

Business

KPS Capital Goes on Offense Buying Humvee and Lawn Mower Makers

by Josh Saul
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- ▶ Private equity firm has bought two companies in recent months
- ▶ Lack of debt-funded deals helps KPS in weak LBO credit market

There's something retro about KPS Capital Partners. The private equity firm earns money from companies that make actual things -- Humvees and golf clubs, treadmills and lawn mowers. They favor old-line iconic brands, they don't use a lot of leverage and they don't mind working with unions.

They're also staying busy at a time when other PE firms have put big deals on hold. KPS is poised to buy Briggs & Stratton Corp., the bankrupt maker of landscaping equipment, and in the past three months the \$11.4 billion firm purchased Baker Hughes Co.'s oil pump business and bought Humvee maker AM General from Ron Perelman's MacAndrews & Forbes.

"Since Memorial Day, we have been all of fense, no defense. We have been throwing the

ball deep downfield," said KPS co-founder Michael Psaros, a die hard Pittsburgh Steelers fan.

KPS, founded in 1991, has been narrowly focused on investing in manufacturing firms. Its holdings include golf equipment producer Taylor Made Golf Co. and treadmill maker Life Fitness, and unlike many of its rivals, it's willing to invest in companies that may lack predictable cash flow or require extensive turnarounds. It typically keeps positions for around five years.

"KPS is interested in companies with severe operational problems, a lot of other private equity firms are not," said James H.M. Sprayregen, a Kirkland & Ellis lawyer who is representing New York-based KPS in its bid to buy Briggs & Stratton. "They're not just fooling around with the capital structure."

Fresh Funds

Major fundraising last fall put KPS in the position to hunt for new, bigger deals now. The firm raised \$6 billion for its fifth special situations fund and \$1 billion for a vehicle devoted to mid-sized companies in October, more than doubling its assets under management.

It's not an easy time for dealmaking. Psaros called the pandemic the worst business environment the firm has ever confronted, but said KPS's willingness to consider companies with trouble generating cash means it hasn't had to tweak its investment strategy.

"The magic of KPS is that we cause the creation of those cash flows, we don't buy those cash flows," said Psaros, 53. "The market has come to KPS."

KPS also avoids overloading its newly acquired targets with debt, which helps now when investor appetite for risky leveraged buyout debt is low.

"KPS is more likely to buy things that are having some problems and they try to fix them," said Steven Neil Kaplan, a professor at the University of Chicago Booth School of Business who studies private equity. "Because they are buying things that are a little more hairy, they put less debt on their companies."

'This isn't Elliott'

About a tenth of all manufacturing jobs are unionized, meaning KPS must regularly negotiate with organized labor. It's earned accolades from United Steelworkers, United Auto Workers and the International Association of Machinists and Aerospace Workers for its willingness to cooperate.

Last month, United Steelworkers, which represents employees at Briggs & Stratton, said KPS's acquisition of the engine-maker will save hundreds of jobs at the firm's Milwaukee manufacturing plant. A bankruptcy auction is set for Sept. 1.

"This isn't Elliott, where you get in the clutches of them and you've really got troubles," said Thomas Conway, president of the United Steelworkers, which represents workers



Michael Psaros Source: KPS Capital Partners

at multiple KPS companies. “With KPS, it’s going to be as collaborative as it can be.”

Representatives for Elliott Management Corp. didn’t respond to a request for comment.

Private equity firms are facing greater pressure when their portfolio companies fail and rank-and-file employees lose their jobs -- especially with a national unemployment rate above 10%. One report last year found 600,000 jobs at private equity and hedge fund-backed retailers had disappeared in a decade.

Pandemic Pressures

The 10 companies KPS owns employ a collective 26,000 people. Before KPS went hunting for new deals, it had to make sure its existing portfolio companies could weather the pandemic, said managing partner Raquel Palmer.

KPS asked its companies to develop plans for navigating a prolonged economic downturn. It also held weekly liquidity meetings with companies to address any looming balance sheet problems.

As KPS began scouting new business, pandemic travel restrictions made evaluating potential targets more difficult for the 80-person company.

The firm turned to its local operations groups -- teams that normally work directly with portfolio companies -- to perform in-person due diligence. That tactic helped KPS inspect targets in Pennsylvania and Europe, though the company hasn’t been able to recreate the relaxed dinners with company



Raquel Palmer Source: KPS Capital Partners

management that often follow a day of factory observations and formal meetings.

“That’s one you can’t do over Zoom,” said

Palmer, 47. “You can’t have a glass of wine and ask, ‘What would you do with this business if you had a blank check?’”