KPS Capital’s Psaros: ‘A job saved is a job created.’

The industry has been touting its ability to create jobs for some time. Should it be placing greater emphasis on jobs saved?

Speaking last year at the PartnerConnect East conference, David Rubenstein, co-founder and co-CEO of The Carlyle Group, expressed the widely-held view that the industry’s image is “not as good as we would like,” and joked that while its approval rating may be higher than that of Congress, that is “not really a high bar.” One way to improve its reputation, he said, would be to tout jobs saved in cases where sponsors fix broken companies. (Carlyle Group less than a year earlier had stepped in to invest in a Philadelphia refinery that Sunoco had planned to shut down, saving some 850 jobs.)

I’ve expressed the view in this column that advertising job growth isn’t necessarily the way to burnish the industry’s image. The main objective of buyout firms, as with most business owners, is to create shareholder value. Sure, that can entail job creation. It can also entail job cuts or outsourcing jobs abroad, according to the situation. But the importance of showcasing the industry as a force for economic good remains as compelling as ever. Look no further than the Obama Administration’s position that carried interest should be taxed as regular income rather than capital gains.

Counting jobs saved isn’t easy. A turnaround firm that swoops in to purchase a company out of bankruptcy, saving it from liquidation, can never be 100 percent sure that another savior might not have been found. And what about a situation in which the turnaround firm eliminates a portion of the jobs saved, or outsources them abroad. Should all the original jobs saved be counted? Or what about jobs saved outside the United States?

Be that as it may, talks with three of the many buyout shops with a turnaround bent, KPS Capital Partners, Sun Capital and Z Capital Partners, suggest they have together saved tens of thousands of jobs over their histories. A source familiar with recent dealmaking at Sun Capital, for example, pointed to its 2007 acquisition and turnaround of American Standard, the kitchen and bathroom fixture maker, as a deal that saved some 5,000 jobs.

“Conservatively we believe we have saved over 20,000 North American jobs,” said Michael Psaros, co-founder and managing partner of KPS Capital, a New York firm that closed its fourth core fund at $3.5 billion in early 2013. “These are premium manufacturing and industrial jobs. These are real jobs with real wages…and benefits.”

Psaros pointed to three job-saving deals in particular: Heritage Home Group, formed last year to acquire the assets of Furniture Brands International Inc (“Not all jobs will be saved but a huge portion of the jobs will be saved,” said Psaros); WWRD Holdings Ltd., which owns the Waterford and Wedgwood brands (3,000 jobs saved); and HHI Group Holdings, an automotive components manufacturer sold to American Securities in 2012 (3,000 jobs saved).

“In each of those examples the jobs were binary,” said Psaros. “It was go or no-go. Either we commit the capital with a new management team and turnaround plan or the jobs go away.”

Jim Zenni, president and CEO of Lake Forest, Illinois-based Z Capital, a specialist in buying good companies with bad balance sheets, said his firm has “very conservatively” in the United States saved some 9,000 jobs. Z Capital and other turnaround shops, he said, produce “a job preservation outcome, and in many cases we’re expanding jobs. It’s all about taking a good asset, providing a
new direction, refining its business model, and fixing the balance sheet so it can start making intelligent business decisions about new product lines, and new business lines…”

Zenni, whose firm has so far closed on more than $600 million for its latest fund, pointed to the 2011 restructuring of then-distressed Famous Brands International, alongside Carlyle Group (since bought out), as a good example of jobs saved and created. The immediate result of the debt-for-equity swap was the preservation of some 70 to 75 jobs in Salt Lake City, then home to a gift manufacturer and corporate headquarters (the latter has since moved to Denver). Moreover, the company franchises Mrs. Fields cookie stores and TCBY yogurt stores. So saving the company had a big impact on job creation. At the time of Z Capital’s investment the company was doing “very little” franchising of new stores, Zenni said. Today franchisees are opening up a net seven to 10 stores per month in the United States. Each store typically employs at least 10 to 12 people on a full-time or part-time basis.

In the industry’s ongoing PR campaign, why not let firms like Z Capital that specialize in turnarounds carry the flag? I doubt KPS Capital’s Psaros would argue with that.

“My partners and I have been pounding the table for almost two decades on this subject,” he said. “A job saved is a job created.”