THE SUNDAY TIMES

FOCUS

THE SUNDAY TIMES

17.05.15

Psaros's KPS has restored the prestige of the Waterford Wedgwood brands and earned an estimated €350m profit from their sale

CRYSTAL AMAZEMENT

Waterford Wedgwood was a white elephant that broke a billionaire but, six years on from receivership, its china crisis has been turned into a triumph, writes **Brian Carey**

A movie of dealmaker Mike Psaros's life story would read like a cross between Wall Street and Trading Places. He grew up in Weirton, Virginia, where his father worked in the local steel mill. In 1983, the mill hit troubled times and, to save their jobs, the workers engineered one of America's first-ever employee buyouts.

Seven years later, Psaros went to work on Wall Street with Eugene Keilin, the same Lazard & Co banker who advised the employees on the buyout of the steel mill. In 1998, Keilin, Psaros and David Shapiro, another banker, formed KPS Capital Partners to save industrial businesses and make money. Lots of money.

Last week, KPS sold WWRD, the owner of Waterford Crystal and china brands Waterford Wedgwood, Royal Doulton and Royal Albert, to Fiskars, Finland's oldest company, for €410m. KPS had bought the brands from receivers Deloitte in 2009 for €107.5m. It also took a €50m dividend from the group in 2013.

Psaros would not reveal the return from selling WWRD, but said it was a "stunning" result. Before accounting for any debt in the business, which was relatively modest, KPS made a profit of €350m.

Its timing was pithy. As Psaros admitted to being "euphoric" about the outcome of the sale, Waterford Wedgwood's former largest shareholder Sir Anthony O'Reilly, 79, was last week battling to reach a compromise with his creditors, including an aggressive Allied Irish Banks.

Waterford Wedgwood is the business that broke O'Reilly. No venture sucked more of the Irish businessman's wealth.

With brother-in-law Peter Goulandris, it is estimated that O'Reilly invested €400m. When Waterford Wedgwood went into receivership, that money was lost for ever. It has been quite a swing in fortune.

PSAROS has every reason to be pleased. When KPS picked up Waterford Wedgwood, it was an unloved and heavily loss-making business.

"It was the most shattered, poorly run business we had encountered in 20 years, and that is really saying something, because we turn around underperforming, distressed business," said Psaros last week. "That is what we do."

KPS bought the business at the height of the financial crisis, when "no Irishman, Englishman or Scotsman" was interested, he said. "People say that the company was a victim of the financial crisis. It wasn't.

"This was a business that was going under anyway. Businesses don't end up in trouble — they are managed into the ditch," added Psaros.

Waterford Wedgwood was well on the way into the ditch when Psaros and his colleagues first looked at the books in September 2008. After a failed rights issue, Waterford appointed Lazard to solicit potential investors and buyers. The bank contacted 182 potential investors. Only two, KPS and Golden Gate Capital, progressed past the preliminary stage. Golden Gate said it would be willing to invest only if Waterford Wedgwood were put into an insolvency process. Deloitte was appointed receiver in January 2009.

The receiver obtained 78 expressions of interest and hired JM Cazenove to run its sale. The bank contacted 55 interested parties. At the end of the process, Psaros was the only man standing. KPS was the highest and best bidder.

After fees and charges were paid, some €82m was left over for secured lenders led by Bank of America. All told, between shareholders, banks and bondholders, more than €1bn had been lost.

> IT WAS THE MOST SHATTERED, POORLY RUN BUSINESS WE HAD SEEN IN 20 YEARS – AND WE TURN AROUND DISTRESSED BUSINESSES

KPS finally got its hands on the business in April 2009, setting up a new company, WWRD, to buy the assets. The Waterford crystal factory was "awful," said Psaros, one of the worst manufacturing facilities he had ever seen in his life.

By the time the receivers came in, just one product line, Lismore, was still manufactured in Ireland. It was beyond saving.

It was a very different story for the brand. "One of the things that people said was that nobody was buying crystal or ceramics any more," he said. "That was wrong. These were four global iconic brands that sold in 80 countries."

Early in the due diligence, KPS retained Pierre de Villemejane, a former L'Oréal executive, to look at the business. De Villemjane previously worked with KPS on a turnaround at Speedline Technologies, a US company that made components for printed circuit boards.

When Speedline was sold in 2006, KPS got back 16 times its stake. The Frenchman Villemejane, with a background in corporate turnarounds and brands, was the ideal man to lead WWRD.

On taking up the job, he confessed he was barely aware of Waterford as a brand. He then saw, however, how Waterford figured so prominently on American department store wedding lists.

He began to understand its innate potential. This was a name that resonated strongly with aspirational 25-30-year-old Americans, a consumer sweet spot. The problem, Villemejane said, was that all the company's brands, and Waterford in particular, were "overly reliant on the bridal market". The product was something that people bought only one day or received one day in their lives, he said.

The challenge was to create a range of gifting opportunities that people could buy "every day". Waterford broadened its product range beyond drinkware, and into jewellery and interiors.

Villemejane said the task was to "contemporise" while keeping the deep-cut crystal "DNA" of the brand. It hired outside designers such as interiors consultant Jo Sampson to "push the boundaries". The brands had the cache but not the margins of luxury products. Psaros said that, unusually even for KPS, every part of the business had to be fixed: manufacturing, distribution, marketing and sales.

Waterford, Wedgwood, Royal Doulton and Royal Albert operated as four separate businesses, each with their own marketing and distribution functions. There were too many warehouses, and warehouses in the wrong places. Villemejane closed unprofitable shops." There was quadruple redundancy, if such a term can exist," he said.

Not only did the businesses not collaborate, said Villemejane, they were often competing against each other. There were six different enterprise software systems, none of which talked to each other.

The new management structure "is very flat", said Villemejane. There are group vice-presidents of marketing, operations and finance, with sales managers heading up critical territories.

"It means that we can make decisions quickly. Of course we have made some mistakes. Yet the worst thing we can do as a business is not make decisions." He also rationalised product lines. One of the old Waterford Wedgwood's biggest failings was the tens of thousands of stock-keeping units—product items—that tied up tens of millions of euros of working capital.

Last year sales grew by 7% to $450m (€394m). "There is nothing that we did that the previous owners could not have done," said Psaros. "You can say that they had debt and pension liabilities, but at the ebitda [earnings before interest, tax, depreciation and amortisation] level, they were burning $100m a year. WWRD is now making $50m a year."

Psaros said, by late 2014, KPS had brought WWRD "as far it could" and hired Goldman Sachs to find a buyer. After his first meeting with Fiskars, he "knew immediately" the Finns would bid most.

The company started out as a foundry in the village of Fiskar 366 years ago. It has been listed on the stock exchange since 1915. Fiskars is perhaps best known for making orange-handled scissors, and was one of the first companies in Europe to make microwave ovens.

It started looking seriously at diversification to high- end consumer products just eight years ago, buying Littala, a Finnish homeware designer. It added ceramics companies Rorstrand and Royal Copenhagen in 2010 and 2012 respectively.

Financially strong, the market had been anticipating a deal. "I don't think anyone expected an acquisition of this size," said Tommy Ilmoni, equity research analyst at Carnegie Investment Bank in Helsinki.

WWRD will bring the company to a new level in luxury consumer products.

Kari Kauniskangas, president and chief of Fiskars, said it was "abigstrategic step", yet the deal would balance almost perfectly sales at its functional divisions —scissors, garden tools and boats — and its living consumer unit. The WWRD brands "are complementary in nature" to Fiskars's luxury consumer brands. "We are extremely excited," added Kauniskangas.

Psaros said the deal represented a perfect ending. WWRD brands had been purchased by a strong professional company that understood heritage.

The deal was also welcomed by Waterford chamber of commerce. The Waterford Crystal brand is still hugely important to the city. House of Waterford Crystal opened in 2010 as a visitor centre, retail outlet and a manufacturing facility which makes high-end pieces such a chandeliers and sports trophies.

"How many private equity companies would invest in something like that?" asked Psaros. Waterford chamber chief executive Nick Donnelly said Fiskars commitment to the brand was "positive, not just in terms of the economy but also tourism".

Among the visitors to Waterford last month were Psaros's parents, who left with a crystal American football. Their son has left Waterford with an awful lot more.