

# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

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**THE WALL STREET TRANSCRIPT**

## CEO/COMPANY INTERVIEW

**STEPHEN P. THIGPEN**  
Hines Horticulture, Inc.

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# Hines Horticulture, Inc. (HORT)



**STEPHEN P. THIGPEN** has served as President and Chief Executive Officer of Hines Nurseries since September 1995, Chief Executive Officer of Sun Gro-U.S. since May 1997, and a Director of the Northern California Nursery for Hines Nurseries from 1985 to August 1995 and as a Technical Resource Manager for Hines Nurseries from 1984 to 1985. Previously, Mr. Thigpen was Research and Development Program Manager with Weyerhaeuser Company's Nursery Products Division from 1982 to 1984. Mr.

Thigpen received his B.S. in Plant and Soil Sciences from the University of Massachusetts in 1977. Mr. Thigpen received a Ph.D. in Plant Physiology from the University of California at Davis in 1981. On June 22, 1998, Mr. Thigpen became the President and Chief Executive Officer of Hines Horticulture, Inc.

## SECTOR – RECREATIONAL PRODUCTS

**(HAQ626)(RS13) TWST:** Let's start out by your giving us a brief overview of Hines Horticulture Incorporated — the company's history, products, customers, those kind of things, please.

**Mr. Thigpen:** First of all, we're a horticultural manufacturing company and we currently participate in two segments of the overall industry. The first is in plants—in bushes, shrubs, and flowering plants for both indoor and outdoor use. We're one of the largest commercial nursery growers in North America and we have one of the broadest mixes in the business. We sell our plants primarily to the retail channel, through independent garden centers, home centers, and mass merchants.

The other segment in which we're competing is in the professional and retail growing mix business. We are the largest producer and marketer of sphagnum peat moss-based growing mixes, and we're also one of the largest producers of bark-based growing mixes. On the peat side, we sell our products primarily to professional

greenhouse growers, nursery operators, vegetable seedling producers, and golf course developers.

From an historical perspective, the company is one of the oldest and most respected in the industry. It was founded back in 1920 by James Hines and was operated as a family-owned business until it was acquired by Weyerhaeuser in 1976. At that time, Weyerhaeuser doubled the production capacity and then brought in the existing management team beginning in about 1984, and it is largely that same group who are running the company today. During the 1980s, we really took the opportunity; first of all, to get our arms around the business and build a very solid platform that has served us well as we began growing the company.

In 1990, Hines was acquired by a private equity group and senior management. We began to grow the business and expanded by buying land and then beginning to build that land out. It was also in the period from 1990 to 1995, that we initiated our first couple of acquisitions as well.

In August 1995, Madison Dearborn Partners and management acquired the Company.

## Investors Brief

**Hines Horticulture, Inc.**

**Ticker (exchange)**  
**Price close 9/29/99**  
**12 Months Price Range**

**HORT (NASDAQ)**  
**9 7/8**  
**5 - 10 3/4**

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**Corporate Officers**

**Douglas D. Allen**  
 Chairman

**Stephen P. Thigpen**  
 President and CEO

**Claudia M. Pieropan**  
 CFO, Secretary, Treasurer

**Corporate Business Description**

Hines Horticulture is a leading operator of commercial nurseries in North America, producing one of the broadest assortments of container-grown plants in the industry. The Company sells its nursery products primarily to the retail segment, which includes premium independent garden centers, as well as leading home centers and mass merchandisers, such as Home Depot, Lowe's, Wal-Mart, Kmart and Target. The Company is also the largest North American producer and marketer of sphagnum peat moss and professional peat-based growing mixes, which it sells to professional customers, including greenhouse growers, nursery growers and golf course developers.

**Hines Horticulture Joins Russell 2000 Index**

IRVINE, Calif. – Aug. 10, 1999--Hines Horticulture, Inc., reported that it has been added to the Russell 2000 Index. The Index, a comprehensive representation of the U.S. small-capitalization equity market, is known as a premier measure of small-cap stock performance.

Stephen P. Thigpen, President and Chief Executive Officer said, "We are pleased to have been added to the Russell 2000 Index. With the Company's continued growth, consistent financial performance and unique industry profile, we look forward to the increased market exposure that should accrue to Hines. We look forward to this added visibility's promoting greater institutional participation in our common stock."

### **Hines Horticulture Acquires Pro Gro Sun Gro Acquires Leading Producer of Bark Based Professional Growing Mixes**

IRVINE, Calif. – Aug. 24, 1999 – Hines Horticulture, Inc., announced that it had completed the acquisition of Pro Gro Products, Inc. and Pro Gro of South Carolina, Inc. (referred to collectively as "Pro Gro"). Terms of the transaction were not disclosed.

Pro Gro is one of the major producers of professional growing mixes using composted bark as the primary raw material. It currently serves a significant share of the market for bark based growing media used by greenhouses and nurseries in the Carolinas.

With production facilities in North and South Carolina, Pro Gro is strategically located to serve markets in the Eastern United States from New England to Alabama, while being in close proximity to inexpensive raw materials, such as southern pine bark and peanut hulls, and affordable transportation. Pro Gro's annual sales are approximately \$10 million.

Stephen P. Thigpen, President and Chief Executive Officer stated, "Having recently announced the acquisition of Strong Lite, Inc., the

addition of Pro Gro, further enhances Hines' capability to provide a broad line of professional growing mixes through its network of 17 North American sites. As one of the market leaders in bark based mixes, Pro Gro significantly adds to our product capabilities in the eastern part of the country. Now with a major national presence in bark and peat-based products, Hines will be in a preferred position to do business with professional growers and national retailers of garden products, who are seeking to assure product and service consistency nationwide."

Thigpen continued, "In addition to furthering the Company's sales efforts of higher quality, higher margin professional growing mixes, the acquisition of Pro Gro's production capacity will also be a valuable component of our co-packing strategy. Co-packing is a recent Hines initiative, which received enthusiastic market acceptance during the 1999-selling season and has generated significant market interest for next year. Manufacturing soil mixes for companies with nationally branded products has enabled Hines to serve the retail market in an economically advantageous manner."

### **Hines Horticulture Acquires Strong Lite Sun Gro Expands Leadership Position in Professional Mixes With Addition of Bark Based Products**

IRVINE, Calif. – Aug. 2, 1999 – Hines Horticulture, Inc., announced that it had completed the acquisition of Strong Lite, Inc. with sites in Pine Bluff, Arkansas and Seneca, Illinois. Terms of the transaction were not disclosed.

Strong Lite is a producer and marketer of professional mixes using composted bark. The Company also sells expanded vermiculite and perlite, which are utilized in the formulation of professional growing mixes. Annual sales of Strong Lite approximate \$13 million.

Hines' Sun Gro business is currently the largest North American producer and marketer of sphagnum peat moss and professional growing mixes. The acquisition of Strong Lite expands the Company's leadership position in providing high quality plant growing media to professional growers.

Strong Lite has also successfully engaged in co-packing relationships, providing private label growing mixes to major bagged goods companies. Within the last year, Hines has aggressively implemented its own co-packing strategy, which has been extremely well received in the marketplace. Having identified co-packing as a strategy for future growth in peat-based mixes, the additional experience, capacity and geographic locations which Strong Lite brings in bark-based products, will further enhance Hines' appeal as a co-packing partner.

Stephen P. Thigpen, President and Chief Executive Officer stated, "We are delighted to welcome Strong Lite to the Hines family. The addition of Strong Lite's capabilities in producing bark-based growing mixes will enable us to further penetrate the higher quality, higher margin professional growing mix business across the country. In addition, with a significant national presence in bark and peat-based products, Hines will be in a preferred position to co-pack for national retailers of garden products, who are seeking to assure product and service consistency nationwide."

Thigpen continued, "Strong Lite's production capacity will also be a valuable component of our co-packing strategy, which has generated significant market interest for the 2000 season. By preparing growing mixes for large bagged goods companies under private and brand label arrangements, co-packing has enabled Hines to serve the retail market profitably by maximizing its strengths in manufacturing."

From that point forward, we have continued to grow the company by internal expansion and by accelerating our acquisition strategy.

Last June, as you know, we completed our IPO, which was led by Lehman Brothers, Deutsche Bank Alex Brown, and BancBoston Robertson Stephens. So far this year we've continued to grow the company having just completed three acquisitions. We are proud of the solid growth and operating performance track record we've established.

**TWST: What are the most significant trends, developments, or changes that you anticipate in your sectors of the market over the next several years?**

**Mr. Thigpen:** The first is, there's very strong industry growth of about 7% right now. We anticipate that this will continue. Secondly, I think there's even more rapid growth with our key customers, the premium independent garden centers, the home centers, such as Lowe's and Home Depot which have much higher rates of growth than 7%, and the mass merchants like Wal-Mart and Target who are focusing a great deal of attention on Lawn and Garden.

The bigger retailers themselves are driving a continuation and even now, I'd say an acceleration of consolidation in the industry because using Depot or Lowe's as an example, they need larger regional and multi-regional suppliers. There are very few large companies in this industry who have the distribution, volume, product mix, and also the technological capabilities for labeling, and EDI to support the needs of these types of customers. So as they grow, they are driving consolidation.

Fourth, I think one of the biggest trends in the industry is that there's very, very rapid growth of color such as annual bedding plants, perennials, flowering shrubs, and even indoor flowering

plants. All of those segments of color are really driven by impulse purchases and tying back to the home centers and mass merchants, I think more and more opportunities for the public to interact with plants are being created through exposure in the home centers and mass merchants at the store front and at the check-out aisle. The bottom line is, today, if it's flowering and colorful, it sells! So we're jumping on that bandwagon.

I'd like to mention just a couple of other trends, because I think they're significant. Most people have seen the statistics on home ownership, which are currently at all-time highs. Home ownership drives the business for landscaping.

And lastly, I think we do have solid, favorable demographics driving us with the growing 50-year and older group who have the money, the interest, and the time to spend gardening. Those are really the key trends that I think are going to help us in the next few years.

**TWST: What are your marketing and sales strategies?**

**Mr. Thigpen:** We are focusing our marketing to different channels on the plant and peat side of the business so let me bifurcate my answer. On the nursery side, we're very focused on the retail channel, which in our industry remains quite stable through moderate economic downturns. We have strong niches for high-end value added materials with the premium garden centers, and a strong niche of size and scale with the home centers and mass merchants. All of our nursery sales are conducted through our nationwide sales force of employee sales consultants.

On the peat side of the business, our primary customer is the professional grower, and we access and reach many of the bigger ones directly through the company and its sales force. Smaller growers are sold and serviced through an extensive group of distributors who are located throughout the United States.

**TWST: Are you on the Internet at all?**

**Mr. Thigpen:** Today we have our investor relation's web site available to the public. Over the past fifteen months we have been serious about developing a web strategy for the Company, one that emphasizes our strengths and knowledge base. We feel we have a strong position in new plant varieties and a significant advantage in our knowledge of plants. We're developing our strategy to capitalize in these strengths. Currently, we are already growing products specifically for customers who are selling and fulfilling via the web. There are many opportunities for business on the Web, which are only in their infancy.

**TWST: What are the greatest opportunities for Hines Horticulture over the next several years? Is there a scenario that could lead the company to substantially beat expectations in the future?**

**Mr. Thigpen:** Yes, I think we have great opportunities in the near future. First of all we will continue to establish a broad national footprint in terms of location and scale, for a couple of reasons. First, we want to continue to be supplier of choice to these regional buying offices of many of the big boxes and for the local premium garden centers, and second of all, so that we become the buyer of choice to many of the smaller companies who are looking to sell their businesses.

Secondly, through the 1980s, we built a very strong operating system and a very solid management team. We have a key opportunity to infuse into these new acquisitions our management system, our operating practices and in particular, the people development systems that we utilize because they have served Hines very, very well.

Our third opportunity, which has very significant potential is to diversify into other segments of the horticultural industry, adding additional legs to the stool, if you will, other than

just the peat and the green goods that we're looking at right now. There are several categories that would fit nicely with the existing business.

**TWST: What are the major concerns that the company faces now and will be facing in the future?**

**Mr. Thigpen:** I would say the primary concerns the company has, and this may sound kind of corny, but it really is true, are to not outrun our cash and to not outrun our people. We must develop the financial structure and the people to support our growth.

A more specific concern, is really achieving our overall growth targets because it involves first, making the acquisitions, and then in addition to that, making them successful. I'd say one of my primary concerns is just making sure that we continue to stay the course of developing the people talent either through recruitment or training to support growth as we go forward. Another concern right now is we're going through the process of implementing an ERP over the next 18 months to two years and with that, there are risks. Our goal is no glitches, no operating impacts whatsoever and I think we're up to the task. These concerns are no different than those facing any growth company, and in many ways I feel we are better equipped to handle them.

The last concern, which comes out of our prospectus is one that people naturally think could be an issue in this industry, and that is weather. But my take on weather is that the bigger and more geographically spread out we get, the less at risk we are from any regional weather event because the more diversified we are, as certain areas are affected either by rain or cold, we have the opportunity to move volume into other parts of the country which are not affected in that way.

**TWST: You mention a few things to make you really competitively very important.**

**Any other competitive advantages coming out from this? What else sets the company apart?**

**Mr. Thigpen:** I do think we have several competitive advantages. First of all and I'll try to reinforce it again, we are the best operating company in the industry in the segments in which we're participating and I'm very proud of that. We've done a good job for our customers, year in and year out with very consistent performance. Our performance has been driven by our excellent management team, many of whom have been with the company for literally 15-20 years and we've infused new people as we've continued to grow. Basically our approach on acquisitions is to keep virtually everyone that we can who wants a progressive career with the company. I think nationally we've got very strong customer relationships and as we've made acquisitions, it's opened up alternative distribution channels where we can move material from acquisitions into Hines customers which are potentially more profitable for the Company as a whole.

We've got a very strong industry position, and I would say that we are the employer of choice in our industry to attract some of the best talent in the business and also to retain them once we have them with us. I also think that as a result of an extensive strategic planning effort; we've got a very solid business plan so that when we're looking at specific acquisitions, we understand where they'd fit, why they'd fit, and how they'd fit. And it certainly helps complete acquisitions because you can talk to the owners and employees about their fit and their future. It also helps when you're working on your integration strategy.

**TWST: Any weaknesses in the company that need to be addressed, or put more positively any challenges to be met?**

**Mr. Thigpen:** Yes, I mentioned them a

little bit in my discussion of business concerns. I would say more so than ever before, we can always use more talented people. I don't think it's a weakness. I think we've done a very good job trying to keep up with that, but it is an issue, particularly as you grow the company. The second issue I also mentioned, that as we've added more and more businesses to the company the computer system has not kept up, which is one of the primary reasons we're going toward the ERP. So that's something we're working on and we have dialed in right now.

**TWST: What are your specific goals for Hines Horticulture over the next several years?**

**Mr. Thigpen:** As I mentioned, we are going to expand that geographic footprint nationally and as broadly as possible. I think that's very critical so that we can serve the customers in all regions more effectively and also gain some of the product mixes in those regions that do not ship nationally. There are many parts of our product mix that are regional or local products, and so it's significant for us to establish ourselves in as many major metropolitan areas as possible. We want to continue to build market share in both the nursery and the peat segments just as we have over the past couple of years.

Financially, we want to produce 15-20% top line growth. We also want to produce 17-20% bottom line growth. And we do think there's a good opportunity to do that. We want to identify and pursue other segments of the horticultural industry that really seem like they are a fit because I do think that we can achieve some of the size and scale goals that we're interested in as we expand our focus.

And lastly, I'd say we want to position our company, correctly, with the correct infrastructure

— people, financial structure and resources, and the computer systems that will enable us to pull this growth off and be successful.

**TWST: How do you feel about the valuation the market is currently placing on your stock?**

**Mr. Thigpen:** How do I feel about it? It's awful! I mean, we're way undervalued. If you look at the current pricing, we're barely trading at 10 times the analyst's year 2000 projections. And when you look at cash EPS, we're trading at only about six times the analyst's cash EPS projections. I make the differentiation between our earnings per share and our cash earnings per share because we're in a very favorable situation in that on all of the nursery side of the company, we qualify as an agricultural producer, and therefore are allowed to file our tax returns under agricultural tax laws which gives us some very significant advantages in expensing all of our production costs during the year in which they're incurred.

When you're in the position of growing your business and adding inventory in your business, that gives you the opportunity to have very significant production expenses incurred this year but the sales aren't realized until future years. What that's done is allow us to report minimal operating profits, even paper operating losses which then lead to significant NOLs. In effect, we're a very minimal or a non-cash taxpayer. So all our EPS projections have been reduced by about 40% tax provision as required by GAAP, but those dollars are retained by the company and put to work expanding the business.

**TWST: You partially answered this, but if you were sitting down now with a group of potential long-term investors, what reasons would you give them to invest in Hines Horticulture?**

**Mr. Thigpen:** Yes, you're right, I think I have answered this question, but I'll quickly address it again. One, we are the best operators in our segments of the industry. Two, gardening is real. It doesn't necessarily get a lot of press coverage, but it's very real and there's a high level of interest in it, a huge level of participation across the country, and we are going to be a very significant player in that business. We've got a great market position, both in the peat and mix side, as well as on the nursery side of the business. We've got a very motivated management team. There's a broad group of people tied into the overall stock performance of the company and many of the folks have been with the Company for a long time. Lastly, I definitely believe that we are going to create value for the shareholders. It's our goal and our compensation is tied to that as well. So if investors want a business in an industry which is a consistent, reliable, strong cash flow performer, this is a good business to invest in.

**TWST: Thank you.**

**STEPHEN P. THIGPEN**

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*Each Executive who is the featured subject of a TWST Interview is offered the opportunity to include an Investors Brief or other highlight material to be provided and sponsored by and for the company. This Interview with Stephen P. Thigpen, President and CEO of Hines Horticulture, Inc., is accompanied by an Investors Brief containing corporate information*