When KPS Capital Partners first took over High Falls Brewery, the deal team noticed that the Genesee sign on top of the plant wasn’t illuminated. According to one long-time employee, the sign hadn’t worked in the almost 40 years they had been there. One of the first initiatives the new buyers took on was make sure passersby traveling at night could see it. It was a small fix, but seems to signify KPS’ attention to detail.

Certain opportunities define the middle market. KPS Capital’s North American Brewery platform, which took shape through three nearly simultaneous acquisitions, is one of those efforts that speak to the resourcefulness of buyers in the space. The deal showcased the search for value creation, the opportunistic nature of the segment and also how quickly momentum can gather when everything clicks.

According to Raquel Vargas Palmer, a partner at KPS, the lynchpin in the North American Breweries investment was the acquisition of Rochester, NY-based High Falls Brewery, best known for its Genesee and Honey Brown brands.

Once KPS had High Falls lined up, the firm suddenly had the capacity in place to make it a logical steward for the Labatt USA brand. Labatt was forced on the block by antitrust regulators as a required concession before the InBev/Anheuser Busch merger could be cleared. A license for Seagram’s Cooler Escapes and Smooth Brands was also picked up by KPS, rounding out the platform’s product mix to give the brewer a drink for just about every patron in the bar.

“We were able to put together a complete portfolio of brands that really play into every segment,” Palmer says, identifying craft beer, specialty lagers, imports, and flavored malt beverages, among others.

The name of the game is to fill that capacity.
“That’s important to our distributors.”

What’s also important is that KPS, in typical fashion, has gone straight to work improving the business, and indirectly the brand.

“The problems associated with High Falls that we could fix were mainly manufacturing in nature,” says Palmer. “The key, initially, was to invest in capital expenditures that improve the brewery, the service and the beer itself.”

In came Richard Lozyniak as CEO, his third turn as chief for a KPS portfolio company. While he is new to the brewery segment, Palmer notes he is an expert “at building organizations and building teams.”

The team that was brought on through the Labatt’s deal, meanwhile, brings in the sales and marketing expertise required to compete for space on the tap.

The thesis behind the deal is compelling, but to truly appreciate the transaction one needs a peek at the execution.

KPS, when it was considering the High Falls acquisition, was already exploring the Labatt deal. The problem was that the firm didn’t have the capacity to be player in the auction as far as antitrust regulators were concerned. To speed up the process, KPS accumulated all High Falls Brewery’s senior debt, and used the position to negotiate an out-of-court bankruptcy sale that required clearance from the unions, other creditors and even the City of Rochester, which reportedly forgave $9.8 million in back taxes and water bills.

Almost simultaneously, KPS was conducting conversations with the folks from AB/InBev and the Department of Justice over the Labatt USA assets. The deal even attracted the interest of Washington, as US Senator Chuck Schumer sent a personal letter to KPS, urging the firm to keep its headquarters in Western New York. The acquisition of Labatt was finalized after a 30-hour marathon session.

If there’s a benefit to doing deals for brewers, it was evident when the team from AB-InBev had a case of Labatt’s ready to toast the sale. North American Breweries, however, was actually ready with its own cache of Genny Cream Ale.

Palmer notes that the license for the two Seagram’s lines was the most straightforward of the three deals, as High Falls was already contracted by Pernod Ricard to produce the product.

As a whole, though, the instant combination of the three businesses was a high stakes juggling act that seems to typify a KPS deal.

“We don’t focus on plain vanilla LBOs, so these types of deals tend to find us,” Palmer says.

The hardest part for KPS may be adjusting to the new sector, as the firm up to now, has largely focused on true rust-belt industrial plays. In a sense, though, Palmer says that a focus on standards is the common thread found throughout the firm’s target industries.

Prior to the deal, KPS was cognizant of High Falls position as a contract brewer for a number of top brands, including Boston Beer Co., which produces Samuel Adams. “They were contract brewing for a lot of high quality brands beyond their own, so we knew they were making really good beer. It was part of our diligence,” Palmer says.

However, as the Seagram’s deal shows, KPS is keen on owning the brands it produces. The brewery, which has since been renamed Genesee Brewing Co., has the capacity to brew three million barrels. The facility currently has plenty of room to produce more beer.

“The name of the game is to fill that capacity,” Palmer says. Since the acquisitions, the company has grown organically. For the first time in nine years, the brewery has added an additional shift.

The next step is to follow its Day 1 plan, and add more assets onto the platform. North American Brewery has been rumored to be a player in possible processes for Rolling Rock and Pabst Brewing Co.

Palmer wouldn’t comment on specific brands, but she suggested that the platform’s future deals may be smaller in scope. “There are lots of smaller players and some really good, strong regional brands out there,” she says, noting that many of the family enterprises today may not have the access to capital to grow and compete with the giants.

Moreover, she believes the company has an advantage as a buyer as one of the few American breweries with the capacity to produce three million barrels.

If there were any initial doubts about KPS’ ability to manage a consumer-oriented company, the firm erased those when it returned capital to investors within six months of the original deal. The reported $85 million recap reflected the stronger cash flows the platform has produced since the combination first took shape, and also allowed KPS to take some cash off of the table and return capital to its limiteds. MA
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