

Turnaround Deal of the Year **KPS Capital Partners**

*It's been life in the fast lane for Chassis Brakes as a result of KPS's complex rebuild, writes **Kirk Falconer***



Brakes are an essential piece of safety equipment in cars, yet when Robert Bosch tried to sell its global foundation-brake unit more than a decade ago it came up short of ready buyers.

The Bosch business, a low-tech maker of products like calipers, disk brakes and drum brakes, had for several years been racking up losses. While the North American division was sold in 2009 to Japan's Akebono, strategic buyers signaled they were unwilling to place a similar bet on the remaining global assets.

One investor, however, continued to show interest. KPS Capital Partners, a specialist in manufacturing-focused turn-

around deals, looked past the track record of Bosch's global operation, "seeing value where others did not," managing partner Michael Psaros tells *Buyouts*.

KPS saw a platform for innovation. By acquiring Bosch's "EBITDA-burning assets," Psaros says, the PE firm determined it could help develop braking systems for autonomous and electric vehicles.

In 2012 KPS created Chassis Brakes International Group to buy the Bosch assets, which had a book value of about €600 million (\$652 million in current dollars). The purchase price was €88.6 million. No cash payment was made to Bosch, which agreed to partner with KPS, making a pre- and post-closing investment of €177 million.

Chassis Brakes Intl

Why they won

€85m

Growth of CBI adjusted EBITDA
over 2012-18

€690m

CBI's enterprise value when it
was sold, up 675% from 2012

6.2x

Cash-on-cash return in euros
(\$ return of 5.6x)

30.1%

Realized gross IRR in US\$

66.2%

Revenue increase in China,
2012-18Financial advisor
LazardLegal advisor
Hengeler Mueller**Challenging carve-out**

The carve-out was highly complex, Psaros says, involving 18 months of disentangling assets from Bosch sites and setting up CBI as a standalone company. This included construction of four new assembly facilities and four new R&D and engineering centers around the world.

KPS next launched a series of initiatives to ramp up CBI's commercial and operational performance. Among them was a change in senior leadership, with

external hires introduced alongside existing Bosch managers. The fresh talent included auto industry executive Thomas Wünsche, recruited in 2015 as CEO.

In addition, KPS worked with management to grow and diversify the customer base and geographical exposure. Initially, CBI did not have access to North America because of a non-compete clause from the Akebono deal. When this expired in 2014, the company created a market presence and began capturing share, Psaros says, by signing accounts with Daimler, Ford and others.

Headway was also made in China's fast-growing market. Customer relationships with auto manufacturers like Geely and Great Wall helped increase revenue over 2012-18 by 66.2 percent.

Global expansion was enabled by a product mix that proved more profitable than Bosch's historical line, Psaros says. Through its R&D and engineering centers, CBI commercialized new and more advanced foundation-brake offerings for passenger cars and light commercial vehicles, including a caliper and two integrated automated parking brakes.

CBI also debuted its Smart Brake, a prototype brake-by-wire system intended to replace hydraulic systems and serve as a foundation for autonomous and electric vehicles. The technology, which is expected to be commercialized by 2025, was demoed last year with customers in Sweden using a fully outfitted electric car.

CBI's sale to Hitachi Automotive

Strategic initiatives grew CBI's adjusted EBITDA to €86 million as of December 2018 from €1 million at acquisition, Psaros says, and grew adjusted EBITDA margins to 9.2 percent from 0.1 percent. At the end of 2018, the company showed record annual revenue of about €940 million.

Last October, KPS sold CBI to Hitachi Automotive Systems for an enterprise value of €690 million, up 675 percent from 2012. KPS earned a euro cash-on-cash return of 6.2x (US\$ return of 5.6x) on its eight-year investment, translating into a US\$ gross IRR of 30.1 percent.

CBI's capital structure had "zero impact" on performance, Psaros says, as the



"KPS's investment in CBI preserved more than 6,000 jobs globally in 2012 and added to employment levels in subsequent years, helping to reverse private equity's image as a destroyer of businesses and jobs"

MICHAEL PSAROS
KPS Capital Partners

company was unlevered at acquisition and kept debt-free in its first five years.

KPS's investment in CBI also realized several social benefits, Psaros says. They include Smart Brake technology, the design of which will facilitate autonomous and electric driving while improving fuel economy and reducing CO2 emissions.

Even more significant: "KPS's investment in CBI preserved more than 6,000 jobs globally in 2012 and added to employment levels in subsequent years, helping to reverse private equity's image as a destroyer of businesses and jobs," says Psaros. ■

TURNAROUND DEAL OF THE YEAR **KPS**

2019

By Milana Vinn



Raquel Palmer, managing partner at KPS Capital Partners.

Photo courtesy of the firm.

When a group of hedge funds and debt-holders were exploring an exit from **Electrical Components International** in May 2014, the company's growth opportunity for a new buyer was not obvious.

ECI, an international wire-harness manufacturer, relied heavily on the North American appliance industry and one customer, and it didn't have a low-cost solution for European markets.

"It was not an obvious growth story, and there was not an obvious way to create value to the investors," **Raquel Palmer**, managing partner at **KPS Capital Partners**, told *Buyouts*.

"I don't think there were many people who saw how to make the investment work."

But taking over non-straightforward businesses and digging deep to understand the underlying value and growth opportunities is a specialty of KPS, Palmer said.

"We will chase. In this instance we were really interested in buying this company and we did it at a very attractive valuation," she said.

"When you buy a company from debt owners, there is an opportunity to unlock a lot of value. When we exited, it was a specialty supplier with a diversified product and customer base."

The New York PE firm was able to grow the company organically and complete additions of three owner-led businesses: **Global Harness Systems**, **Whitepath Fab Tech**; and **Fargo Assembly Co.**

Ahead of KPS's ownership, ECI's management team preselected those companies as ECI was exploring opportunities to grow.

"They had lots of meetings with the companies that they wanted to own but didn't have an opportunity to," Palmer said. "They were just so on top of it. It was a lot easier with them having cultivated those relationships."

KPS worked closely with ECI's management team, led by CEO **David Webster**, from day one and didn't make any changes to its leadership roster during the hold period.

Integrating three family-owned businesses into ECI's operations and supply chain helped increase the company's productivity and cut costs. KPS cut ECI's direct material costs by more than \$10 million each year, particularly in ECI's wire and connector spend.

Through the add-on acquisitions and additional hiring, KPS grew ECI's workforce by 8,000 employees, to a total 20,000.

The firm also added 23 manufacturing facilities to the existing 12 and built a new facility in Morocco, which serves as a low-cost platform for European markets.

KPS's growth plan was to diversify the company's business from appliances to specialty-industrial end-market segments and to broaden its international presence.

The firm launched new specialty products for auto makers and industrial companies like **Harley-Davidson**, **Carrier**, **Ingersoll-Rand** and **Bobcat**.

This specialty market is often left out or

SNAPSHOT

Company: Electrical Components International

Lenders: Bank of America, GE Capital, Fifth Third Bank

Legal adviser: Paul, Weiss, Rifkind, Wharton and Garrison

Financial adviser: Barclays

WHY THEY WON

- ECI's revenue grew nearly 50 pct to ~\$1 bln
- KPS doubled ECI's EBITDA between 2014 and 2018
- KPS added 8,000 employees to ECI business
- KPS returned 3.2x its money on exit from ECI

overlooked by many manufacturers, Palmer said.

"There is a huge market for [wire harnesses] and there are not many manufacturers other than automotive that do that," she said.

With those changes, ECI more than tripled its customer base to 550. It also grew its specialty-industrial revenue by more than \$300 million, a tripling, under KPS's ownership.

KPS improved ECI's margins by 40 percent and grew its sales nearly 50 percent to \$959.1 million. KPS also distributed an aggregate of \$464.1 million to ECI's stockholders.

The PE firm sold the company to **Cerberus Capital Management** on April 24, 2018, achieving 3.2x cash-on-cash realization and a gross IRR on equity capital invested of 40 percent. The sale price was not disclosed.

The initial investment and later the successful exit from ECI are great examples of KPS Capital Partners' best work practices, Palmer said.

"It really shows something we are especially proud of at KPS – what is really to see value where others do not."

TURNAROUND OF THE YEAR AND DEAL OF THE YEAR

KPS Capital Partners LP

The Building Of A Brewing Conglomerate

At a time when the global brewing industry was undergoing rapid consolidation and internationalization, **KPS Capital Partners LP** collected a series of neglected and cast-off beer brands, fashioning them into the No. 3 U.S. brewer.

Over the course of its four-year ownership, the New York buyout firm earned an 8.9x return multiple and a 93 percent IRR on its investment in **North American Breweries Inc.** by the time of the company's sale to a foreign strategic buyer, Cerveceria Costa Rica SA, which was seeking to expand in the United States.

"We did not just buy a business and lever it up. We created a company," said **Raquel Palmer**, a partner of KPS Capital Partners and a member of its investment committee who headed the North American Breweries transaction. The firm, working with local union and political leaders, also nearly doubled employment at the portfolio company's flagship operation in Rochester, N.Y., to more than 500, while enhancing the downtown facility with a "brew house" to provide a destination for visitors.

As a result, North American Breweries won for KPS Capital the *Buyouts* 2013 Turnaround Of The Year award. The firm also received overall Deal Of The Year by vote of the magazine's editors. Notably, it was the second year in a row for KPS Capital to sweep that particular doubleheader; the firm won the same pair of awards in 2012 for the company's stewardship of Attends Healthcare Inc., a maker of products for adult incontinence.

In the case of North American Breweries, KPS Capital was able to ride the wave of consolidation that was sweeping the brewing industry in 2008. The firm became aware of the upstate High Falls Brewery through a contact, and was able to buy the company through a complex, out-of-court recapitalization that called for concessions from equity and debt holders as well as the local government and union workers.

The firm acquired a couple of well-regarded regional beer brands—Genesee and Dundee—along with a 100-year-old brewery operating at half capacity and sales

in double-digit decline, Palmer said. "The equipment was not well maintained. The management team did not have the skillset to turn the business around. They also didn't have the capital."

What High Falls Brewery did have—the firm soon changed the company name back to Genesee Brewing Company—was a nationwide distribution network through which it distributed flavored malt beverages for Pernod Ricard USA LLC under the Seagram's Escapes and Smooth brands. KPS Capital negotiated a separate deal with Pernod Ricard to take over those brands in the United States. Both deals closed in February 2009.

While this activity was taking place in upstate New York, in Washington, D.C., antitrust officials were negotiating the terms of the mega-deal that would result in the formation of Anheuser-Busch InBev. One term was the divestiture of the Canadian brand Labatt. KPS Capital added the high-performing import to its burgeoning beer portfolio in March 2009.

Upgrading Production

The firm installed new management, beginning with **Rich Lozyniak**, a veteran KPS Capital operator. Lozyniak was not a beer guy—in his previous stint with KPS Capital he had run a company making industrial compressors—but he was a team-builder who could work with the union and develop the company's potential. "We rely heavily on our managers to execute our plans, and to take them beyond our original investment thesis," Palmer said.

An early priority operationally was to upgrade the brewery's production lines, Palmer said. "The first thing we did was to invest behind a 24-ounce canning line," she said. "It was one of the brewers on the shop floor who said to us as part of our due diligence, 'What's really missing here is that we don't sell a 24-ounce can. We need that packaging capability.' That's where most people in America get their beer, in a convenience store, and that is the No. 1 package, the 24-ounce can. If you can't offer that convenience store a 24-ounce can, then they're not inter-

ested in the rest of your products."

The strategy worked. Through improved marketing and upgraded production, the Genesee brand grew at a 20 percent compound annual growth rate during KPS Capital's ownership, and the Seagrams brand had a 40 percent growth rate, Palmer said, at a time when industry growth was essentially flat. Growth, in turn, enabled the firm to recapitalize the company, repaying the investors plus a profit in less than two years.

Along the way, KPS Capital added Independent Brewers United to its portfolio in August 2010, expanding its higher margin craft beer business with the brands Magic Hat in Vermont and Pyramid on the West Coast. But with no further transformative acquisitions on the horizon, KPS Capital hired UBS last year to conduct an auction. The ultimate buyer, Cerveceria Costa Rica SA, was a Costa Rican brewer that owned a brand called Imperial, for which High Falls had been exclusive distributor in the United States.

"They had seen firsthand our transformation of the management team and the business itself, so they had grown up through the business with us," Palmer said. "They had the best kind of due diligence, to see the company from the start through the process by UBS." —S.B.

SNAPSHOT:

Firm: KPS Capital Partners LP
Target: North American Breweries Inc.
Return Multiple: 8.9x
Acquiror: Cerveceria Costa Rica SA
Sale Price: \$388 million
Advisor: UBS Securities LLC

Buyouts
AWARDS
2013

WHY THE FIRM WON

- Seeing value where others didn't
- Putting together an operationally focused turnaround plan
- Working with multiples stakeholders to drive value
- Delivering a superior return in a short time

TURNAROUND OF THE YEAR AND DEAL OF THE YEAR

KPS Capital Partners LP

KPS Capital Revives Attends Healthcare

KPS Capital Partners LP's turnaround of adult incontinence product maker Attends Healthcare offers a prime example of what devoted attention from experienced investors can bring to a neglected company.

With its experience in the nitty-gritty of turning around manufacturing companies, KPS Capital was able to transform a company that was facing liquidation into a profitable, growing company sought by a Fortune 500 company, while generating 15x its invested capital in the process.

"This is textbook, this is what we do,"

Raquel Palmer, a partner with KPS Capital, told *Buyouts*.

Attends Healthcare makes adult incontinence products under the Attends brand name. It employed around 400 in two facilities, in Greenville, N.C., and La Verne, Calif., before KPS Capital's involvement.

For more than 10 years, the business that would become Attends Healthcare languished under distant management. Procter & Gamble housed it in its personal care products group for years until 1999, when the mammoth consumer products company sold it to a company called PaperPak. PaperPak, in turn, was bought in 2002 by British private equity firm **3i Group plc** for \$94.2 million, according to Capital IQ.

Attends Healthcare had U.S. and European operations at the time, and even then the U.S. business was struggling while its European business was doing better, according to press reports. PaperPak would go on to sell the U.S. business to KPS Capital in January 2007 for an undisclosed amount, and 3i would sell the European business seven months later to another private equity firm, **Rutland Partners**, for €93.5 million (\$122.3 million at today's exchange rate), according to Capital IQ.

The company was on its proverbial deathbed—generating negative \$3 million in EBITDA—when Kibel Green, a California consulting firm specializing in turnaround situations, reached out to KPS Capital in late 2006.

"If we'd made it to the fall of '08 without [KPS Capital], we'd have gone under," **Michael Fagan**, the company's CEO under KPS Capital who had been with Attends Healthcare, off and on, since the late 1980s, told *Buyouts*.

KPS Capital was intrigued by several

favorable baseline factors that suggested the company's potential. With hordes of baby boomers approaching old age, there would be no shortage of potential customers. And in its due diligence, the firm found that despite the brand's struggles, it had a loyal customer base. Further, Attends Healthcare makes products that are essential for its customers, so it wasn't like something that would go out of style—a factor that would prove critical during the economic downturn, when consumers curtailed spending on less necessary goods.

But KPS Capital executives really warmed to Attends Healthcare when they visited its manufacturing facility in Greenville, N.C. The company's aging manufacturing equipment, which transformed pulp and other raw materials into the material used in Attends products, needed serious upgrading. And Fagan had known for years that the company could save money on freight costs with what's called "compression packaging" equipment, which would allow the company to put more boxes of its products on the pallets that are sent by truck to the company's distributors.

The Journey Begins

KPS Capital bought the company from PaperPak in January 2007, investing about \$20 million of equity within 60 days of looking at the company and without a financing contingency. It named the new company Attends Healthcare Inc., after the Attends brand. Shortly after the deal, the company obtained a \$47.5 million asset-based financing package.

At the time, Attends Healthcare was generating about \$150 million in revenue, and negative \$3 million of EBITDA; it employed approximately 400 people.

KPS Capital and the management at Attends Healthcare, led by Fagan, quickly set about transforming virtually all aspects of the company's business. The company dispatched the California facility because it was redundant and unprofitable, saving the company \$5 million.

The company installed three new manufacturing lines in the Greenville factory, financed with \$33 million from its internal cash flow. Each manufacturing line took about 12 to 18 months to install. This

SNAPSHOT:

Firm: KPS Capital Partners LP
Target: Attends Healthcare Inc.
Hold Period: 4 years
Buyer: Domtar Corp.
Legal Adviser: Paul Weiss Rifkind Wharton & Garrison LLP;
Buyer: K&L Gates LLP
Price: \$315 million

Buyouts
AWARDS
2012

WHY THE FIRM WON

- Successful turnaround of corporate orphan.
- The firm's deep research found a base of loyal Attends customers and favorable demographics.
- Company completely upgraded its manufacturing operations.
- Improved company's financial performance.
- Returned 15x its money.

enabled the company to expand its product line from a basic brief to include a pull-on incontinence product, which was suitable for more mobile customers, and a "breathable" brief. The new equipment allowed the company to make its products 4x as fast as the old equipment, Fagan said.

KPS Capital rooted out savings in the company's distribution and freight costs. On the distribution side, it rationalized its product offerings. Attends Healthcare also revised relationships with smaller, less profitable distributors, pushing them to buy the product instead from other, larger distributors.

The firm returned almost all of its invested capital after 10 months with a dividend taken from the company's cash flow. It would eventually take three more dividends, two of which were for \$35 million and \$60 million, respectively, from two recapitalizations. In total, the company returned \$120 million in cash distributions before KPS Capital exited.

In August 2011, the firm found what it deemed a worthy buyer, at a worthy price. Domtar Corp., a \$4 billion manufacturer and distributor of paper products based in Montreal, bought the company for \$315 million. The sale netted KPS Capital a 15x cash-on-cash return, and a 120 percent internal rate of return.

By then, Attends Healthcare was posting annual sales of \$200 million and an estimated run-rate EBITDA of \$39 million, according to a Domtar press release. —B.V.