KPS Strings Up $54.5M Wire Rope Deal

KPS Special Situations tied up its deal with Wire Rope Corp. of America (WRCA) on July 1, when the firm forked over $54.5 million to buy the rope maker. Through its acquisition, WRCA was able to emerge from a 13-month stint under Chapter 11 bankruptcy protection.

“This deal is right in our red zone,” KPS Co-founder and Managing Principal Michael Psaros said. “This is the fifth bankruptcy transaction we’ve made in the last three years.”

Of the $54.5 million purchase price, KPS put in $1.5 million of equity, with the remaining $53 million representing the assumption of WRCA debt. HSBC USA contributed to the financing with a $35 million senior lending facility. Secured loans from Citizen’s Bank and Trust of Chillicothe, Missouri and Amsted Industries made up the balance. Additionally, KPS intends to make $16.5 million of capital investments in WRCA to help the company along with its restructuring program.

When WRCA filed for voluntary bankruptcy protection in May 2002, the company had more than $40 million worth of debt, and between $50 million and $100 million in assets. At the time, WRCA blamed its financial troubles on debt incurred from a series of acquisitions. This all came about during a time when there was a softening in the demand for wire rope, amounting to a domestic decline of about 15,000 tons in 2001, compared to roughly five years earlier. Through these difficulties, WRCA reported an operating deficit of $27.1 million in fiscal 2001.

Stephen Presser, a principal at KPS and the lead on the WRCA transaction, said that WRCA now has a solid financial structure. Psaros added, that the company is operating in the black, thanks in part to a reduction in capacity, efficiency improvements and the implementation of new collective bargaining agreements.

KPS, which focuses its efforts exclusively on turnaround investing, stayed the course with the WRCA deal. “We predicate our investments on cost-based turnarounds,” Psaros said. “What we saw in this opportunity is a company with a very strong franchise, a large market share and a premium product. But, the company also had a specific set of operating problems that we felt we could change.”

Additionally, while Psaros said his firm almost always introduces a new management team, Ira Glazer—the replacement for Wire Rope’s former CEO, John P. Barclay Jr.—will stay on as chief executive. As a turnaround specialist at Getzler & Co., Glazer was initially hired as chief restructuring officer of Wire Rope to help rebuild the company. Glazer survived as CEO of WRCA, despite furtive attempts by Barclay to regain the post, an effort that forced the company to file a lawsuit for an injunction against the former chief executive. In the lawsuit, filed in January, Wire Rope forecast EBITDA of $15 million for 2003, representing what would be a significant improvement over Wire Rope’s $35 million in losses during the final three years of Barclay’s stewardship. Psaros cited that Glazer’s acceptance of the CEO position on a long-term basis was “an important component” to the investment.

For the transaction, New York-based KPS used its $285 million KPS Special Situations Fund II L.P. —K.M.