

# Buyouts

The newsletter for  
management buyouts,  
leveraged acquisitions  
and special situations

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## KPS, Pegasus Eye Genesis Worldwide

**W**ith somewhat of an unusual financing arrangement, **KPS Special Situations Fund** and **Pegasus Partners** are on track to acquire the domestic assets of **Genesis Worldwide**, a publicly traded metal equipment manufacturer. The two groups have executed an asset purchase agreement that is set to be consummated when Genesis' Chapter 11 Bankruptcy is processed and completed, and as long as they are not out-bid at the last minute.

Under terms of the sale agreement, Pegasus and KPS will pay cash, issue a secured subordinated note and equity interests, and assume certain liabilities. Interestingly, the two private equity groups are also acting as a bank in this transaction — Genesis has arranged a \$6 million debtor-in-possession (DIP) credit facility to be provided by Pegasus and KPS, subject to court approval. The DIP financing will be used for employee salaries and benefits, materials and services from vendors, ongoing operating expenses and other working-capital requirements necessary to fund the company's operations through the closing of the sale.

"This is a nifty deal," said **Mike Psaros**, managing principal at KPS.

"Unlike most bankruptcy sales, this one is organized. Prior to the bankruptcy filing, the company went through the sale process, we did our due diligence and signed the asset purchase agreement. This should result in an expeditious tour through bankruptcy."

Psaros is confident the deal will close as planned. But in accordance with bankruptcy code, other companies at a later date will have an opportunity to submit bids through a court-supervised bidding process. Last week, Genesis filed motions with the bankruptcy court to approve the sale to KPS and Pegasus, and the court will assign a deadline for the submission of other bids as well as a date for the auction at which the successful bid would be approved. Among other filings, Genesis is asking the Bankruptcy Court to require competitive bids for all of the assets to have a value of not less than \$22.5 million, including cash consideration of at least \$2 million, plus the assumption of liabilities.

The continuing economic downturn in the metals industry, highlighted by reduced capital expenditures in manufacturing, as well as the

Genesis' debt load that developed from an acquisition effort, eventually resulted in a decision that a chapter 11 filing was the best course of action for the company. Genesis has been in violation of loan covenants since September 2000.

Pegasus and KPS specialize in turnaround situations. While bankruptcy will eliminate the companies debt liabilities, Psaros said the task at hand will be restructuring Genesis' operations to make the company successful. The company has a good macro-play on the recovery of the U.S. economy, he said.

"The company plays off of the consumption of steel, aluminum, copper and brass, so that when the economy recovers, Genesis will do better," he added.

While the Genesis name is not necessarily well-known, the company's brand names are more common. **Precision Industrial Corp.**, **H-V Asset Management Corp.**, **HerrVoss Corp.**, **GenInternational Inc.**, **GenCoat, Inc.**, **H-V Technical Services Inc.**, **Gen-Systems Inc.**, **GenSystems Services, Inc.**, **H-V Mill Roll Services Inc.** and **H-V Roll Center Inc.** are all Genesis subsidiaries. — *L.G.*