

Buyouts

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KPS Closes, Inks Four New Deals

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In a whirlwind of activity, KPS Special Situations Fund LP has invested or agreed to invest in four companies in three different industries - motor vehicle towing, paper and packaging and machine tool manufacturing - for a total combined transaction value of more than \$85 million.

KPS Special Situations Fund is a New York-based fund that closed on \$210 million in 1998. Its three principals include Eugene Keilin, Michael Psaros and David Shapiro.

KPS last month agreed to take control of United Road Services, a motor vehicle services company, pursuant to a recapitalization valued at \$160 million to \$180 million. The fund will purchase \$25 million worth of convertible preferred stock, which is convertible into common stock at the lesser of \$2.00 or the average trading price of the common stock for the 30 trading days prior to the closing of the deal.

Psaros, a KPS principal, said the company's original strategy of creating an integrated platform between its transport, towing and recovery services was sound, but became flawed during execution. However, the Albany, N.Y.-based company has recently retained a new management team, and KPS will have the right to designate a majority of the board of directors.

KPS will focus primarily on cost reduction for United Road Services, once again attempting to integrate its services, Psaros said.

The company reported revenue of approximately \$255.1 million for 1999.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the fourth quarter of last year was a negative \$27.6 million, resulting in a negative EBITDA of \$8.7 million for the year.

United Road Services has a network of 43 divisions in 22 states.

Closing of the transaction is subject to a stockholder vote that is expected in June.

Paper and Packaging

Also in April, KPS's paper products portfolio company Blue Ridge Paper Products completed \$20 million acquisition of Westvaco Corp.'s liquid packaging business.

KPS formed Blue Ridge Paper last summer in the largest ESOP since United Airlines in 1984, Psaros said. KPS purchased the Blue Ridge assets, which included seven packaging and paper plants, from Champion International Corp. for \$200 million in cash and notes, marking the first transaction for the fund, which amounted to a \$35 million equity commitment.

The acquisition of Westvaco's liquid packaging business is Asheville, N.C.-based Blue Ridge's first add-on. Liquid packaging is the second largest of Blue Ridge's three businesses.

The purchase adds approximately 100 employees and two web presses to Blue Ridge's DairyPak division. The new business will strengthen Blue Ridge's capabilities as a producer of juice and milk cartons and adds products to Blue Ridge's lineup, Psaros said.

Staying within the same industry,

KPS last week closed a deal to create another paper company, buying the assets of Smurfit Stone Container Company's Oregon City Newsprint Mill to create Blue Heron Paper Company.

KPS will have a redeemable preferred and own 60% of the common equity, while employees will own 40%

Shapiro, the KPS principal that worked on the deal, said this was a classic cost-based turn around opportunity with employees. In order to cut costs, KPS will help the company with tasks that include renegotiating contracts and demanding more efficient maintenance, he said.

The paper industry is consolidating rapidly, Shapiro said, and large paper companies are focusing on their core competencies, allowing funds such as KPS the opportunity to buy divested businesses. Bringing decisions to the local level will make all the difference in this case, he said.

In other news, KPS last month agreed to purchase the assets out of bankruptcy of DeVlieg Bullard, an OEM of machine tools, for \$40 million.

KPS will receive a \$10 million senior unsecured note, 95% of the new company's common equity and control of the Board of Directors.

The deal is expected to close in June.

Psaros described DeVlieg as a great company that made an unfortunate acquisition last year that put it in bankruptcy.

KPS will assist the company in executing a "hard-core" turn-around strategy that will lead to an increase in cash flow, he said.