Buyouts
The newsletter for management buyouts, leveraged acquisitions and special situations

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KPS Feasts On Distressed Assets

January was a busy month for New York-based **KPS Special Situations Fund LP**.

On the heels of its announced **New Flyer Industries** deal last month, the $210 million fund also sold the U.K. assets of one of its portfolio companies. Additionally, the firm bought the assets of two others, all in the midst of raising a new fund, **KPS Special Situations Fund II**, which has a target of $350 million.

"We are one transaction away from being fully invested," said **Michael Psaros**, a managing principal with KPS, "and that's why we're out in the market right now raising KPS Special Situations Fund II." Psaros said his firm expects a first closing before June on $150 million to $175 million, and a final closing a year later at $350 million.

Because KPS is a fund that focuses on purchasing businesses or assets out of bankruptcy, Psaros said the firm is "red hot right now."

"[Managing principal] **Eugene Keilin** and I have been together 10 and a half years, and we have never seen a market like this," said Psaros. "If you're going to invest in private equity for the next year or two, this is the space you want to be in. That means, so far so good with respect to our fund raising."

Psaros went on to call the recent sale of **Curtis Fine Papers Holdings Ltd.**, which are the U.K. assets of KPS's portfolio company **Royal Blue Holdings LLC**, "a slam dunk," and "a total validation of our investment strategy."

KPS/Royal Blue Holdings intended from the time it made the acquisition about 11 months ago to sell the U.K. assets because they were completely unrelated in all respects to the U.S. business. Said assets were sold to the management team, which performed a management buyout and created a new entity in the U.K.

"The U.K. operations didn't need to be restructured," said Psaros. "It was a good business that came along as part of the package of assets that we bought. And we sold a very good business to management for value. The rest of Curtis, the U.S. operations, are in the midst of being a wonderful turnaround story," he added. The U.S. segment of the business had $125 million in revenue in 2001, while Curtis U.K. has about $40 million in revenue.

Under KPS's ownership of the assets, Shapiro said his team brought in a new management team, and increased productivity.

"There are two ways to think of it," he said. "This was a great asset value purchase for us." (Indeed, KPS bought all of the assets and working capital of the business for less than what one could have unwound or liquidated the inventory and receivables for.)

"Also, we thought there was a viable turnaround plan that would result in a pretty vibrant business in the U.S.," he said.

Psaros added, "A central component of the terms were new collective bargaining agreements that we ratified with the Paper Workers Union. Those were key in making the U.S.-based assets turn around."

In DeVlieg's League

Through its portfolio company **DeVlieg Bullard II Inc.**, KPS also bought certain assets of **Motch Corp.** and **Cone-Blanchard Corp.** from their parent, **Park Corp.,** in an effort to supplement DeVlieg's existing stable of machine tool products.

"What we're essentially doing is buying a competitor," said Psaros. "It's not fragmented, but it's an industry that has a lot of participants."

Terms of the transaction were not disclosed, but KPS did inject DeVlieg with an additional $6 million in equity to help purchase the intellectual property, machine inventory and after-market parts of Motch and Cone.

Psaros went on to say that the machine tool market hasn't been this low since the Great Depression

"Machine tools are historically a leading indicator of a recession or a recovery because the first thing the manufacturing entities do when they're faced with a business downturn is start spending less on parts and equipment. If the economy catches cold, the machine tool industry catches pneumonia," he said.

Despite the slump, however, the company is performing alright, covering all of its fixed charges, and is cash flowing.

"When the market does recover, DeVlieg is going to be positioned to generate a lot of cash," he said.

United on the Road

Meanwhile, in a move that enhances the service capacity of its national transport network, KPS portfolio company **United Road Services** acquired the stock of **Auction Transport Inc.**, also for an undisclosed sum.

United Road Services provides national transport and towing services. Lee's Summit, Mo.-based Auction Transport also provides auto transport services. It is formerly a subsidiary of **Manheim Services Corp**., which in turn is a division of **Cox Enterprises**. Manheim is the largest wholesale auto auction company worldwide with 115 facilities. Auction Transport operates a 185-strong fleet; company revenue was $42.5 million in 2001. The deal took nine months to structure. —*H.M.W.*