BrightView Holdings, Inc. (BV)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price ($) (5/21/20):</th>
<th>13.86</th>
</tr>
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<tbody>
<tr>
<td>52WK H-L ($)</td>
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<tr>
<td>Market Cap (mil)</td>
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<tr>
<td>Shares Out (mil)</td>
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<td>Yield (%)</td>
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<td>Rating</td>
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<td>Average Risk</td>
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<tr>
<td>Price Target ($)</td>
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<tr>
<td>L-Term Rev. Gr Rate Est:</td>
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<tr>
<td>L-Term EPS Gr Rate Est:</td>
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</table>

Headquartered: Blue Bell, PA

IPO/Founded: 2018/2014

Management:
- Andrew Masterman (2016) - CEO and Director
- John Feenan (2016) - EVP and CFO
- John Shave (2020) - VP of Investor Relations

Company Description

BrightView Holdings, the successor company following the 2014 merger of leading long-time operators Brickman and Valley Crest, is the largest player in the $62 billion U.S. commercial landscaping and snow removal market with revenues more than 10x those of the company’s next largest commercial landscaping competitor. The company’s national presence, exclusive focus on commercial landscaping, industry-leading scale, strong market reputation, and generally recurring revenue stream with annual customer retention rates of >85% define BrightView as a best of class premium provider within its end markets.

Revenue Profile

BrightView Holdings, Inc. Revenue and Adjusted EBITDA by Segment

Competition

BrightView dwarfs its ~500,000 commercial landscaping competitors in the market at approximately 10x the size of the company’s next closest competitor. Indeed, the industry offers relatively low barriers to entry, with the majority of firms very small. “Scale” firms in the industry generate revenue in the ~$20-50 million range and could be acquisition target opportunities for BrightView over time.

Quick Summary

- **Value idea:** Not completely immune from COVID (but better than most). BV benefits in the current environment versus other companies across our services coverage in that it works outside, where COVID restriction issues are limited and where we expect demand to be less-impacted. BV’s Development segment (25% of revenue, slightly lower EBITDA contribution) usually works at the end of the non-res construction project, once all other work complete, with good intermediate visibility for now, though ultimate “cycle” resiliency less clear. Still, a better relative idea on our list, trading at discount.

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Recent results. BV negatively pre-announced F2Q20 Adjusted EBITDA of $38M (compared to $60M consensus) with shortfall primarily attributed to meaningful snow revenue shortfall (~46.5% YOY), a variable and highly profitable portion of business. COVID-related impact comparatively muted (still, guidance pulled). We note BV’s essentially non-existent covenant restrictions and generally economically-agnostic business model (nature does not know how to “close”) but with limited near-term growth opportunity and some risk in F2Q21 Development opportunities.

Investment Thesis
Leading commercial landscaping company. BrightView is the No. 1 player in the ~$62 billion commercial landscaping market, ~10x the size of the company’s closest competitor. Scale offers relative differentiation, particularly for national accounts, while still leaving a fundamentally “local” branch-based service network. Our channel checks suggest high customer satisfaction levels as a “premium” provider.

Simple story, compounding gains. Fundamentally, we view BrightView as a “simple” investment story, bolstered by a highly recurring revenue model within an industry-leading franchise. While organic gains are expected to be fairly modest (~2.0-2.5% over time), given relative outsourcing maturity, a steady diet of bolt-on acquisitions should supplement, leaving mid-single-digit top-line growth which can be leveraged to high-single-digit EBITDA growth through cost optimization efforts (10-30 bps of annual margin expansion targeted). Shareholders should anticipate compounding low-double-digit total shareholder return over time with limited risk, particularly in the core Maintenance segment (~80% of EBITDA).

Attractive, cash-generative model. Limited capital needs (capex~2.5% of revenue; little working capital investment) and high FCF conversion (~80% of Adjusted EBITDA) provide attractive cash returns, further benefiting from the stable/predictable maintenance segment (85% annual retention). We see FCF generation sufficient to fund M&A (~$60+M of acquired revenue/year) while simultaneously reducing leverage to targeted levels (~2-3x). Return of capital initiatives could enter equation longer term.

Consolidation opportunity. BrightView competes with >500,000 landscaping competitors, nearly all of which are small, single-source operators. We see BrightView as a “consolidator of choice” for the industry with ample acquisition opportunities in the ~$20-50 million range. Pre-synergy deal multiples (~6-7x EBITDA) can be further optimized as management moves acquired operations from high-single-digit margins to ~12-13% over ~18 months, offering value arbitrage.

Risks & Caveats
Snow and general weather risk. Landscaping work occurs outside and thus is subject to weather conditions which could impair ability to complete work. Seasonal patterns, including a late spring/early winter can also impact seasonal maintenance projects, including planting, mulching, pruning, etc. Finally, the company provides snow removal work in certain geographies, which is unpredictable in any given year.

Low barriers to entry. While BrightView benefits from significant scale advantages versus peers (10x size of closest competitor), barriers to entry are generally low, which leaves a relatively high level of competition with limited industry pricing power.

The development business is cyclical and subject to economic conditions. While the company’s core commercially focused Maintenance Services segment (~75% of revenue) is generally stable regardless of economic conditions, Development Services are project-based and tied to new construction and/or redevelopment projects.

Labor availability and employment eligibility. BrightView employs primarily low-skilled labor which could prove difficult to secure during a period of low unemployment. High labor turnover rates could also prove an impediment to company operations. Finally, while the company employs the “E-Verify” program and other tools in assessing employment eligibility, risk of employment of unauthorized workers could subject the firm to legal and/or reputational risks.

Acquisition and integration risks. A notable part of the BrightView strategy is to grow through acquisitions. The ability to successfully source, integrate, and execute against an acquisition strategy are all sources of general risk.

IPO, public company risk and limited management tenure. While management has background with public company entities, senior management tenure at BrightView and commercial landscaping is relatively limited (a few years) and the IPO process can be volatile, particularly at pricing. Relatively modest liquidity and still-substantial private equity ownership, post-IPO, could serve as an overhang as additional shares are expected to be offered to the market over time.

High financial leverage. BrightView operates with relatively high levels of financial leverage (3.8x TTM EBITDA today), which could limit financial flexibility and drive more volatile equity performance, particularly should economic conditions change and/or interest rates rise.

Supplemental Information
Valuation. Our $15 target assumes a ~7.5% FCF yield and represents 8.75x FTM EBITDA one year from today. BV’s trading multiples remain at/below the lower end of our services coverage universe (in the ~10x+ EBITDA range and with mid-single-digit FCF yields), despite a more “defensive” market, in our view, leaving potential upside to valuation.
Appendix - Important Disclosures and Analyst Certification

Approved on 22 May 2020 11:32EDT/ Published on 22 May 2020 11:37EDT.

Rating and Price Target History for: BrightView Holdings, Inc. (BV) as of 05-21-2020

1 Robert W. Baird & Co. Incorporated makes a market in the securities of BV.

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