Deal of the Year: KPS for Anchor Glass

Mid-Market/Overall: KPS Capital Partners, Anchor Glass

Large Market: Providence Equity, Ministry Brands

International: Carlyle Group, Groupe Marle

Small Market: Levine Leichtman, Senior Helpers

Turnaround: American Capital, Service Experts
Deal of the Year, 2017: KPS Capital Partners, Anchor Glass

By Luisa Beltran

SNAPSHOT

• Company: Anchor Glass Container Corp
• Lender: Credit Suisse, Citigroup Global Markets Inc. and Morgan Stanley
• Legal advisor: Baker & McKenzie provided legal advice to CVC, BA Glass; Paul, Weiss, Rifkind, Wharton & Garrison LLP advised KPS, Anchor Glass
• Financial adviser: Morgan Stanley and Citi provided financial advice to CVC, BA Glass, while Credit Suisse Securities (USA) and J.P. Morgan Securities advised KPS, Anchor Glass

WHY THEY WON

• Sale to CVC generated 5x return
• Deal produced gross IRR of 132.4 pct
• Adjusted EBITDA rose nearly 59 pct under KPS
• Anchor Glass enterprise value under KPS more than doubled to $1.04 bln

KPS Capital Partners’ success with Anchor Glass Container stemmed from a combination of actions, led by KPS and company management. The moves helped the bottle maker boost EBITDA nearly 59 percent in less than three years, said Jay Bernstein, a partner at KPS.

The New York buyout shop acquired Anchor Glass, which makes glass packaging products used by the liquor, beverage and food sectors, as a carve-out from Ardagh Group in 2014. The deal was valued at $435 million. KPS, along with its LPs, invested $140 million equity.

The PE firm’s buy of Anchor Glass surprised some. The company had filed for bankruptcy three times in the past 20 or so years. Anchor Glass’s last trip through Chapter 11 came in 2005, when it was owned by Cerberus Capital Management.

The glass sector began losing market share to plastic packagers in the 1990s, Bernstein said. By 2014, when KPS bought Anchor, many glass plants had been shuttered due to financial difficulties.

KPS, however, had some experience in the sector. It owned North American Breweries Holdings, a beer company with brands including Labatt and Genesee, for three years before selling it in 2012. (North American Breweries is also an Anchor Glass customer).

KPS thus knew that the glass market was stable and that Anchor was a fundamentally good business, Bernstein said. “Others were more focused on [Anchor Glass’s] past, where we were focused on where the business was today, what we could do with it” and its potential, he said.

KPS closed its buy of Anchor Glass in June 2014. It invested $114.2 million to upgrade machinery and equipment, including rebuilding four glass furnaces and enhancing the bottle-forming machines. KPS implemented a state-of-the-art production system at the company, while reducing freight routes to cut transport costs, Bernstein said.

The company added new customers and entered multiyear agreements with existing ones. This gave the company more long-term stability, Bernstein said. Anchor Glass produced more than $50 million of new business in 2016 alone, KPS said.

“Once the customers were willing to make long-term commitments to Anchor, this enabled Anchor to develop a long-term investment plan for each of its plants,” he said.

More improvements included reducing the weight of the bottles Anchor Glass sold. This helped increase the number it produced to nearly 4.9 billion annually. The company also installed automated quality-inspection equipment for its bottles in all its manufacturing facilities, Bernstein said.

One major change occurred when KPS cut the company’s exposure to the mass beer market, which had been a declining product category, Bernstein said. Anchor Glass began focusing more on craft beer. Anchor Glass’s mold-making capabilities, which let it make custom bottles, gave it an edge over competitors.

“We are able to work collaboratively with a brand owner to get a new bottle design to market faster than anyone else can,” Bernstein said.

In 2016, Anchor Glass posted $143 million adjusted EBITDA, up nearly 59 percent from two years earlier. Revenue rose nearly 11 percent to $615 million. “By reducing costs and improving the product mix, this led to a much bigger margin impact on Anchor’s performance as opposed to simply a revenue increase,” Bernstein said.

KPS got its money back during its 2 1/2-year hold. Anchor Glass issued two dividend recapitalizations, in July 2015 and May 2016. The transactions paid out $294 million to stockholders, more than what KPS invested in 2014.

KPS hired Credit Suisse Securities (USA) and JPMorgan Securities to run a sales auction. In December, CVC Capital Partners and European glass-bottle producer BA Glass BV acquired Anchor Glass in a deal valued at more than $1 billion. KPS made 5x its money with the sale, Buyouts has previously reported.

“We made the business better. That’s what I’m most proud of,” Bernstein said.