Tankless water heaters are displayed in an Eemax factory.

PHOTO COURTESY OF EEMAX.

Raquel Palmer, partner, KPS Capital Partners.

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Deal of the Year:

KPS for Anchor Glass

Mid-Market/Overall: KPS Capital Partners, Anchor Glass
Large Market: Providence Equity, Ministry Brands
International: Carlyle Group, Groupe Marle
Small Market: Levine Leichtman, Senior Helpers
Turnaround: American Capital, Service Experts
Deal of the Year, 2017: KPS Capital Partners, Anchor Glass

By Luisa Beltran

SNAPSHOT

- **Company:** Anchor Glass Container Corp
- **Lender:** Credit Suisse, Citigroup Global Markets Inc. and Morgan Stanley
- **Legal advisor:** Baker & McKenzie provided legal advice to CVC, BA Glass; Paul, Weiss, Rifkind, Wharton & Garrison LLP advised KPS, Anchor Glass
- **Financial adviser:** Morgan Stanley and Citi provided financial advice to CVC, BA Glass, while Credit Suisse Securities (USA) and J.P. Morgan Securities advised KPS, Anchor Glass

WHY THEY WON

- Sale to CVC generated 5x return
- Deal produced gross IRR of 132.4 pct
- Adjusted EBITDA rose nearly 59 pct under KPS
- Anchor Glass enterprise value under KPS more than doubled to $1.04 bln

KPS Capital Partners' success with Anchor Glass Container stemmed from a combination of actions, led by KPS and company management. The moves helped the bottle maker boost EBITDA nearly 59 percent in less than three years, said **Jay Bernstein**, a partner at KPS.

The New York buyout shop acquired Anchor Glass, which makes glass packaging products used by the liquor, beverage and food sectors, as a carve-out from Ardagh Group in 2014. The deal was valued at $435 million. KPS, along with its LPs, invested $140 million equity.

The PE firm’s buy of Anchor Glass surprised some. The company had filed for bankruptcy three times in the past 20 or so years. Anchor Glass’s last trip through Chapter 11 came in 2005, when it was owned by Cerberus Capital Management.

The glass sector began losing market share to plastic packagers in the 1990s, Bernstein said. By 2014, when KPS bought Anchor, many glass plants had been shuttered due to financial difficulties.

KPS, however, had some experience in the sector. It owned North American Breweries Holdings, a beer company with brands including Labatt and Genesee, for three years before selling it in 2012. (North American Breweries is also an Anchor Glass customer.)

KPS thus knew that the glass market was stable and that Anchor was a fundamentally good business, Bernstein said. “Others were more focused on [Anchor Glass’s] past, where we were focused on where the business was today, what we could do with it” and its potential, he said.

KPS closed its buy of Anchor Glass in June 2014. It invested $114.2 million to upgrade machinery and equipment, including rebuilding four glass furnaces and enhancing the bottle-forming machines. KPS implemented a state-of-the-art production system at the company, while reducing freight routes to cut transport costs, Bernstein said.

The company added new customers and entered multiyear agreements with existing ones. This gave the company more long-term stability, Bernstein said. Anchor Glass produced more than $50 million of new business in 2016 alone, KPS said.

“Once the customers were willing to make long-term commitments to Anchor, this enabled Anchor to develop a long-term investment plan for each of its plants,” he said.

More improvements included reducing the weight of the bottles Anchor Glass sold. This helped increase the number it produced to nearly 4.9 billion annually. The company also installed automated quality-inspection equipment for its bottles in all its manufacturing facilities, Bernstein said.

One major change occurred when KPS cut the company’s exposure to the mass beer market, which had been a declining product category, Bernstein said. Anchor Glass began focusing more on craft beer. Anchor Glass’s mold-making capabilities, which let it make custom bottles, gave it an edge over competitors.

“We are able to work collaboratively with a brand owner to get a new bottle design to market faster than anyone else can,” Bernstein said.

In 2016, Anchor Glass posted $143 million adjusted EBITDA, up nearly 59 percent from two years earlier. Revenue rose nearly 11 percent to $615 million. “By reducing costs and improving the product mix, this led to a much bigger margin impact on Anchor’s performance as opposed to simply a revenue increase,” Bernstein said.

KPS got its money back during its 2 1/2-year hold. Anchor Glass issued two dividend recapitalizations, in July 2015 and May 2016. The transactions paid out $294 million to stockholders, more than what KPS invested in 2014.

KPS hired Credit Suisse Securities (USA) and JPMorgan Securities to run a sales auction. In December, CVC Capital Partners and European glass-bottle producer BA Glass BV acquired Anchor Glass in a deal valued at more than $1 billion. KPS made 5x its money with the sale, Buyouts has previously reported.

“We made the business better. That’s what I’m most proud of,” Bernstein said. ✤
KPS CAPITAL PARTNERS WINS DEAL OF THE YEAR

Firms race to raise capital for energy credit opportunities
Vista Equity’s Smith not sorry for big step-up in fund size
Talking Deal Prices: Vector to pay 2.5x projected sales for Saba
Special Report: Deep data dive on Northeastern U.S.
Five questions with Rich Lawson, CEO of HGGC

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Buyouts Insider
One of the great aspects of private equity is the industry’s dedication to companies that actually make stuff.

For all the negative press private equity gets in the mainstream media, the majority of deals end up successful to varying degrees, making money for GPs and LPs and producing stronger companies with more efficient systems, new products and expanded markets.

It’s with great pleasure, then, that I announce our Deal of the Year winners for 2015. Every one of them highlights the hard work and value that private equity brings to companies that make things that touch us in our daily lives:

- **Deal of the Year/Large Market Deal of the Year:** KPS Capital Partners for Waupaca Foundry, a maker of iron castings that are used to fabricate parts for cars and industrial machines.
- **Small Market Deal of Year:** High Road Capital Partners for Handi Quilter, a producer of quilting machines.
- **Middle Market Deal of Year:** Kinderhook Industries for Tectum Holdings, a manufacturer of bed covers and bed liners for pickup trucks.
- **European Deal of Year:** The Carlyle Group for Sermeta, a maker of stainless steel heat exchangers used in domestic and commercial boilers.

Why did these companies win? Performance, of course, played a big part in our selection. But we also looked at other factors. Waupaca thrived on its more aggressive bet on an auto sector recovery. Tectum Holdings displayed brilliant resiliency after almost becoming another victim of the downturn in the auto sector. Sermeta created new products while simplifying its manufacturing processes, and Handi Quilter worked to become the premier player in its market space, the largely untapped quilting market.

This year’s crop of winners is a great reminder that there are still a lot of companies in this country that make things – and private equity is in good position to keep them strong, healthy and growing. So sit back, crack open a brew and read on.
When KPS Capital Partners looked at a potential buyout of Waupaca Foundry in 2011, the U.S. automotive sector remained in the early stages of a recovery and credit availability on such deals was constrained.

Based on its experience in industrial turnarounds, KPS recognized value in the unit of German conglomerate ThyssenKrupp. Moving quickly, it developed a strategy to sharply increase EBITDA.

“Our view was, ‘Wow, this is an opportunity; look at the market share; look at the leadership quality of management,’” said David Shapiro, one of four leaders at KPS along with Jay Bernstein, Raquel Palmer and Michael Psaros. “We thought there was tremendous potential.”

Waupaca Foundry produces various kinds of iron castings used to fabricate parts for automobiles and industrial machines. The economic downturn after the global financial crisis resulted in the permanent loss of a meaningful chunk of U.S. foundry capacity, due to large barriers of entry in the cost of adding new plants.

However, New York-based KPS felt more bullish than others on a recovery in the automotive sector, which accounted for roughly half of Waupaca’s business.

The deal presented another setback for a potential buyer. Lenders offered only about roughly half of Waupaca’s business.

We improved profitability by growing the top line and making the company more efficient,” Shapiro said. “By making their lines run more quickly and eliminating scrap and reducing down time, you don’t have to eliminate people or pay them less.”

Within the company benefiting from the growth in the automotive sector and greater operating efficiency, KPS distributed $325 million in cash to LPs and other stakeholders through two dividend recapitalizations that returned all of the firm’s invested capital plus a profit.

By 2014, purchase price multiples in the sector had risen to 6x EBITDA from roughly 4x EBITDA in 2012, offering KPS the opportunity to sell at a higher multiple than it paid. Plus it had also grown EBITDA by that time to $220 million.

KPS opted to sell Waupaca Foundry partly because the company needed to expand internationally to continue its growth. “Our view was if we could get 5x our money in two years, that seems like a pretty good outcome and we’ll leave the next stage of growth for the next buyer,” Shapiro said.

KPS sold Waupaca Foundry to strategic buyer Hitachi Metals for 6.5x EBITDA, a 50 percent premium over its purchase price multiple of about 4.2x EBITDA.

All told, the enterprise value of Waupaca Foundry climbed to $1.44 billion at exit from $631 million at purchase. The deal distributed $1.14 billion of cash for a 5x return on the firm’s $226 million equity investment, with a gross IRR of 165.2 percent.

“We buy good old-fashioned manufacturing companies,” Shapiro said. “Waupaca Foundry demonstrates our ability to see value where others do not.”

**WHY THEY WON**

- Deal generated 5x return, gross IRR of 165 pct
- Sold business to Hitachi Metals for 6.5x EBITDA
- EBITDA increased by 45 pct to $220 mln in about 29 months
- Total employment increased by 389 people to 3,838
Deal Of The Year Awards

CHS Capital Spawning Three PE Firms

Dolan, Harvard’s Private Equity Chief, Resigns
New York City Makes Mammoth $1.1B In PE Commitments
Ridgemont Raises $735M, First Fund Post-BofA
Energy Future Proposes Chapter 11 Plan
Foray Into Distressed Debt Pays Off For American Securities
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 leverage 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 Attendes Healthcare Inc., a maker of products for industrial compressors—but he was a teambuilder who could work with the union and political leaders, also nearly doubling 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.

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 teambuilder 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 interested 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.”

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

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

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Biggest Portfolio Companies Remain Heavily Leveraged
Apollo Pushes Further Into Credit Arena
CalSTRS Commits $506M, Half To Asia Funds
Footing The Bill: Top Fee Paying Sponsors, Q1 2012
Separate Accounts, Side Letters Threaten Rifts Among LPs

Deal Of The Year Awards
Sponsor Contributions Fluctuate On Quirks In Market

KPS Capital Partners LP
Turnaround of The Year &
Deal of The Year Winners
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 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 of 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.