Harvest opts to take the (New Flyer) bus

by David Carey

KPS Special Situations Funds, L.P. said Tuesday it will sell bus maker New Flyer Industries Ltd. to Harvest Partners Inc. and Lightyear Fund LLC, reaping a "significant" gain on the $28 million it invested last year in the Winnipeg, Manitoba, company.

Neither KPS, a New York private equity firm that backs turnarounds, nor the buyers disclosed the purchase price, but people familiar with the deal put its total value at $300 million to $325 million. An industry source said KPS will garner more than a sixfold profit on the sale.

Harvest, a New York LBO shop, is leading the purchase, which is expected to close in the first quarter of 2004.

Lightyear, headed by former PaineWebber chairman Donald Marron, will own a minority of New Flyer, which bills itself as the largest manufacturer of heavy-duty transit buses in North America.

New Flyer vehicles, equipped with accordion-like midsections, ply the streets of Atlanta, Los Angeles, New York, Seattle and Vancouver, British Columbia. Its revenues this year will surpass $470 million.

The sale caps a swift turnabout of a business that was burdened by production delays and inflated costs when KPS bought just more than 70% in March 2002.

According to David Shapiro, a managing principal at KPS, New Flyer had trouble getting a new plant in St. Cloud, Minn., up and running five years ago.

"The company had a tremendous franchise, strong market share and great demand for its product," Shapiro said. "But it couldn't deliver [buses] in a timely and cost-effective manner." In his brief tenure as New Flyer president and CEO, John Marinucci, whom KPS recruited, has resolved many of the problems.

"The revenue line hasn't changed that much, but the bottom line has improved dramatically due to productivity improvements," Shapiro said.

Marinucci and other senior managers will own a large minority stake in New Flyer after Harvest and Lightyear assume control. Having slashed costs and hiked productivity, management will focus on revenue growth, said Ira Kleinman, a senior managing director at Harvest.

"The company now will be able to go after customers it could not have before" because of production woes, Kleinman said. He added that there is room to improve on "the execution and cost sides."

Only a year and a half into the turnaround, "The company still has a ways to go," he said.

Kleinman declined to say how much Harvest and Lightyear plan to invest.

Citigroup Inc. will lead a senior credit facility for the buyout. Oaktree Capital Management LLC, a Los Angeles private equity firm, will supply mezzanine debt.

Goldman, Sachs & Co. investment banker Dusty Philip advised New Flyer, as did attorneys Angelo Bonvino and James Schwab of Paul, Weiss, Rifkind, Wharton & Garrison LLP.

John Reiss and Oliver Brahmst of White & Case LLP counseled the buyers.

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