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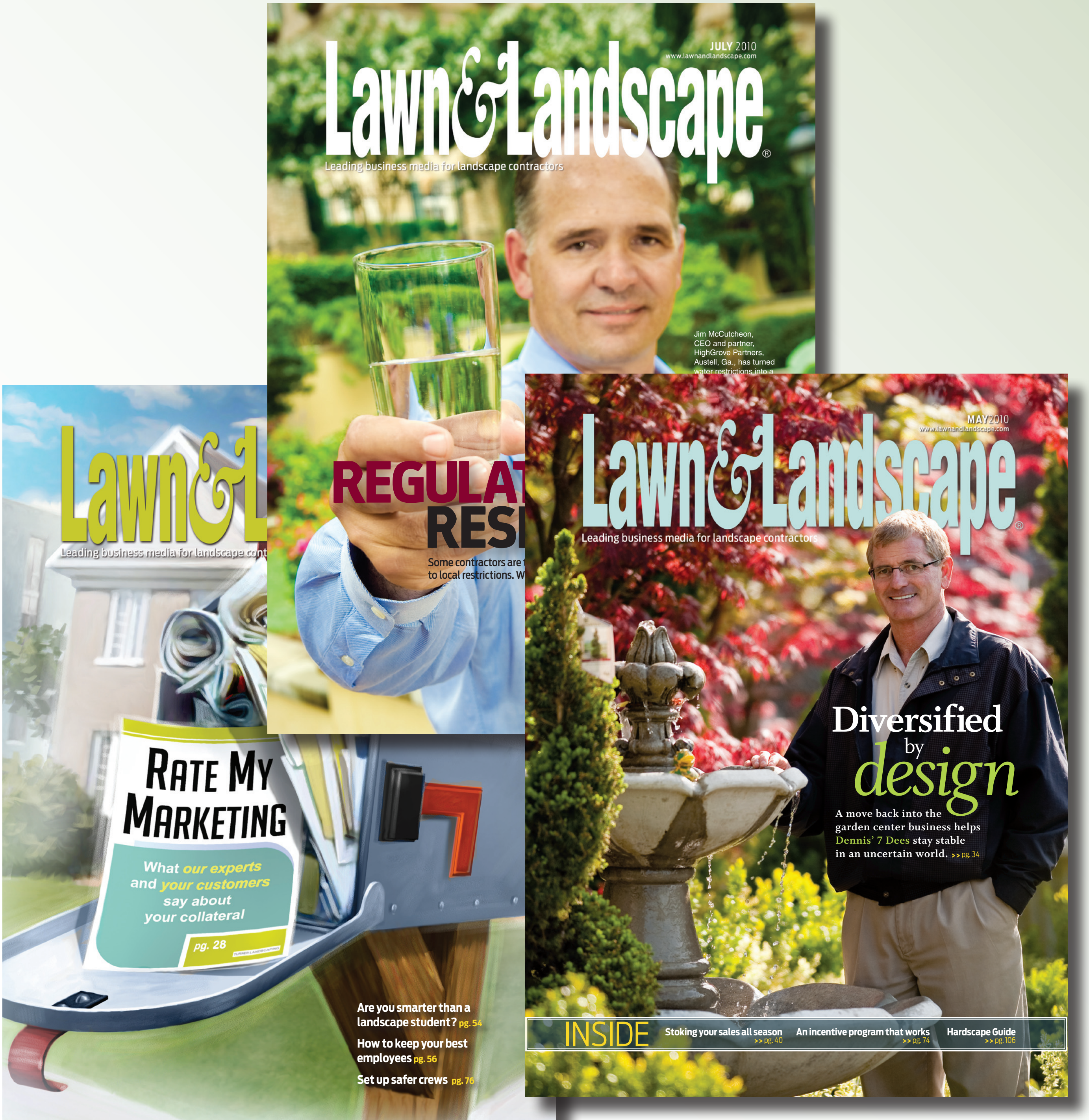
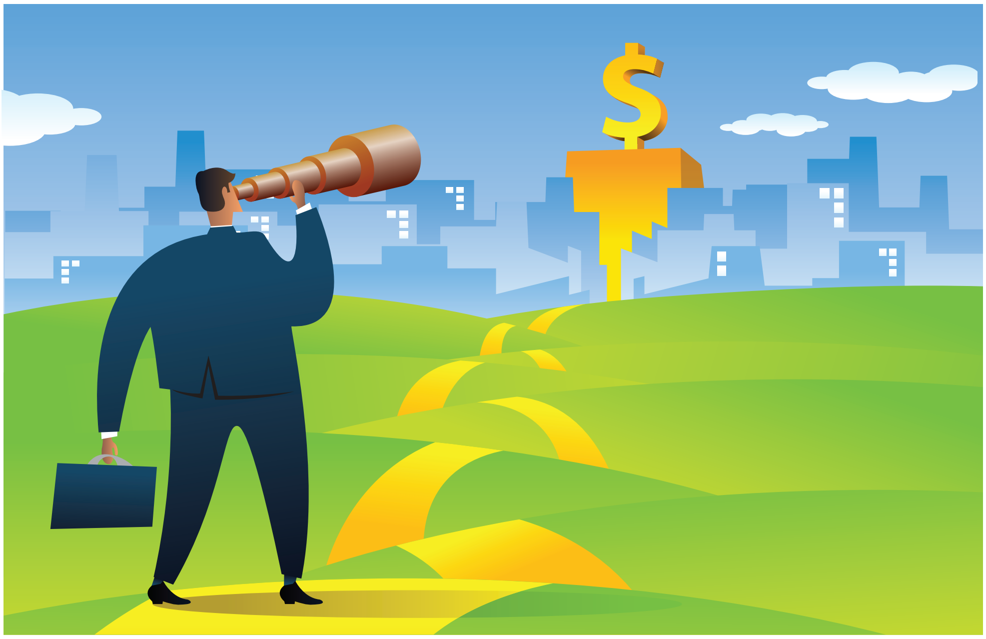


MAXIMIZE YOUR MULTIPLE

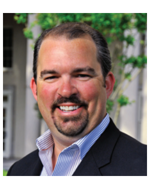
Things you can do today to make your company worth more down the road.

By Brian D. Corbett



SAUL HERRERA

Editors' note:
This is the first of a three-part series from *Lawn & Landscape* on exit strategies for business owners. Watch for next month's installment, which focuses on how to get as much money out of a sale as possible.



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So, how much is your company worth? Chances are, you have a ballpark figure in mind based on what you know your earnings to be combined with the country club conversation about "multiples of earnings" and industry gossip about who got the highest multiple from which buyer. The true value of your company, however, will not be determined by industry gossip, but by fundamental valuation methods and how you choose to run your business on a daily basis.

Whether you're hoping to cash out tomorrow or in 10 years, you can take steps now to pinpoint the value of your company from a buyer's perspective and maximize your multiple on that value. Armed with the knowledge of how the market will value your business, you can steer and track your company's value so you know that you're not just growing the top line but the intrinsic value of the enterprise as well, ensuring that you will exit at the right time for the most money.

The first step is recognizing that value is more than just a multiple, and beginning to see your company's value through the eyes of a buyer. While the multiple is significant, it means nothing unless you know what's behind the definition of earnings on which it's based.

While accountants and financial advisers employ different methods to determine the value of the company, the method most used by buyers and investors interested in green industry companies is an analysis of EBITDA, which means earnings before interest, taxes, depreciation and amortization.

An EBITDA valuation isolates the cash profits from variable accounting and financing decisions, enabling interested parties to compare the profitability of multiple companies.

When determining what multiple your company warrants, your successor will be highly focused on your company's EBITDA, as well as a host of non-financial factors, including reputation, quality of services, personnel, revenue by service type and client retention, among others.

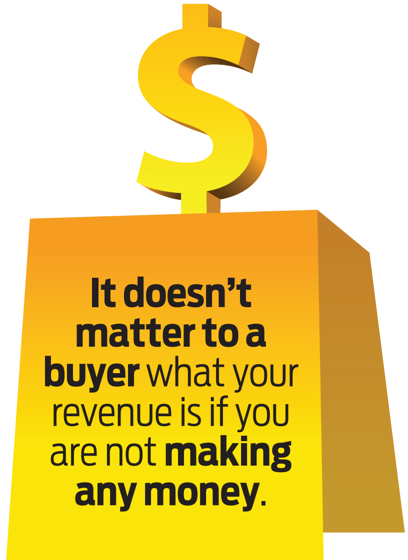
We'll examine each of these non-financial factors in the coming months. For now, let's break EBITDA down to basics.

EARNINGS. EBITDA begins with earnings. Higher earnings and significant anticipated earnings growth result in a higher valuation in the mind of the buyer. While much is said about the correlation between purchase price and gross revenue, buyers determine the price they are willing to pay by starting with your earnings.

Earnings are determined by subtracting the operating expenses of running your business, including direct costs of the job, indirect cost related to field operations and the overhead it takes to run your organization from your revenue.

While the buyers understand that no one wants to pay more than their fair share in taxes, significant personal expenses in excess of market-based compensation understate your company's earnings and could make it harder to sell your company. Remember, it's only with a willing and knowledgeable buyer that we can maximize fair market value. With solid accounting and high profit margins, however, your revenue doesn't need to be in the top 50 of the industry rankings to get a deal done. After all, it doesn't matter to a buyer what your revenue is if you are not making any money. In the words of a favorite landscaping client, "It's not what you sell, but what you keep!"

INTEREST. Your successor's goal is to determine the actual profits he will reap from your company over time. The interest you're paying on third-party debt, bank lines of credit and equipment loans is largely a function of the choices you make – whether to buy new or keep running your existing fleet and how you finance that equipment and your working capital. When a successor buys your company, you will likely pay off the debt you owe at or prior to closing, and the buyer will begin to make his own financing choices. Thus, a potential buyer will add back to your earnings the amount you pay as interest expenses to third parties. Any interest income you receive on cash balances, however, will be excluded, since you will likely be able to distribute most or all of the cash prior to closing. These adjustments allow the buyer to consider the potential effect of his own plans for leverage on the company post-closing.



TAXES. Buyers are not concerned with the state and federal taxes you're paying on your company – they're concerned with the taxes *they* will have to pay. Your buyer will likely employ different tax strategies than you, or might opt to convert your company to a different corporate form, like an S corporation or an LLC. All of these decisions may change your company's tax rates. The buyer will add back the amount you paid in taxes to your earnings, just as he did with your interest expenses, and for the same reason – to get a big picture of the profitability of your company before he makes his own strategic decisions about taxes and capital structure.

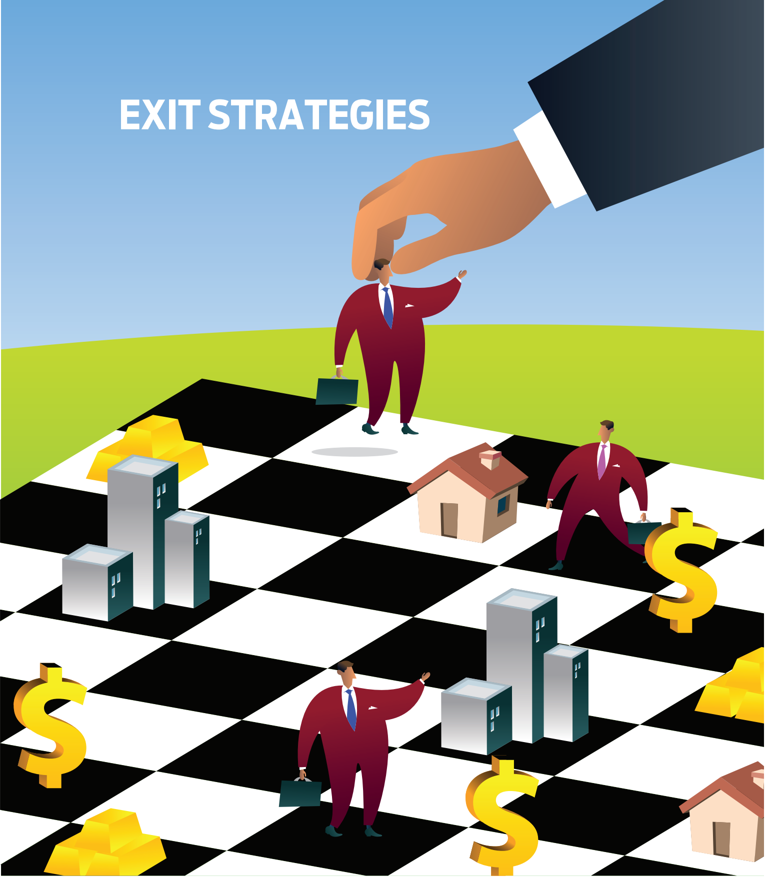
DEPRECIATION AND AMORTIZATION. Depreciation is simply the cost of an asset spread out over the expected useful life of the asset. Amortization is the term used when the assets are intangible, like trademarks, goodwill and brand recognition.

There are a variety of ways to manipulate the value of a company's assets, including the useful life of the asset, the accounting method used to determine depreciation, and the scrap value of the asset. EBITDA focuses on cash profits, and depreciation and amortization are non-cash expenses. To evaluate the profits the buyer could derive from your company, he will add all depreciation and amortization expenses back to your earnings so that he can start fresh with his own asset valuation methods and strategies.

CONCLUSION. It's important to note that while EBITDA is the preferred tool for comparing the profitability of different companies, your company's EBITDA may be quite higher than the real operating cash flow buyers seek. This is due to the fact that EBITDA does not take into consideration the cash used to fund your capital expenditures. Different types of buyers may scrutinize capital expenditures to varying degrees – financial investors may deduct your "cap ex" from earnings in order to model their returns.

That's a lot of accounting speak, but EBITDA is an important concept to understand as we take the series on to the next issue, where we will profile the three most common transaction types for the owners of green industry companies – strategic third party sales, private equity recapitalizations and ESOPs – and explore which of them might be the right solution for your company. Ⓛ

The author is managing partner of CCG Advisors, Atlanta. Send him an e-mail at bcorbett@ccgadv.com



CASHING IN

Three options for exit and liquidity.

By Brian D. Corbett

> “Considering the projected **40 percent rise in capital gain rates** later this year, an ESOP is a timely choice for maximizing value.

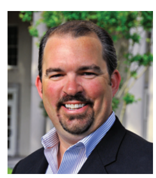
Editors’ note: This is the second of a three-part series from *Lawn & Landscape* on exit strategies for business owners. Watch for next month’s installment, which focuses on ways to build your business with the end game in mind.

This month we explore three separate strategies commonly used by green industry business owners seeking to exit their company or to achieve some measure of liquidity. When the day arrives for you to cash out – in whole or in part – chances are you’ll do so through a third-party sale, a private equity recapitalization or formation of an employee stock ownership plan (ESOP). Each of these three strategies will enable you, as the business owner, to trade a portion or all of your interest for cash. Here we’ll briefly detail the differences between the strategies, so you can begin to determine which path might be the best for you, your company, your employees, your family and your customers. Understanding your end game options will help you drive your company to the best position for achieving maximum value when the time is right.

STRATEGIC THIRD-PARTY SALE. Perhaps the most widely known of the three options is an outright sale to a third party. Usually, a third-party sale means that you, as the business owner, will sell 100 percent of your ownership interest in exchange for cash.

This type of transaction is typically referred to as a sale to a “strategic buyer.” The buyer is strategic in the sense that they are typically already active in the green industry and are looking to expand their business through targeted acquisitions. Your company must fit their acquisition profile, likely in terms of size, geographic footprint, customer base and business mix. There may be a strategic buyer already active in your area looking to add to their market share, density of routing and customer roster.

While there have been numerous strategic buyers in the green industry over the years, certainly the two most prolific are Brickman and ValleyCrest. These buyers are looking for good companies run by good people. While the equipment, facilities or other assets that come with the deal are important, the landscape industry’s strategic buyers are focused on your reputation, your ability to deliver the highest level of service at a competitive wage and your valued and valuable clients.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While the third-party sale is perhaps the quickest and cleanest way to cash out, some business owners have reservations about the strategy as a solution. A strategic buyer will look to integrate your company into theirs, which could lead to some loss of staff. It also will mean a loss of the brand name and corporate identity that’s such a part of the culture you have built. This can be a tough pill to swallow, yet it might make the most sense for achieving your personal, financial and professional goals. The landscape business is a relationship-based business that thrives or dies based upon the people who make it happen every day. The strategic buyers respect the relationship aspect of the business and therefore are looking not just at you but the quality of your staff and the likelihood that they will stay if things go as planned.

PE RECAPITALIZATION. For the business owner seeking substantial liquidity, but willing to continue to lead the business for several years, or for the owner looking for capital to grow the company, a private-equity recapitalization might be the best fit. In a private-equity recapitalization, an institutional investor, like a private-equity group (PEG), acquires an interest in the company with the agreement that the owner and his team will stay on to grow the business both organically as well as through acquisitions. In a recapitalization, the business owner receives substantial personal liquidity and diversification for the interests sold. Although a PEG typically acquires a controlling interest, this strategy allows the business owner to remain a significant shareholder and continue to be the driving force behind the company. Unlike strategic buyers, PEG buyers often look to maintain the brands they acquire, realizing the value in brand recognition and the loyalty of the management, employees and clients. Therefore, post-transaction, the company will likely continue to operate under the same brand name. As financial buyers, PEGs do not want to be involved in the daily operations of the business, but rather are looking to contribute capital and other resources to help leverage the talents of the existing best-in-class team. The PEG's goal will be to partner with the business owner 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 to the type and size of companies that they invest in, how they structure their deals and their investment time horizons.

Read the first part of this series by searching for "maximize your multiple" at www.lawnandlandscape.com.

This deal is often the best choice for an owner who wishes to get substantial liquidity off the table, yet keep their brand and their team to grow the business with continued upside and significantly lower personal risk. The best candidate companies for a private-equity recapitalization will have a well-thought-out plan in place to grow the business more aggressively. In a recapitalization, size matters and only larger companies will likely attract a PEG. In fact, the largest strategic buyers in the market have received significant PEG investment. One such group is Yellowstone Landscape Group, which is financed by Gridiron Capital, the purchaser of a number of larger players in the Southeastern and South Central U.S. PEG-supported strategic buyers are actively focused on investing in new platform companies in specific markets as well as adding-on with acquisitions in their existing markets.

EMPLOYEE STOCK OWNERSHIP PLAN. While perhaps the most maligned and misunderstood of the three options, the ESOP might be the only choice for some companies, and the best choice for those seeking to retain and reward employees while reaping the significant tax advantages the ESOP provides. An ESOP is another liquidity or exit strategy that allows the selling shareholder to get full, fair market value for any interest in the business that is sold, yet maintain operational control. The unique aspect of an ESOP strategy is the ability to reward employees with real ownership in the company. Further, if properly designed and implemented, an ESOP can create exceptional tax benefits for both the selling shareholder and the company. Considering the projected 40 percent rise in capital gain rates later this year, an ESOP is a timely choice for maximizing value.

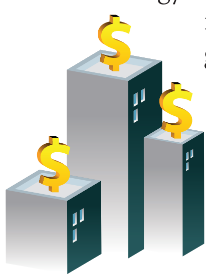
The ESOP strategy is similar to the others in that the starting point is negotiating the value of the company. Once value has been established, then the company must secure financing for a loan to the ESOP. The ESOP will use the funds to purchase the business owner's stock, which is then allocated among employee accounts in the ESOP. Over time, as the company generates profits, the bank loan is paid down and the employees' ESOP stock accounts are filled with allocations of shares in the company. The ESOP can therefore serve as a qualified retirement plan for company employees, allowing them to retire with significant stock value in their ESOP account.

While the tax benefits of the ESOP vary depending on a host of factors, including what type of entity you have chosen for your company, they can be substantial. With guidance from excellent advisors, this strategy can result in tax savings for the company and for the selling shareholders, helping them to avoid paying capital gain taxes on the value received from the sale of their stock to the ESOP.

The tax benefits and the prospect of sharing of real ownership with key employees are often the driving factors in the creation of an ESOP. However, the ESOP may be the only real alternative for liquidity if a strategic or PEG buyer does not materialize with a value that represent a full, fair market return to the shareholders.

Understanding your options for exit well in advance is a powerful tool for growing your business in the right direction. Armed with your options and an understanding of your company's EBITDA valuation, as we explored last month, you're ready to take action to increase your EBITDA and achieve maximum value when it's time to cash in on your hard work.

Next month we'll explore concrete ways to build your business with the end game in mind. Ⓛ



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The author is the managing partner of CCG Advisors. Send him an e-mail at bcorbett@ccgadv.com

Building with the end game in mind

Concrete steps toward achieving maximum value for your business.

By Brian D. Corbett

Editors' note: This is the third of a three-part series from *Lawn & Landscape* on exit strategies for business owners. You can read the first two stories at www.lawnandlandscape.com.

Did you know that only one of three businesses is able to successfully transition from the first generation to the second? And only thirteen percent transition to the third generation? In my experience, the reasons fall into several categories: children are less and less likely to stay in the family business; businesses are becoming larger and more complex to pass on; the founder wants liquidity that potential heirs are unable to provide; and there is a lack of professional succession planning.

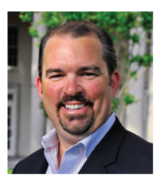
The odds are that your children or grandchildren will not step up to take over your business. However, your commitment to planning for your exit will increase the probability of a successful succession, whether to your children or an outside buyer.

Building with the end game in mind means building a business that will be attractive to potential owners above and beyond its intrinsic or book value. Here, we'll outline concrete steps for increasing the value and marketability of your company so that you can exit at the right time for maximum value.

> "The odds are that your children or grandchildren **will not step up** to take over your business.

It's important to remember that the goal of any potential buyer of your company will be the same as yours – to grow your company's revenues and profits. The ideal time to sell your company is while its prospects for continued growth and profitability are still on the rise. While you continue your goals of increased revenue and profits, positioning your company for sale requires an additional focus on shoring up your company's infrastructure, putting an effective organizational chart to work, recruiting a best-in-class team of employees and advisers, and keeping accurate, organized and professional records. Here are some tips for transforming your business into one that could generate a bidding war among buyers.

REVENUE, GROWTH, PROFITS. To get maximum value for your company, you should ideally sell when the business can demonstrate both historical and projected growth. If your profits are flat to declining and you're able to attract buyers, they will likely be the variety who want to buy your business cheap. And as we've previously discussed, your revenue is irrelevant if you are not making any profit. Growth and profitability drive value. Further, in the green industry, value is especially driven by ongoing and repetitive maintenance and enhancement revenues.



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While one-time, project-oriented construction jobs might instantly boost sales and profits, their cyclical nature as well as issues of retention and bonding make this segment of the business less valuable from the buyer's perspective. While a heavier mix of construction is less of a negative in an ESOP transaction than in a sale or a recapitalization, it's always better to have strong maintenance profits to get the highest valuation.

BENCH STRENGTH. Potential buyers may scrutinize your team as much as they examine you, the owner. Remember, the buyer might technically be buying the assets of the businesses but they will find the company's real value and growth potential in the people – you, your employees and your client base. To push the value of your company, you must build "bench strength" by incorporating key responsible players on your team that will outlast your career with the company.

Simply put, sales grow from relationships. If all your company's sales are built on the founder's relationships, potential buyers will question their ability

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> Strive to create a scalable organizational structure so that your company can **run without your constant input**.

to generate comparable sales when the founder exits. You can boost the marketability of your company by institutionalizing your business development efforts and assigning sales responsibilities to other leaders within the company.

Buyers love to see a team that can shoulder significant growth. However, we often see flat organizational charts where everyone reports to the owner. This is often clear from our very first meeting with a client – the number of times the meeting is interrupted by employees seeking guidance on issues that can and should be solved by someone else is a great barometer of how efficiently the company might run when the owner has moved on. Strive to create a scalable organizational structure so that your company can run without your constant input.

INFRASTRUCTURE. While a bookkeeper and QuickBooks can get you going and last for a while, they likely won't support your company through the growth you and your buyer are expecting. Make it your goal to make your information and data work for you. Find and implement resources that your team can access with ease to create and effectuate your growth plans. To grow you must employ systems, procedures and technology. A buyer will be attracted by smooth-running and easy-to-use systems. Many owners think they can skimp on this since the buyer will just plug them into their systems in the end. While that may eventually happen, buyers will discount your value if you have not built an organization of real quality.

ADVISERS. While you certainly do not need to go hire the most expensive accountants, attorneys and insurance advisers in your city, it's essential that you back your success with professional advice. Too many owners stick with their original advisers and end up outgrowing their ability to get all the advice they need. While the practice of being loyal is admirable, you should not sell your company short with advisers who can't continue to bring you value and expertise. There is tremendous benefit to building a team of advisers that is skilled and experienced enough to see your company through a major sale transaction.

Further, advisers can add value to your company pre-sale by readying your corporate structure and financial records for a smooth closing. For example, an excellent attorney can help advise you on the benefits of registering as an S corporation or a limited liability company rather than a C corporation, prior to marketing your company for sale. While there are a multitude of considerations regarding corporate form, in general C corporations introduce inefficiencies to a sale process, whereas structuring a deal for an S corporation or an LLC is far simpler.

A capable accountant will help you get your financials in shape – drastically reducing the time required to prepare your company for market. Quality corporate information and financials are key to surviving the due-diligence process with your valuation intact. While you don't necessarily need audited statements to get a deal done, maximizing value is certainly easier when a reputable third-party provider has at least reviewed your numbers and blessed them as materially correct and in compliance with generally accepted accounting principles.

Investment bankers or merger and acquisition advisers can help you understand the specific components of valuation, marketability, timing of the deal (yours and the market's) and how to position your company to achieve its highest and best value. They can also work with you to help organize your results and slice and dice them at a buyer's request. A buyer might ask you to list your top 25 clients by revenue for the last three years, demonstrate profitability by service line, illustrate not only gross profits but net income and EBITDA as well, demonstrate client retention over historical periods and separate profits between construction and maintenance work. Are you prepared to do so? Well-suited advisers can remove obstacles to the sale of your company.

ADDBACKS. You own a business. Expectedly, you enjoy the perks of being in charge – namely, choosing how and when to compensate yourself for all your hard work. While it's not our job to opine on exactly how you choose to do this, you need to know that your compensation and the perks you provide to other shareholders or family members from the company's coffers will be scrutinized.

While many of these amounts will be added back in the valuation process, hence the term "addback," they should not represent too large a percentage of the company's EBITDA. While you can convince a buyer to make adjustments to the value of your company for these addbacks, and thus normalize the company's true earnings, there are limits. If the addbacks are egregious, you will raise concerns and doubt in the eyes of a buyer. Significant personal expenses make a buyer wonder whether there are more being hidden and how they will affect the value of the company post-sale.

While you should enjoy the benefits of owning a business and not pay more taxes than you need, pushing the envelope too far hurts your company's marketability.

It's never too early to begin looking forward to your exit and planning to make it as easy and as profitable as possible. Keeping an eye on marketability, as well as value, is essential. With these goals in mind and a working understanding of EBITDA and the options that exist in the market, you will be well-equipped to transition your company when the right time arrives. Ⓛ

The author is the managing partner of CCG Advisors. Send him an e-mail at bcorbett@ccgadv.com.

CCG Advisors is the expert in landscape mergers and acquisitions. We have served the landscaping industry for over twelve years and have sold more best-in-class green industry companies than any other M&A advisor.

Our industry experience, expertise and relationships provide us unique access to the most influential decision makers in the industry. Working with CCG ensures you'll get the best insight into the mindset of active buyers - information on what they are looking for, what drives their valuation, and what they are willing to pay.

Whether or not you are actively planning to sell your company, understanding your options will help you to best position your company for sale when the time is right. Being prepared will help you to maximize the value of the time and effort you have invested. And if you're not yet ready to sell, we can help you find capital for growth or acquisitions and determine alternative ways to help you get chips off the table.

We welcome the chance to get to know you and your goals and strategies for growth, liquidity and exit. We look forward to helping you determine which opportunities make the most sense for you and your business and helping you achieve your personal, business and financial goals.

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THE REFERRALS AND GOODWILL OF OUR CLIENTS ARE A TESTAMENT TO OUR RECORD OF BUILDING REAL AND LASTING CLIENT RELATIONSHIPS.

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The Impact Group has been acquired by ValleyCrest Companies. The seller was exclusively represented by CCG Advisors

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The Green Plan, Inc. has been acquired by BRICKMAN. The seller was exclusively represented by CCG Advisors

Austin Outdoor Landscape Professionals has been acquired by yellowstone landscape group, a portfolio company of Gridiron Capital. The seller was exclusively represented by CCG Advisors

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Davis Landscape Management has been acquired by TARHEEL capital, inc. The seller was represented by CCG Advisors

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