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The friendly barbarian

Michael Psaros tells **Martin Arnold** how his private equity firm likes to rescue troubled companies while working with unions to protect jobs

Michael Psaros: 'We help companies make more stuff with fewer people' Daniel Lynch

In the world of private equity, Michael Psaros is an oxymoron: the union-friendly vulture investor.

His firm, New York-based KPS Capital Partners, specialises in buying control of companies with revenues of $100m-$2.5bn, which are in bankruptcy, in default of banking covenants, struggling with too much debt or suffering a history of losses.

But it also has a record of involving trade unions in the turnround, protecting the workforce where other private equity firms might slash jobs.

The firm's latest deal, to buy out of receivership much of Waterford Wedgwood, the maker of crystal and ceramic tableware, is typical – and KPS's most notable transaction in Europe to date.

Given that unions typically view private equity firms as asset-stripping, job-destroying "barbarians" in pursuit of short-term profit, how does KPS foster constructive partnerships with workers?

"We are about transforming an asset or business that was lossmaking or barely breaking even and turning it into a profitable and sustainable company," Mr Psaros insists. "Unions understand that in order to manufacture today, the key is productivity. We help companies make more stuff with fewer people.

"People think unions' priority is job preservation. But we close plants and we have moved many people. Yet we still have complete transparency with unions at the companies we buy."

Mr Psaros, 41, co-founded KPS in 1991, while still in his early 20s, and estimates he has saved about 20,000 manufacturing jobs during his career. Such is his reputation that some unions now call KPS when a company is in trouble. He credits its union links for generating a quarter of KPS's deals.

At Waterford in Ireland and Wedgwood in the UK, hundreds of jobs have been lost at the parts of the business that KPS is not buying, including its Irish production and sales arm. But Unite, the union, has formed a positive early impression of the new American owner.

"As a trade union we have a natural antipathy towards private equity, which usually has totally divergent interests to those of workers," it says. "But KPS has produced a deal that does save jobs and gives some comfort to those who have been forced to take redundancy. It could have been a lot worse."

Across the Atlantic, KPS is well-known among organised labour for showing a genuine interest in turning round the companies it buys and then helping them grow, rather than stripping them for cash.

Thomas Buffenbarger, president of the International Association of Machinists, which represents 730,000 workers across North America, credits KPS for trying to work with unions, rather than sideline them. As a sign of its support, IAM has invested its members' money in KPS's funds.

"They are willing to share information with unions, so they are seen as a partner we can work with," Mr Buffenbarger says. "Just about every other hedge fund or private equity fund doesn't even want to have a union agreement."

Mr Psaros says KPS's approach has several advantages. "When a consultant goes to unions and says 'this is why the company failed', they don't believe him – but with us they believe it," he says.

Bringing in a new chief executive, he adds, distances KPS from the discredited previous management and "builds trust". At Waterford Wedgwood, KPS is installing Pierre de Villemejane, former head of Speedline Technologies, a semiconductor equipment

Michael Psaros: blue collar to pin stripe

Michael Psaros grew up in US steel country, spending his teenage years in Weirton, West Virginia, where his father worked in a mill.

When the industry was hit by crisis, Mr Psaros was deeply impressed by an employee-ownership buy-out, the first of its kind, which saved the company and 10,000 jobs.

"The whole small town would have been completely destroyed had the mill gone down and I said to myself: 'One day, when I grow up, I want to help other people to do this,'" he says.

The Weirton Steel buy-out in 1980 was pioneered by Eugene Keilin, a former Lazard banker, who later became the K in KPS.

After Mr Psaros completed his studies at Georgetown University and Sofia University in Tokyo, he did a brief spell at Bear Stearns, before joining his childhood hero to cofound the firm in 1997.

Mr Keilin is now a senior adviser, leaving Mr Psaros and David Shapiro, the 46-year-old co-founder, as managing partners.

KPS raised $200m for its first fund in 1997, at the time one of the biggest debuts by a private equity firm. It has since raised two more funds: $400m in 2003 and $1.2bn in 2007, when it was four times subscribed.

maker that KPS sold for a 10-fold profit in 2006.

Another reason unions appreciate the KPS approach is it uses little or no debt in most of its deals. Almost all of Waterford Wedgwood's €800m ($1.1bn) of debts and pension liabilities is being left with the receivers. "Wall Street, and I include the City of London in this, lost its mind in 2005, 2006, 2007, as investors lost the concept of leverage and valuations and they should be ridiculed and should have been ridiculed at the time," asserts Mr Psaros.

Last, unions warm to KPS's preference for traditional manufacturing. As Mr Psaros puts it: "Our investments are in companies that make things, from plate glass to automotive parts, something you can go home and tell your children about."

Three-quarters of KPS's deals have been "synthetic bankruptcies", in which it buys the struggling subsidiaries of bigger corporations. The rest have been deals such as Waterford Wedgwood, where it forms a new company to buy a failed group's assets out of bankruptcy.

With the global recession biting he expects the proportions to switch, and deals such as Waterford Wedgwood to become the norm. But he argues there are still surprisingly few firms targeting this type of distressed company.

"Waterford Wedgwood burnt through over €40m of ebitda [earnings before interest, tax, depreciation and amortisation] last year, and there are very few investors in the world prepared to invest in a turnround of that magnitude," he says.

When asked how to succeed in this type of deal, the lifelong Pittsburgh Steelers fan turns to American football metaphors. "Our investment strategy is based on hundreds of initiatives. It is all basic blocking and tackling. We are hardcore, full body-contact industrial turnround investors."

He looks for "defence first, offence second", and makes no bones about the need for costcutting. "Trying to hold on to excess capacity while Rome is burning is not going to work."

Streamlining a company's back-office operations is another way to trim costs, he says, adding that Waterford Wedgwood has four "silos" for sales and marketing of different families of products.

He says a big pitfall in turnround investing is to assume it is possible to grow your way out of trouble. "We assume we can achieve a recovery with stable revenues."