

Buyouts

The newsletter for
management buyouts,
leveraged acquisitions
and special situations

PUBLISHED BY VENTURE ECONOMICS, A THOMSON FINANCIAL COMPANY

VOL. 17, No. 6 • MARCH 15, 2004

KPS Well Received On Fund Raising Trail

by Kenneth MacFadyen

KPS Special Situation Funds has closed its second fund, KPS Special Situations Fund II, over-subscribed at \$404 million. The firm easily surpassed its initial \$350 million target and closed on substantially more money than its first fund, which pulled in \$160 million in 1998 and later added \$50 million through a supplemental fund.

The closing is even more impressive considering that the bulk of the fund was raised primarily between 2002 and 2003, when the fund-raising market was seemingly frozen shut. "The fund raising occurred mostly in the fourth quarter of 2002 and the first two quarters of 2003," KPS Principal **Michael Psaros** said. "And it seemed with the public markets' weakness, the fund-raising market became exceedingly difficult."

KPS held its first close at \$175 million at the end of 2002, with sequential closings throughout 2003, and held off on the final close to assist an LP that could not commit until the start of this year. The firm raised the first \$225 million itself, and hired **Probitas Partners** as a placement agent to wrap up the remaining \$179 million.

Also making the effort more

difficult, KPS managed to raise the vehicle without any full-turn realizations out of its first fund. Ironically, though, within hours after KPS closed the fund, the firm also completed a deal to sell its transit bus manufacturer New

"From what we can tell, the limited partners were really focused on value creation..."

—Michael Psaros

Flyer Industries to a team of **Harvest Partners** and **Lightyear Capital** in a deal that generated a more than 10 times return on its equity for KPS.

The firm would not comment on who invested in Fund II, although past KPS investors include **BancBoston Investments**, **BellSouth Corp.'s Master Pension Trust**, **UMWA Health & Retirement Funds**, **Washington State Investment Board**, **Sovereign Financial Services** and **General Electric Capital Corp.** For Fund II, Psaros would only say KPS was able to bring in 20 new limited-partner relationships and the investor base was made up of pension plans, funds of funds,

endowments, foundations and high-net-worth individuals.

"From what we can tell, the limited partners were really focused on value creation," Psaros said. "They wanted to see improvements in cash flows and profits rather than returns generated through financial engineering, and our firm's approach is centered around creating equity value by taking companies with serious financial problems and instituting a hard core, cost-based turnaround."

KPS has already made three investments out of the fund, including buyouts of **Wire Rope Co.**, **Atchison Casting Corp.** and **Speedline Technologies**, with the two former properties being bought out of bankruptcy. Going forward, Psaros expects to deploy the capital in the next 24 to 48 months.

BUY

SNAPSHOT

Firm: KPS Special Situations Funds
Web Site: kpsfund.com
Location: New York
Fund: KPS Special Situation Funds II
Target: \$350M
Final Close: \$404M
Placement agent: Probitas Partners