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Operational Excellence

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Value creation in action

OpEx Awards winners revealed

KPS Capital Partners

Backed by KPS Capital Partners, Chassis Brakes International diversified its revenue base and extended its international reach

KPS Capital Partners created Chassis Brakes International to acquire Robert Bosch's foundation brakes business in 2012. This was based on its track record of investing in global manufacturing businesses, including in the automotive industry, and of improving their performance, nurturing constructive relationships with unions, and saving and creating jobs.

Having acquired a collection of assets that KPS valued at almost €600 million for just €88.6 million, and with Bosch receiving no cash consideration at closing, KPS embarked on a radical business transformation. First, it was faced with a complex global carve-out that saw CBI exit all manufacturing facilities previously shared with Bosch. Netherlands-based CBI opened four new, state-of-the-art manufacturing facilities in Poland, China, India and Mexico, and built four R&D and engineering centres in Germany, India, the Netherlands and China.

6.2x

Euro cash-on-cash realisation

Furthermore, KPS put together a new management team, helped implement a new enterprise resource planning system, and established a new organisational structure and corporate culture, focused on maximising profitability and cashflow generation.

Growth was also central to KPS's investment philosophy. Under the firm's ownership, CBI expanded and diversified its revenue base through new business wins that increased market share with key customers, expanded the company's customer base and extended its reach overseas. Indeed, between 2011 and 2018, CBI increased annual new business wins by around €600 million, experienced record new business wins for five consecutive years and built a robust order book, positioning the company for future growth.

In particular, CBI successfully grew its operations in China. Chinese revenue increased by over 66 percent, while simultaneously improving adjusted EBITDA margins by around 690 basis points between 2012 and 2018. In addition, CBI built a new assembly facility and engineering centre in North America where it had previously had no presence, taking market share from key competitors and building revenue to nearly €100 million in three years.

Under KPS, CBI invested over €234 million in research and development and applied engineering to commercialise three new industry braking products and develop the world's first all-electric brake.

Overall, CBI materially increased adjusted EBITDA under KPS's stewardship, from €1 million at acquisition to €86 million at the end of 2018, with EBITDA margins rising from 0.1 percent to 9.2 percent.

KPS sold CBI to Hitachi Automotive Systems in 2019 for an enterprise value of €690 million, achieving a total 6.2x euro cash-on-cash realisation (5.6x US dollar cash-on-cash realisation) and a gross US dollar IRR of 30.1 percent.

"This is a remarkable case of business transformation, investing in new products and of growth," said the judges, who scored the deal exceptionally highly for innovation.

"There was a complex carve-out resulting in the creation of eight new facilities supporting multifaceted business improvements." ■

PEI Alternative Insight

PRIVATE EQUITY INTERNATIONAL

operational excellence awards 2016

WINNER – UPPER MID-MARKET, AMERICAS

KPS CAPITAL PARTNERS – MOTOR COACH INDUSTRIES INTERNATIONAL

WINNER – UPPER MID-MARKET

KPS Capital Partners: Motor Coach Industries

($12m)
EBITDA on entry (loss)

$76m
EBITDA on exit

KPS Capital Partners' work with Motor Coach Industries International is a great example of turning around a company by focusing on improving its operations rather than financial engineering.

When the New York-based private equity firm acquired the specialty vehicle company in August 2010, MCI was emerging from bankruptcy, operating in default of its credit agreement and under severe liquidity constraints. KPS purchased MCI for an undisclosed sum using no third-party leverage, a rare move in the industry.

Five years later, the firm had sold the company to New Flyer for $479 million. By then, MCI had increased revenue by 50 percent to $647 million and EBITDA shot up from a negative $12 million to a $76 million gain. KPS and investors realised a 2.9x cash on cash multiple and a 27 percent gross internal rate of return on total capital invested.

"We are very proud of MCI's incredible turnaround, executed at the low point of the North America motor coach industry cycle and at the height of the financial crisis," said Jay Bernstein, a partner at KPS.

"The success of our investment in MCI demonstrates KPS's ability to see value where others do not, to buy right and to make businesses better. In 2010, we acquired a failing, deeply under-managed business and transformed it into a thriving, highly profitable, and growing business."

To achieve such a result, KPS rolled up its sleeves, hired a new chief executive and a new senior management team whom they worked with closely, implementing a new organisational structure, transforming the company's manufacturing operations and focusing on quality and customer services among other improvements.

MCI: won the industry's largest single coach order for 12 years

"During a five-year holding period, the turnaround encompassed every aspect of MCI's business from sales to manufacturing and aftermarket services," said judge Paul Fuhrman.

A key turning point for MCI was the equity-based strategic partnership with Daimler AG. As part of the partnership, which began in 2012, MCI acquired exclusive rights for high-end Setra motor coaches and after-market parts in the US and Canada. In return, Daimler received a minority interest in the company.

A transformational 1,104-unit 45-foot coach order from the NJ Transit, the single largest order in the coach industry in the past 12 years, was also no small feat for MCI.

As a result, KPS saved more than 1,500 premium industrial jobs. Meanwhile, the sale to New Flyer created one of the largest, most diverse bus companies in the world.

"Motor Coach Industries International is the best example of pure operating improvement," said judge Michael McKenna. "KPS acquired a distressed asset in restructuring and without relying on acquisitions to 'buy EBITDA' or realise synergies, they transformed a cash negative business into a profitable business." ■

PEI Alternative Insight

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WINNER – UPPER MID-MARKET

KPS Capital Partners: HHI Group Holdings

KPS Capital Partners' investment in HHI is really a story of five private equity deals bundled into one.

In 2005, the firm bought five failed automotive component manufacturers – three of which were EBITDA negative – and began consolidating them into a single business under the HHI brand. Seven years later, KPS sold the company for $750 million, generating an 11x return multiple and 69 percent gross IRR. Under the firm's ownership, EBITDA at HHI grew from $2 million to $141 million.

"All of that EBITDA generated was the result of shop floor excellence, turning each of the businesses around and integrating them," said Mike Psaros, KPS co-founder and managing partner. Today, HHI is the largest North American manufacturer of highly engineered, safety-critical forged components for automotive customers.

Remarkably, KPS was able to right-size each of the five manufacturers within 12 months of the initial acquisition. After installing a new management team, led by chief executive officer George Thanopoulos, KPS increased productivity at its manufacturing facilities by improving plant value streams, upgrading equipment, and introducing automation and robotics to the manufacturing process.

The firm also installed a new company-wide financial reporting and inventory tracking system and negotiated new collective bargaining agreements with eight workers' unions. In working with the United Auto Workers (UAW), the United Steelworkers (USW) and others, KPS helped to save 3,000 US manufacturing jobs and keep 15 manufacturing facilities up and running.

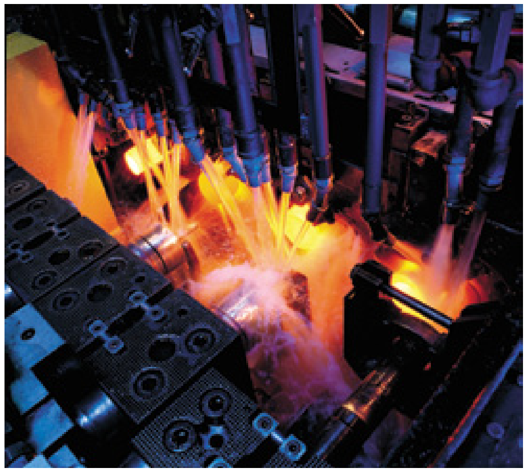
What KPS achieved with HHI is a textbook example of how private equity can unlock value through operational improvements. But the process of creating a profitable company out of five failed, left-for-dead businesses is by no means common in private equity. As judge Steve Kaplan, a professor of entrepreneurship and finance at the University of Chicago Booth School of Business, succinctly put it: "Cobbling together five companies is not easy".

KPS' investment in HHI also speaks to the firm's ability to go where others fear to tread – given that conditions in the automotive industry at the time were probably as bad as they've ever been.

"For a substantial portion of the time we were creating HHI, the automotive industry fell into a cataclysm – and so while it presented once in a lifetime opportunities to make acquisitions at valuations we'll probably never see again, we did have to contend with the unknown," Psaros said. "The challenges for this deal were all macro."

For judge Gwyneth Ketterer, former chief operating officer at Irving Place Capital, the word "challenge" is a bit of an understatement as it pertains to HHI.

"I can't help but be in awe of what the KPS folks accomplished in what was an awful time," she said. "Here they are dealing with the backdrop of the GM and Chrysler bankruptcies, tackling the American auto parts industry – which has historically been awful – and taking five distressed companies and integrating them. And on top of that, they had to deal with the unions."



HHI: five became one

According to Psaros, the moment when KPS knew it had added enough operational value to generate a strong investment came after just the second of five integrations – long before HHI was operating as a single, successful business.

"Our management team demonstrated its ability to successfully turn around two very troubled companies quickly and then integrate them," Psaros said. "That's when we had a template to go out and execute on the rest." ■

$2m
2005 EBITDA

$141m
2012 EBITDA

HIGHLY COMMENDED
Brookfield Asset Management – Longview Fibre and Packaging
Catterton Partners – Restoration Hardware