

Private equity firm KPS works with unions for a smooth transition

By Christopher Boyce
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Private equity firms are known for making hard decisions aimed at improving a company's bottom line to sell it later for a profit. And that usually puts the firms at odds with unions.

But the 17-year-old private equity firm that bought the metals division of Clayton-based Olin Corp. last year has won praise from labor unions for quickly negotiating contracts and soliciting worker input.

New York-based KPS Capital Partners LP buys struggling manufacturers, turns them around and sells them. It converted the Olin division into Global Brass and Copper Inc.

Though there is inherent friction between workers and firms that profit by buying and selling manufacturers, KPS has a history of consulting workers about how to turn around a business, said Damon Silvers, associate general counsel for the AFL-CIO.



The cast bar is then reheated in a furnace and sent to the hot mill, where it is rolled and reduced in thickness.

"They believe in building up companies instead of ripping them apart," he said. "That said, they are not a nonprofit. ... But if they look for concessions they try to give equity in exchange for them.

They try to do things in collaboration with their work force. We expect them to do that in this situation."

That could be good news for the 1,800 former Olin workers in East Alton who became familiar with the private equity firm soon after the \$400 million deal was announced. Michael Psaros, a managing partner at KPS, spoke with workers the day after the deal closed in late November.

The meeting was promising, said Dennis Pearson, business representative for Machinists District 9, the union that represents workers at

Global Brass & Copper Inc.

Owner: New York-based KPS Capital Partners LLC

Headquarters: East Alton

CEO: John Walker

Created: October 2007 when KPS purchased the metals division of Clayton-based Olin Corp. for \$400 million

Employees: More than 2,000 workers, including about 1,800 people at its East Alton facility

Other sites: Montpelier, Ohio; Bryan, Ohio; Waterbury, Conn.; Cuba, Mo.; and A.J. Oster metal service centers

Revenue: Olin metals division generated \$2.1 billion in revenue in 2006.

About KPS: It manages investment funds with more than \$1.8 billion in capital in companies.

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Global Brass and Copper.

Pearson is optimistic the union and the company will hold conflict-free talks this fall as they renegotiate the union's labor contract, which expires in December.

"One thing they said at the (meeting) is they do intend to run this plant and they do intend to get it profitable and on its feet," Pearson said.

Psaros declined to comment on specific profitability goals or initiatives, but he made it no secret that KPS eventually would look to sell Global Brass and Copper. In the near-term, he said, employees should expect an open dialogue with Global Brass and Copper's new chief executive, John Walker.

Many buyout firms ignore workers' opinions, but Global Brass and Copper's workers will be expected to speak up, Psaros said.

"We lay out how we're going to solve problems and improve the business and (tell employees) this is how you're a part and ask what ideas do you have," he said. "It's no different than football. If the quarterback is the only guy on the field who knows the play, you'll have a problem."

KPS will have to tackle some of the same high-cost issues that Olin struggled with. In 2006, Olin closed two plants to cut back on capacity amidst lagging demand from customers in the auto and electronic industries.

The message to employees will be simple – improve productivity. Psaros said the Processes Global Brass uses to make metals such as brass and copper are very similar to that used in making steel. Yet, he said, productivity across the industry is significantly lower than the average steel mill.

"The work force has to become more productive, and that means you make more product with fewer people, you run your machines with more up time and more efficiency," Psaros said.

That sort of blunt honesty is another characteristic of the company. But while it may sound like KPS is planning mass layoffs, that would go against the firm's principles. KPS is better known for saving jobs and benefits, said Frank Larkin, spokesman for the International Association of Machinists.

Larkin pointed to a deal KPS made with employees of Genesis Worldwide II Inc., a Pennsylvania maker of metal coil processing equipment. The company was near bankruptcy when KPS acquired it in 2001 and employees' pensions had been frozen, Larkin said. Most expected a painful liquidation. But when KPS sold it in 2007, the company was an industry leader and employees' pensions were secured.

"It's been a productive relationship," Larkin said. "It was quite a successful deal in this one case, where many people had written it off as hopeless." That's a reputation Psaros has trumpeted more so than its profits, estimating KPS has saved more than 15,000 manufacturing jobs.

"We're serious investors charged with making serious returns for limited partners, but we have done it the right way for almost 20 years."