

# TURNAROUND DEAL OF THE YEAR **KPS**

**2019**

By Milana Vinn



**Raquel Palmer, managing partner at KPS Capital Partners.**

Photo courtesy of the firm.

When a group of hedge funds and debt-holders were exploring an exit from **Electrical Components International** in May 2014, the company's growth opportunity for a new buyer was not obvious.

ECI, an international wire-harness manufacturer, relied heavily on the North American appliance industry and one customer, and it didn't have a low-cost solution for European markets.

"It was not an obvious growth story, and there was not an obvious way to create value to the investors," **Raquel Palmer**, managing partner at **KPS Capital Partners**, told *Buyouts*.

"I don't think there were many people who saw how to make the investment work."

But taking over non-straightforward businesses and digging deep to understand the underlying value and growth opportunities is a specialty of KPS, Palmer said.

"We will chase. In this instance we were really interested in buying this company and we did it at a very attractive valuation," she said.

"When you buy a company from debt owners, there is an opportunity to unlock a lot of value. When we exited, it was a specialty supplier with a diversified product and customer base."

The New York PE firm was able to grow the company organically and complete additions of three owner-led businesses: **Global Harness Systems**, **Whitepath Fab Tech**; and **Fargo Assembly Co.**

Ahead of KPS's ownership, ECI's management team preselected those companies as ECI was exploring opportunities to grow.

"They had lots of meetings with the companies that they wanted to own but didn't have an opportunity to," Palmer said. "They were just so on top of it. It was a lot easier with them having cultivated those relationships."

KPS worked closely with ECI's management team, led by CEO **David Webster**, from day one and didn't make any changes to its leadership roster during the hold period.

Integrating three family-owned businesses into ECI's operations and supply chain helped increase the company's productivity and cut costs. KPS cut ECI's direct material costs by more than \$10 million each year, particularly in ECI's wire and connector spend.

Through the add-on acquisitions and additional hiring, KPS grew ECI's workforce by 8,000 employees, to a total 20,000.

The firm also added 23 manufacturing facilities to the existing 12 and built a new facility in Morocco, which serves as a low-cost platform for European markets.

KPS's growth plan was to diversify the company's business from appliances to specialty-industrial end-market segments and to broaden its international presence.

The firm launched new specialty products for auto makers and industrial companies like **Harley-Davidson**, **Carrier**, **Ingersoll-Rand** and **Bobcat**.

This specialty market is often left out or

## SNAPSHOT

**Company:** Electrical Components International

**Lenders:** Bank of America, GE Capital, Fifth Third Bank

**Legal adviser:** Paul, Weiss, Rifkind, Wharton and Garrison

**Financial adviser:** Barclays

## WHY THEY WON

- ECI's revenue grew nearly 50 pct to ~\$1 bln
- KPS doubled ECI's EBITDA between 2014 and 2018
- KPS added 8,000 employees to ECI business
- KPS returned 3.2x its money on exit from ECI

overlooked by many manufacturers, Palmer said.

"There is a huge market for [wire harnesses] and there are not many manufacturers other than automotive that do that," she said.

With those changes, ECI more than tripled its customer base to 550. It also grew its specialty-industrial revenue by more than \$300 million, a tripling, under KPS's ownership.

KPS improved ECI's margins by 40 percent and grew its sales nearly 50 percent to \$959.1 million. KPS also distributed an aggregate of \$464.1 million to ECI's stockholders.

The PE firm sold the company to **Cerberus Capital Management** on April 24, 2018, achieving 3.2x cash-on-cash realization and a gross IRR on equity capital invested of 40 percent. The sale price was not disclosed.

The initial investment and later the successful exit from ECI are great examples of KPS Capital Partners' best work practices, Palmer said.

"It really shows something we are especially proud of at KPS – what is really to see value where others do not."