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Deal Of The Year Awards

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KPS Capital Partners LP
Turnaround of The Year &
Deal of The Year Winners

THOMSON REUTERS

TURNAROUND OF THE YEAR AND DEAL OF THE YEAR
KPS Capital Partners LP

KPS Capital Revives Attends Healthcare

KPS Capital Partners LP's turnaround of adult incontinence product maker Attends Healthcare offers a prime example of what devoted attention from experienced investors can bring to a neglected company.

With its experience in the nitty-gritty of turning around manufacturing companies, KPS Capital was able to transform a company that was facing liquidation into a profitable, growing company sought by a Fortune 500 company, while generating 15x its invested capital in the process.

"This is textbook, this is what we do," **Raquel Palmer**, a partner with KPS Capital, told *Buyouts*.

Attends Healthcare makes adult incontinence products under the Attends brand name. It employed around 400 in two facilities, in Greenville, N.C., and La Verne, Calif., before KPS Capital's involvement.

For more than 10 years, the business that would become Attends Healthcare languished under distant management. Procter & Gamble housed it in its personal care products group for years until 1999, when the mammoth consumer products company sold it to a company called PaperPak. PaperPak, in turn, was bought in 2002 by British private equity firm **3i Group plc** for $94.2 million, according to Capital IQ.

Attends Healthcare had U.S. and European operations at the time, and even then the U.S. business was struggling while its European business was doing better, according to press reports. PaperPak would go on to sell the U.S. business to KPS Capital in January 2007 for an undisclosed amount, and 3i would sell the European business seven months later to another private equity firm, **Rutland Partners**, for €93.5 million ($122.3 million at today's exchange rate), according to Capital IQ.

The company was on its proverbial deathbed—generating negative $3 million in EBITDA—when Kibel Green, a California consulting firm specializing in turnaround situations, reached out to KPS Capital in late 2006.

"If we'd made it to the fall of '08 without [KPS Capital], we'd have gone under," **Michael Fagan**, the company's CEO under KPS Capital who had been with Attends Healthcare, off and on, since the late 1980s, told *Buyouts*.

KPS Capital was intrigued by several favorable baseline factors that suggested the company's potential. With hordes of baby boomers approaching old age, there would be no shortage of potential customers. And in its due diligence, the firm found that despite the brand's struggles, it had a loyal customer base. Further, Attends Healthcare makes products that are essential for its customers, so it wasn't like something that would go out of style—a factor that would prove critical during the economic downturn, when consumers curtailed spending on less necessary goods.

But KPS Capital executives really warmed to Attends Healthcare when they visited its manufacturing facility in Greenville, N.C. The company's aging manufacturing equipment, which transformed pulp and other raw materials into the material used in Attends products, needed serious upgrading. And Fagan had known for years that the company could save money on freight costs with what's called "compression packaging" equipment, which would allow the company to put more boxes of its products on the pallets that are sent by truck to the company's distributors.

The Journey Begins

KPS Capital bought the company from PaperPak in January 2007, investing about $20 million of equity within 60 days of looking at the company and without a financing contingency. It named the new company Attends Healthcare Inc., after the Attends brand. Shortly after the deal, the company obtained a $47.5 million asset-based financing package.

At the time, Attends Healthcare was generating about $150 million in revenue, and negative $3 million of EBITDA; it employed approximately 400 people.

KPS Capital and the management at Attends Healthcare, led by Fagan, quickly set about transforming virtually all aspects of the company's business. The company dispatched the California facility because it was redundant and unprofitable, saving the company $5 million.

The company installed three new manufacturing lines in the Greenville factory, financed with $33 million from its internal cash flow. Each manufacturing line took about 12 to 18 months to install. This enabled the company to expand its product line from a basic brief to include a pull-on incontinence product, which was suitable for more mobile customers, and a "breathable" brief. The new equipment allowed the company to make its products 4x as fast as the old equipment, Fagan said.

KPS Capital rooted out savings in the company's distribution and freight costs. On the distribution side, it rationalized its product offerings. Attends Healthcare also revised relationships with smaller, less profitable distributors, pushing them to buy the product instead from other, larger distributors.

The firm returned almost all of its invested capital after 10 months with a dividend taken from the company's cash flow. It would eventually take three more dividends, two of which were for $35 million and $60 million, respectively, from two recapitalizations. In total, the company returned $120 million in cash distributions before KPS Capital exited.

In August 2011, the firm found what it deemed a worthy buyer, at a worthy price. Domtar Corp., a $4 billion manufacturer and distributer of paper products based in Montreal, bought the company for $315 million. The sale netted KPS Capital a 15x cash-on-cash return, and a 120 percent internal rate of return.

By then, Attends Healthcare was posting annual sales of $200 million and an estimated run-rate EBITDA of $39 million, according to a Domtar press release. *–B. V.*

SNAPSHOT:

Firm: KPS Capital Partners LP
Target: Attends Healthcare Inc.
Hold Period: 4 years
Buyer: Domtar Corp.
Legal Adviser: Paul Weiss Rifkind Wharton & Garrison LLP;
Buyer: K&L Gates LLP
Price: $315 million

Buyouts AWARDS 2012

WHY THE FIRM WON

- Successful turnaround of corporate orphan.
- The firm's deep research found a base of loyal Attends customers and favorable demographics.
- Company completely upgraded its manufacturing operations.
- Improved company's financial performance.
- Returned 15x its money.