless sponsors. The investors associated with these firms approve investments individually. Some fundless sponsors may be very similar to traditional private equity firms, originating regular investments for investors with which they have a close relationship. Other fundless sponsors develop investment opportunities and then reach out to investors on a case-by-case basis.
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> **Mezzanine Funds –** Mezzanine funds provide mezzanine financing in connection with private equity transactions. They may also provide mezzanine financing to private companies directly without a private equity sponsor. This type of financing is often used in connection with acquisitions.
>
> **Search Funds –** Search funds are funds backed by investors which search for one investment. These funds originated at Stanford Business School. In a typical scenario, a new MBA becomes managing partner for a search fund and spends up to two years seeking an investment. After identifying the investment, the investment group funds the investment and the managing partner becomes an executive, usually the CEO, of the investment. While search funds are typically associated with new MBAs from prestigious schools, in recent years, similar funds have developed which work with experienced managers. There are many variations on this theme.

Add-on Acquisition – An add-on acquisition is an additional acquisition made by a private-equity-backed company to add on to a platform business or by a strategic buyer pursuing a consolidation strategy. Add-on acquisitions can provide complimentary services or expansion in the existing footprint that can be quickly integrated into the existing infrastructure. A larger add-on target may also bring new products or services, locations, and customers which would extend the reach of the platform company.

Bolt-on Acquisitions – Bolt-on acquisitions are acquisitions made by a private equity firm or strategic buyer for the purpose of merging them into a division of a platform. They are sometimes also called tuck-in acquisitions. Bolt-on acquisitions often increase market share and may produce economies of scale. Private equity firms will consider much smaller businesses for bolt-on acquisitions as opposed to platform acquisitions.

Exit – An exit is the sale by a private equity firm of its interest in a portfolio company, generating a cash return to its investors. The goal is usually to reach a certain return within a time frame that may relate to the life of an investment fund. Private equity firms consider expected exit opportunities as a factor in deciding whether to make an investment.

Financial buyer - A financial buyer is a buyer that invests in a company with the expectation of improving its operational performance over a period of time, and ultimately selling the investment to create liquidity. Private equity firms are financial buyers that can provide an alternative for owners who still wish to remain involved in the business, for succession opportunities, or for growth requiring additional capital.

Intermediaries – Intermediaries are finance professionals who act to facilitate transactions between targets and private equity firms and other investors. They may be merger & acquisition advisors, business brokers or investment bankers.

Mezzanine Capital – Mezzanine capital refers to financing which represents a claim in the Company's assets which is senior only to common stock. It can be structured as subordinated debt or preferred stock. It is often more expensive than secured debt or senior debt. Mezzanine financing typically involves an equity kicker in the form of a conversion feature or warrants to purchase common stock, so the mezzanine lender is able to share in some if the appreciation in the value of the business. Mezzanine financing is used in many private equity transactions as part if the total capital structure of the financed business, which may include a combination of new equity, rollover equity from existing shareholders, secured debt, and senior debt, in addition to mezzanine financing. Mezzanine capital is sometimes called "junior capital."

Platform acquisition – A platform acquisition is an initial acquisition made by a private equity firm in a given industry or "space." The term platform suggests that the firm will be on the initial investment, often using add-on acquisitions. For example, a firm's first investment in a landscape services company would be considered a platform acquisition. Usually, a platform acquisition must be largest enough to produce a return on the costs incurred by the private equity firm in originating and managing the investment, in addition to the return on the actual capital investment.

Portfolio companies are companies in which a private equity firm holds an investment.

A **Private Equity Recapitalization** is a structure often used by private equity. In a recap, a business owner sells a portion of the business, but still retain some equity to take advantage of future growth, potentially allowing owners to monetize the value of their rollover equity when the company is sold again by the private equity investor.

Recapitalization refers to a transaction which changes a company's capital structure and may involve refinancing debt, replacing equity with debt and other capital changes. A private equity firm may recapitalize a portfolio company more than once to take advantage of changing conditions in capital markets and the portfolio company performance. This may allow the private equity firm to generate a cash return to investors while they retain the equity interests.

Senior debt is debt that is senior to other forms of debt issued by a company. In the event if an insolvency, senior debt is repaid before any payment is made to subordinated debt holders or equity holders. Senior debt may be secured by collateral, including in many cases, all of the assets of the borrower.

Strategic buyer – A strategic buyer is a buyer who is in the same industry ir business as the target company. A strategic buyer seeks acquisitions that can be quickly integrated into existing operations, producing synergies. Often, a strategic buyer will pay a valuation premium for a target because the the buyer assigns value to the synergies expected to be produced.

Target – A target is a company that an investor is pursuing or considering an investment in.

About The Principium Group

The Principium Group is a merger & acquisition firm serving lawn & landscape and other facilities services businesses throughout North America.

Principium provides both sell-side and buy-side services and assists business owners with exit planning.

While our primary business consists of representing business owners in connection with the sale or recapitalization of their businesses or acquisitions of other businesses, we have significant experience with corporate development, franchise development and identifying capital resources.

We are devoted to being a proactive information resource in the lawn and landscape industry. Among our many activities, we publish a periodic newsletter, ***Green Industry Merger & Acquisition News.*** We regularly participate in industry events as a speaker, panelist or attendee.

For more information, visit Principium on the web at principiumgroup.com or contact Ron Edmonds by phone at 888-229-5740 or by email at ron@principiumgroup.com.