GROWERTALKS

Cover Story

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The Rebirth of Hines

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Ten years ago this month, *GrowerTalks* interviewed Steve Thigpen, CEO of Hines Nurseries (then Hines Horticulture), about where he was taking this rapidly growing nursery monolith. Purchased by Madison Dearborn Capital Partners in 1995, they went public in 1998—the first nursery operation in the U.S. to do so—and had gone on an acquisitions spree like none ever witnessed before, in an attempt to build the first truly nationwide horticultural business.

It didn't work. Wall Street profit expectations, the events of 9/11, poor spring weather and the economic downturn all conspired to unravel the dream of a coast-to-coast nursery. Steve Thigpen left in 2003 because of differences between himself and the Board. Chapter 11 bankruptcy came in 2008. Business units were sold off. And for many in the industry, Hines was written off as a casualty of Wall Street greed.

But not by Steve or his long-time Hines colleague and friend Joe Gray. After Hines was purchased by Black Diamond Capital Management in 2009, Steve and Joe saw the opportunity to help lead Hines back to its former, pre-Wall Street glory. The two, serving as CEO and COO respectively, make a formidable team—experienced, confident and loyal to the memory and mission of the Hines of old. *GrowerTalks* sat with Steve and Joe in Steve's Irvine, California, office to learn why they came back, what their plans are, and what challenges they face.

GrowerTalks: Ten years ago, Hines had 12 growing locations, 18 potting mix/peat locations and $423 million in sales. Where is Hines today?
Steve Thigpen: "Well, things are much different. As you probably know, Sun–Gro was sold off to its own public income trust in Canada. That would have been 2002. So that would have brought us back to the range of $340 million in greengood sales as a company at that time. And obviously from there the whole company has changed very significantly, much of it taking place after 2003."

GT: Ten years ago, you'd gone on an acquisition spree, acquiring Lovell Farms in Florida, Willow Creek in Arizona, Atlantic Greenhouses in Pennsylvania and New York ... What was the reasoning behind the rapid, massive growth?
ST: "I think on the front end we realized—and I think we had this part of it somewhat correct—we knew that as the big boxes were growing and increasing their footprint around the country, the color growers who were in those stores were having a lot to do with the merchandising and the layout, things like that. And the shrub

people were somewhat behind that. So we were trying to establish ourselves by having some presence in color as broadly across the country as possible, and then hopefully bringing the nursery goods in on top of that.

"The reason to be as aggressive, in terms of trying to buy, buy, buy everywhere was because we were public, and I think that was the beginning of an issue for the company. Frankly, Wall Street doesn't like the nursery industry. I think it does like the manufacturers—people like Scotts—but as growers, I don't think [Wall Street] understands or appreciates the seasonality, the weather impacts. … Once we were public, we were trying to compete with the Internet companies who were growing at lightening speed."

GT: What happened when Hines wasn't performing up to Wall Street's standards?
ST: "Let's answer in two ways. First of all, Hines, from an operating perspective, at least right through 2002, was doing quite well—very stable, good earnings stream. But that's not the same as creating shareholder value. Basically, we had a lot of debt at that time in order to have financed a lot of those acquisitions, and so the shares were struggling. I mean, for a number of reasons, earnings being part of that, but also because there wasn't enough interest in the company and in the stock itself. And right through 2002 the company performed reasonably well. I think the issues that bring Hines to where it is now happened subsequent to that. I don't think it's only that we purchased [other nurseries] up until 2002—there were other factors that affected the company after that."

GT: Did you pay too much for some of those companies? Lovell was what, $92 million?
ST: "Well, hindsight's always 20/20, and I think you could argue that that was probably a very healthy price."

GT: You left the company when? And why?
ST: "In February of 2003. There were some differences between myself and the Board with regard to where the company was going, how fast it was going … things of that nature. So it was just a good time for departure."

GT: What have you been doing in the interim?
ST: "I've been in the industry for the majority of that time. I did about five years of work consulting with higher-end garden centers, many of whom had growing operations and they were vertically integrating, and so I was working with them to try and help piece that sort of stuff together … which was fun; I learned a lot doing that. After that, I did some work in the bankruptcy arena, which became very prevalent in the economy, right? So in any event, I've had some interesting experiences."

GT: What brought you back?
ST: "It wasn't a hard decision for me. The company is facing a lot of challenges right now and I like the challenge, and I think I'm invigorated by it, and I know Joe is, too. We're very busy in that regard, so that's been rewarding already. But I think more fundamentally, Hines was just a great company. I mean great in terms of its people, great in terms of its value system and the culture we had here, and really great in terms of its performance for many years. Unfortunately, as we've discussed, we got a little bit ahead of ourselves and got into some problems. But at its core, fundamentally, there's nothing to get in the way of re-establishing it back to its own level of excellence. Now, it won't be the same, won't be as big, won't have the same sites—all that doesn't make any difference. The company that we have can be an absolutely fantastic company, and I

want to be part of that. And as far as I'm concerned, everybody who's worked here and has been here for many years—and there are many, many employees with a lot of tenure—they deserve the opportunity to be part of a successful company again. There's no reason it can't happen."

GT: Joe, you had a long career with Hines—21 years. When did you leave, and why did you come back?
Joe Gray: "I left in December '08, and for the same reason as Steve, except I guess I stuck it out a little bit longer. I just had differences about where the company was going, and I didn't feel comfortable with it.

"Right after that I went into consulting too, a little bit, on the grower side of the industry with some nurseries in Oregon, and then went to Ball [Horticultural]."

GT: You came up through the ranks at Hines?
JG: "Yeah. I started in sales from being a garden center manager in the summer of '86. This guy hired me." (Gesturing toward Steve.)

GT: So you guys have a history.
JG and ST: (in unison) "Oh, yes!"

JG: "When Steve came back, I felt the company was going to be going in a very good direction. I knew Steve's good leadership. So at that point I came back to support and help this company out.

"In the core, this company has a phenomenal group of managers who have stuck it out, and a phenomenal group of team leaders in the field—the actual growers who do the work in the field. We have a solid core of people. They just need to connect to a good plan, a good strategy, and we can produce. We're very good at that. We'll produce the right product. We know how to produce the quality. We know how to service the customer. We just have to connect to a good, strong strategic plan. That's the key. And it's got to be tied in to where this industry's going."

GT: Hines sold off the Florida location and the northeast locations (Pennsylvania and New York). What's left of Hines today?
JG: "We have eight operating sites total right now. Starting up north we have Hines in Oregon. We have Hines in Winters, California. There's the [recent] acquisition of Bordier's, which is now Hines in Somis. And we have Irvine, which will remain but it's going to shrink down. Then there's Hines in Fallbrook (California). Hines Color in Fresno (California). And Hines Color in Chino Valley (California) and Phoenix (Arizona)—we have three locations in and around that area. And then Hines in Houston, Texas."

GT: What does that give you in annual sales?
ST: "I think $130 million is a good number."

GT: How is that split between woody ornamentals and color?
ST: "Depending on how you define color, it's roughly 75%/25%."

GT: Steve, ten years ago, you spoke about something called "Vision 2010." You said, "I genuinely

believe that we can build a company that could be a billion dollars and maybe significantly beyond that." We're in 2010 now. How different is the reality than the vision?
ST: "Well, for Hines obviously, it's quite different—I think you know that. But if you look at the industry today, what do we have going on? We have very dominant positions with a [small] number of very successful and talented color growers throughout the country who are managing a good deal of retail space for all of the different boxes. And I think they're doing a great job. It was pretty clear in 2000 that something like this was going to happen; we just weren't capable of getting that strength in color to be one of the front-end people in that. But it's there—whether it's Color Spot or Metrolina or Costa or another mega grower. … And now the [woody ornamental] business is falling in concert with that, whether it's through the Bell [Nursery] model or other single-source suppliers."

GT: What happened to Hines production philosophy between then and now?
ST: "Well, if you take a snapshot of 2000, and you focus on the nursery business, which is really the core of the company, Hines was a very diversified-mix company, diversified-customer base company, working almost entirely in the retail segment. Doing business with each of the different boxes. Doing business nationwide with independent retailers. Focused on a value-added mix, focused on new products, novel products, as well as the basic line of materials.

"Sometime after 2003, the company re-aligned its strategy. The discussion was, as I understand it now, 'We want to go narrow and deep. There's too much complexity with all the value added. There's too much complexity and costs associated with trying to always be new, novel and different.' What that did was bring the line in quite a bit and really commoditize it. And as the commodity focus continued, some of the independent business began to wane, and the focus on the big boxes continued to grow. Those changes took place right up through 2007-2008, and almost to the present day."

GT: Hines was moving toward a narrow-and-deep approach, while today the selection at the big boxes is getting more and more broad.
ST: "We were moving in that commodity direction. We never quite hit it. That's one of the reasons why I had disagreements with the company. [A diverse mix] has always been such a core strength of Hines. We've have national products like Patio Tropics that we ship all over, to all boxes and independents. And we're still very strong in new product development. That's a big part of our company. That's important to the consumer … that's critical to us."

GT: And yet now it seems that Hines is having to simplify itself—get back to core strengths in order to rebuild the business?
ST: "Yeah. And part of the rebirth or the reinvigoration or whatever we want to call what's happening with Hines now is to get back to those basics. Maybe that's not the right term because it isn't so basic. The fact of the matter is, we're going back to where we were. It was a very, very successful platform and a very successful strategy, and honestly, I think we have to be full-mix suppliers. But we can't be only basic-mix suppliers. So Joe's talents and strengths in new products are awesome, which is going to help fast-track us back in the direction we need to be going."

GT: Did you fall behind the competition in the years that Hines was struggling?
ST: "As you sit with us today, I think there is a 'regaining' that needs to take place. And that's a nice way of

saying it. As we took a departure of perhaps five years from really being aggressive in developing new and different products, have other people grabbed on to those and lapped us, so to speak? I think so. And I think it's important that we get back on our game."

GT: Joe, as the production guy here, what do you see as Hines' strength?
JG: "There's the climactic advantage that California has over cold climates. We can be in there with products that a local grower can't do. That strength will always be there. But [shipping] commodities long distance? No. Not with the cost of freight and the way the market has changed. New products—like tropicals—people love it. And a local grower can't do it, while a distant grower can. We just have to be smart about what we introduce, what percentage of our mix it is, how we package it, how we sell it. But that's a growing, growing business—that whole climactic niche, then wrap your new products around it. That's a huge segment for us."

GT: What about serving your local market in the West?
JG: "Of course we're going to be a quality grower of some of the commodities, the new forms, the topiaries, the tropics, the perennials, the annuals—the whole mix. So close in, we're very strong in that."

GT: So where is Hines today on the color side of the business? How competitive are you versus those big growers who probably did a better job than Hines in the past five years?
JG: "I think we're very strong on the color side, in California and Arizona. Currently, we're at capacity in our color production—unlike our woody sites. We're having a good early spring, the numbers are strong.

"On the woody side, I'll say this—and I mean this—gravel is good. First thing when I came back and I looked at the gravel and was a little shocked … I'd never seen gravel here before. We'd fill the beds, and then we'd fill every other road, and then ship the heck out of stuff and produce, produce, produce.

"But we're leaning into the right production. And more importantly, we're leaning into a lot of new products that will give a lot of value and mean a lot to our customers when they see what we're doing. We beginning to present that now, we'll be presenting more for future spring and fall programs.

"I think we're ahead of the curve. I think the rest of the industry is going to be looking at gravel soon. It's tough, because you sell off your inventory, you cut your costs, you cut your labor, you cut your production costs, and you put cash to the bottom line. And then all of a sudden you've got to produce a lot, and that's a big expense. And I'm not sure the banks are favorable to our industry for lending."

GT: So in a way, Hines' almost self-induced challenges put you in a better spot than the competition, because every woody grower is facing tough times now, but you were there ahead of them, doing the downsizing and belt-tightening that they're just starting.
JG: "That's right. And now we'll step back into it with good supply, and the right supply."

ST: "And a very cleaned up balance sheet. And a very bright financial sponsor. And a bank that's working well with us to finance us going forward. So yeah, we have gone through some of the issues that others are facing and will be facing in the next couple years."

JG: "And a solid strategic plan that will support our growth. And it will be around all aspects of this business:

the boxes, the home centers, the mass merchants and the independents. All of them are extremely important and all play a roll."

GT: Steve, you and I last sat here in 2000, when the economy could not have been rosier. Then 9/11, the dot.com bust, some bad springs, then the economy went south. Without those factors, could Hines have reached the $1 billion in sales that you envisioned 10 years ago?
ST: "I don't know that. We were a highly leveraged company. We had a lot of debt. We were a high performing company. But a high-performing company with a lot of debt, when it's hit by financial impacts of that nature, it makes things difficult, and immediately. And so Hines was impacted by that perhaps more than other suppliers who may not have been quite so leveraged as we were. I don't think we would have ever gotten [to $1 billion in sales] given what happened in late 2006 and then '07 and '08. I think the unforeseen devastation of the economy, and the housing market in particular, we would have been caught up in that as well."

GT: How much has the big-box marketplace changed between 2000 and 2010?
JG: "You know, for me, I think it's actually better. The more data we get, the more information, the more planning we can receive, it helps us in our production and in servicing them. Personally, I think we're getting closer, we have a better working relationship, we understand each other's needs a lot better. I think it's good. I think a good, healthy relationship helps us plan out our production and our business and partner better."

ST: "Aside from pay-by-scan, I'm not sure the big-box business has changed all that much. I think what has changed is the growers and the circumstances. As we continued to do business in the late '90s and into the 2000s, there was a situation in which, if anything, all of us were chasing supply that was either in balance or there were ongoing needs so that we were always trying to catch up with demand. Then came a supply-demand imbalance where they continued to ramp up stores, we continued to get that product on the ground in the stores, and then the economy hit a wall …

"I don't think they've really changed. I think right now they're doing a good job trying to promote product and get it through the stores, they're trying to use a lot of the excess that's in the industry right now. But eventually they know as well as we do, that's going to work its way through and we'll be back to something that's a little bit more in balance again.

"And in all cases, we've got better visibility, better replenishment modeling, for all the chains."

GT: Do you envision more or fewer partnerships with competing growers?
ST: "I'm not sure how I'd respond to that. Obviously, we're going to be competing. That's the nature of capitalism, and our industry. But at the same time, I do think there's a significant opportunity for major growers to have some sort of strategic alliance with single-source suppliers. Because no matter where you are in the country, there's stuff that you don't have yourself, and you're sourcing it from someone. I think it's a smart place to be to understand, on our end, what are those few things that we actually can do here from California that aren't really competitive with anything else that they're doing … find out what those few things are and partner up with those people in the different parts of the country. That may mean different products for different parts of the country. But I definitely think that [opportunity] is there. And we will definitely pursuing that. But that said, we're still going to be tough competition for all the people that we're doing business with in our own

back yard, too."

GT: Talk about Hines' new owners, Black Diamond.
JG: "I love these guys. I think they're really bright, they're really shrewd. They bring an evaluation and a discipline of the business which is very beneficial."

ST: "They bring a perspective to the business and how we do business that is different than how we think of it. It's very healthy. They're not dictating that it needs to be accepted. They just have a different view. And talking a lot of issues through has really helped us to understand some of the implications of our approach to the marketplace perhaps differently."

GT: In other words, they're business guys, not farmers.
ST: "They've very much business guys. But they're also operating guys, and they do have a fair amount of ag experience. They have a produce company here in California and some other experience with agriculture, which has served them well. They study their industries. They aren't farmers, but they're very knowledgeable, and they're gaining knowledge every day. We work very closely with each other."

JG: "So they're kicking the tires and asking questions, and not being so wedded to this industry they ask questions that are kind of obtuse. But then you think about it and you go, 'Whoa, that's a really good question.'"

ST: "Yeah, they're provocative."

JG: "And they see opportunity, which is really good. It's a very healthy relationship."

GT: And you think a long-term relationship?
ST: "Oh, I hope so! As I said, at this point it's entirely premature to figure out when we're getting divorced—we're just getting married!

"We'll see what happens. But I'll tell you right now, their involvement has been very beneficial. They're sharp, and they're more than willing to roll up their sleeves and help."

GT: Do you think we'll see Wall Street sniffing around our industry again anytime soon?
JG: "Show me a successful model that has ever occurred in the green side—not the hardgoods side—but the green side [of our industry]. I can't think of one."

ST: "I don't see it. It's too hard to manage within a public environment for our industry, I think. I don't think we'll see them back."

GT: So what are some key lessons our industry, especially large growers, should take away from what Hines has been through?
ST: "First, debt is a tool, but debt is dangerous. No doubt about it. So you have to be very considerate and moderate in terms of taking it on and then figuring out how you're going to work your way out of it if you have to, if you have to do it at all.

“Second, I’d very much limit the speculative growth and really get close with our customers and make sure we know that we have a home for it before we ever put anything in a pot and put it on the ground. I do think we’ve learned that lesson very well, and we’re trying to be much more disciplined with that as we go forward.

“I love growing commodities. But that’s not the end of the story. To really help our customers help create enthusiasm in their stores—garden centers, home centers, whichever venue they’re operating—you have to bring something to it that’s new, different, exciting, that has some sort of attachment that people are looking for rather than just the same old stuff year after year. I think that was something we already knew. We are relearning the sense that we have to get back to doing it. But it is something we know very well. And perhaps I wish Hines hadn’t gotten away from that.”

GT: Are there any rumors or misinformation out there about Hines that you’d like to set straight?
JG: “I think the one that a lot of growers might be spinning is that we don’t have product. That’s the biggest one. And it’s actually pretty funny. You tour through all of our operating sites, and at some of them, you can see gravel. But that nursery’s total units on the ground is greater than most nurseries that are full! That’s part of the issue. We have a lot of great product. We’re assembling and shipping it right now. And we are super actively producing and canning through spring. So that’s one myth.”

ST: “Until perhaps very recently—and it may still be out there even now—there have definitely been consistent rumors that Hines would be going under, Hines is going down, they won’t be here next year, don’t put any commitments with those guys … That absolutely needs to be put to rest. We’re here, we’re okay, we’ve got the financial backing and the ownership structure. We’re on our way back.” **GT**