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**WINNER – UPPER MID-MARKET, AMERICAS
KPS CAPITAL PARTNERS –
MOTOR COACH INDUSTRIES INTERNATIONAL**



WINNER – UPPER MID-MARKET

KPS Capital Partners: Motor Coach Industries

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

(\$12m)
EBITDA on
entry (loss)

\$76m
EBITDA on exit

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

\$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.

“During a five-year holding period, the turnaround encompassed every aspect of MCI’s business from sales to manufacturing and after-market 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.” ■



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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.

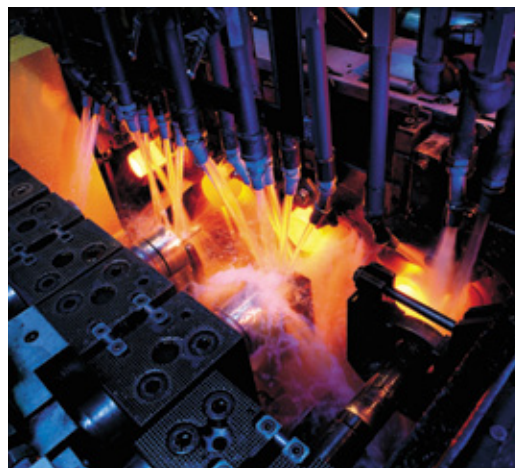
What KPS achieved with HHI is a textbook example of how private equity can unlock value through operational improvements. But the process of creating a profitable company out of five failed, left-for-dead businesses is by no means common in private equity. As judge Steve Kaplan, a professor of entrepreneurship 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



HHI: five became one

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."

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

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