Psaros based his career on a bold experiment

Michael Psaros and KPS Capital Partners, the private equity fund he co-founded, have made plenty of investors happy by rejuvenating troubled U.S. manufacturers with the help of unions.

The firm’s most recent success is Global Brass and Copper, a Schaumburg, Ill., manufacturer that KPS acquired in November 2007, a month before the onset of the Great Recession. Investors in the KPS fund that acquired the metals producer have received $650 million from their investment since 2010.

The roots of KPS’s success run back to September 1983 when Mr. Psaros, the grandson of Greek immigrants, and his family huddled in the kitchen of their Weirton, W.Va., home, glued to the radio. They were waiting to hear whether Weirton Steel workers had agreed to purchase the company from its owner, National Steel. Mr. Psaros’ father was an electrical engineer in the mill, and his grandfather worked at a Weirton open hearth furnace in the days when E.T. Weir owned the mill.

“It’s something I’ll never forget for the rest of my life,” said Mr. Psaros, who was a junior in high school at the time. “We were listening to WEIR... and we were waiting to hear what the union vote would be.”

Workers backed the deal, which was engineered by Lazard Freres investment banker Eugene Keilin. Mr. Psaros, 46, says the employee buyout inspired him to pursue a career based on the bold premise of the Weirton experiment.

“In most situations, capital and labor are anathema to one another. We see the power in capital and labor working together with one another,” Mr. Psaros said.

Today, Weirton Steel is a bankruptcy survivor, a shell of its former self that’s operated by new owners. But the mill is a persistent subplot in the story of Mr. Psaros and KPS.

When Weirton Steel sold shares to the public in 1989, Mr. Psaros, a young trainee at Bear Stearns, was “the junior gopher on the deal team,” he said. A year or so later, after Mr. Keilin joined another Lazard colleague, Ron Bloom, to form a New York investment bank, Mr. Psaros applied for a job at Keilin & Bloom.

“You saved my hometown. I’d like to work with you,” he recalls telling Mr. Keilin.

The firm advised the United Steelworkers and other unions that represented workers at distressed companies.

“They were using what I would call the high road form of investment,” says USW president Leo Gerard.

After Mr. Bloom left to become a USW adviser, Mr. Keilin, Mr. Psaros and a colleague, David Shapiro, established KPS. The firm manages more than $6 billion in assets. KPS takes controlling stakes in troubled companies, brings new capital and ideas and builds constructive relationships with unions.

It specializes in distressed industrial companies.

“They do not do easy. They save a lot of companies. They save a lot of jobs. They are remarkable at it,” said Edward J. Grefenstette, president and chief investment officer of the Dietrich Foundation.

The Pittsburgh foundation is a KPS investor. “Our only regret is that we didn’t give them more money,” said Mr. Grefenstette, who met Mr. Psaros when they attended Georgetown University.

He believes his former classmate’s hard work and integrity help make KPS successful despite the daunting challenges the firm embraces.

“I’m not using the word ‘integrity’ lightly because without it, you can’t work with the labor organizations that they work with,” he said.

“Mike is a guy who knows what hard work means. He knows what doing a deal on a handshake means.”

Mr. Gerard says Mr. Psaros, like Mr. Bloom, has a passion for manufacturing.

“Ron comes at it more from an economic point of view... and Mike comes to it from living and growing up in Weirton,” he says. “Michael is a smart guy.”

Some of those smarts, Mr. Gerard jokes, were developed working with the USW.

“We had to teach both Psaros and Shapiro how to actually do real negotiations. They learned that through the union,” Mr. Gerard said.

The CEO who oversaw the revitalization of Global Brass was John H. Walker, former president and COO of Weirton Steel. After KPS acquired the business from Olin, the company negotiated a 66-month labor agreement with eight unions that did not include pension or retiree health care obligations.

The salaried workforce was cut by about 20 percent, product offerings were rationalized to focus on higher margin and higher growth markets, and inventories were trimmed by 43 percent.

The transformation made Global Brass bankable. KPS took the company public last September. The fund sold its last 910,000 shares Feb. 3.

Although Mr. Psaros lives in Purchase, N.Y., he says he still owns a home in Weirton and has Steelers season tickets on the 50-yard line. He supports All Saints Greek Orthodox Church in Weirton. Nick Latousakis, parish council president, said Mr. Psaros has contributed hundreds of thousands of dollars to the church in recent years.

“His heart’s still in Weirton,” he said.

Mr. Psaros’ friends say some of that loyalty can be attributed to his commitment to church and family. The rest can be traced to that day in 1983 when Weirton Steel’s workers decided to buy their company.

“It inspired me to do what we’re doing today,” Mr. Psaros said.