Wrecking stereotypes

Private equity is here to stay. And that's a good thing.

By Brian D. Corbett

Private equity has played a large part in the green industry for many years and recent activity suggests that it will play a larger role going forward. Investor dollars are pouring in to the green industry, lured by the excellent opportunity for growth in landscape services as the economy continues to improve and large customers seek to consolidate their supply chain.

All too often, private equity gets a bad rap as just "a bunch of suits buying and flipping companies."

In this article, I hope to get beyond stereotypes and dispel negativity surrounding private equity by shining a light on the positive growth opportunity it presents for the industry and for your green industry company in particular.

WHAT IS PRIVATE EQUITY? A private equity recapitalization is a liquidity strategy in which an institutional investor or private equity group (PEG) acquires significant interest in a company in exchange for cash. The largest companies in the green industry have relied on this process to achieve certain goals of their ownership groups.

Brickman first partnered with private equity decades ago when CIVC of Chicago and others contributed capital to facilitate a generational transition. In 2006, ValleyCrest took on a major investment from MSD Capital, Michael Dell's private equity firm, to create liquidity and provide a stable source of

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growth capital. Also in 2006, Brickman doubled down with private equity – teaming up with Leonard Green this time around.

In 2007, Clayton Dubilier and Rice (CDR) took the ServiceMaster Companies private, making TruGreen LandCare a private equity-owned entity. By 2011, Aurora Resurgence acquired TruGreen LandCare from CDR in a spinout transaction. Most recently, Leonard Green sold their interest in Brickman to KKR, one of the largest PEGs in the world.

Other notable companies teaming up with PEGs are Yellowstone Landscape Group (Gridiron Capital), Terracare (Progress Equity), Merit Services (L2 Capital) and Landscape Workshop (McKinney Capital).

MSD Capital, Leonard Green, CDR, Aurora Resurgence, KKR, Gridiron Capital, Progress Equity, L2 ad McKinney Capital are all PEGs of varying size and structure. Sometimes called a financial sponsor, a PEG is most often a partnership that raises capital from investors for the specific purpose of buying and investing in companies.

These funds are then typically invested in a recapitalization of a company where the owners receive substantial personal liquidity and diversification for the interest sold. Although a PEG typically requires a controlling interest, this strategy allows you to remain a significant shareholder and continue to be the driving force behind your company.

This structure creates liquidity at today's value and involves a financial sponsor to help fund and grow the future value of your business by partnering with you and your team. These companies can access a tremendous amount of capital that is unavailable to smaller closely-held companies, creating a competitive advantage in financing growth.

Unlike strategic buyers, PEG buyers often look to maintain the brands they acquire, realizing the value in brand recognition and loyalty of the management, employees and clients. Therefore, post-transaction, your company will likely continue to operate under the same brand name and you won't be faced with the often-unsavory prospect of selling to a competitor. Once a PEG has acquired a platform company in an industry, they become strategic buyers, like other large companies in the industry.

The PEG's goal will be to partner with you to grow the company over a period of four to seven years, on average, and then sell it to generate a return to their investors. Most equity groups have a well-defined strategy as

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to the type and size of companies in which they invest, how they structure their deals and their investment time horizons.

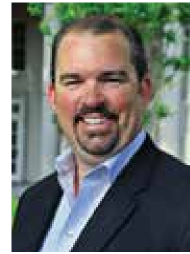
The PEG strategy of buying an interest in a company and then holding and building both top and bottom lines over a period of years certainly should not be considered "flipping" a company for a short term gain.

WHY IS THE GREEN INDUSTRY APPEALING TO PRIVATE EQUITY?

PEGs are primarily focused on growing their companies and landscape service companies present a significant growth opportunity. For example, when Leonard Green invested in Brickman in 2006, Brickman was valued at $847 million. When Leonard Green exited some seven years later in late 2013, Brickman was valued at $1.6 billion.

Over their seven year ownership period, a private equity group helped to grow Brickman's value to roughly double through both organic and acquisition growth initiatives.

Several factors inherent to the industry contribute to the appeal of landscape services. The recurring revenue model of landscape maintenance is particularly attractive to PEGs. An assured revenue stream to improve upon year after year reduces the risk of their investment and increases the opportunity for steady, bankable growth.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The "business to business" nature of commercial landscape services draws substantial activity and interest from PEGs. Continued consolidation among property owners and managers drives them to seek large, professionally-run suppliers, fueling more growth and consolidation of companies who supply landscape maintenance services.

While there has been significant acquisition activity in the industry over the past two decades, the green industry remains highly fragmented. The top three companies account for less than five percent of overall market revenue and the top 150 account for less than twenty percent.

Most landscape companies are privately held businesses with annual revenues less than $5 million. Larger commercial maintenance businesses are the

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perfect target for PEGs, and there are still a good number to choose from.

WHY SHOULD THE GREEN INDUSTRY PAY ATTENTION TO PRIVATE EQUITY? When private equity invests in an industry, they are focused on growth, both organic and through acquisition. This means that if a PEG partners with one of your competitors, they will often seek to acquire competitors or smaller companies in the same or adjacent territories.

Private equity investment signals the availability of a pool of funds for acquisition. If you're thinking about your own strategic growth, shareholder liquidity or exit plan, then private equity might be one of your most attractive alternatives.

Liquidity in your industry creates exit alternatives that might not have been previously available and private equity can open a window of opportunity for owners looking to transition.

Further, private equity involvement can foster a competitive bidding process for companies pursuing liquidity options, boosting the maximum value you might receive for the company you've worked so hard to build.

Private equity investors are experts at maximizing growth, streamlining operations, augmenting management and key employees, tackling new geographies or service offerings and implementing new systems and technologies.

Private equity investors often bring seasoned business professionals from similar industries so they can bring fresh ideas and methods of operation to a company.

The capital to fund expansion and acquisition can make a PEG-backed company a formidable force in the industry.

Finally, larger independent players in the green industry might be able to find a private equity partner to team up with directly in achieving liquidity or securing growth capital. If your landscape company has grown to be one of the largest in your region, it might be appealing as a platform investment for a PEG.

When the time is right for you to pursue your exit and liquidity options, it's important to take a look at private equity in addition to your other options to ensure that you maximize value for your company. L&L

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