

# Buyouts

The newsletter for  
management buyouts,  
leveraged acquisitions  
and special situations

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## KPS Drops Off Bus Co.

Last month **KPS Special Situations Fund** worked out a deal to sell its **New Flyer Industries** transit bus manufacturing platform, exiting the company through a sale to private equity firms **Harvest Partners** and **Lightyear Capital**. Neither side would discuss the terms of the transaction, although published reports have put a price tag of roughly \$300 million on the company. The deal is expected to close this quarter.

KPS originally acquired New Flyer in March 2002, investing \$28 million in the company to obtain a controlling stake. Unlike most KPS deals, the firm did not acquire the company out of bankruptcy protection, although it did make the acquisition as part of an out-of-court restructuring. "What we had was a company with an extremely strong franchise, but [also with] productivity problems," said KPS Managing Principal **David Shapiro**. "It was essentially a micro restructuring. This is a non-cyclical business with a solid market presence that really just needed a greater focus on costs."

To help lead that effort, KPS brought in **John Marinucci** as CEO of the company, and the firm largely credits that move for helping to jump start New Flyer's quick turnaround. "The real implementation of the turnaround plan was put in by the management," Shapiro said. "When we bought the company it was a marginally cash-flow positive business—at times negative cash flow—but since then, operating margins have more than doubled, and this came about mostly due to tight cost control."

If the reports on the \$300 million purchase price are accurate, KPS will see a profit of more than 10 times its original equity stake and an IRR of well over 100 percent. The timing of the exit couldn't be better for KPS, as the firm is currently in the midst of raising its sec-

ond fund. Shapiro would not comment on the fund raising, although reports have indicated the firm began the process late last year with a target of \$350 million and has already held two closes on the new vehicle.

### Bus Co. Driving Returns

From the buyers' perspective, both Harvest Partners and Lightyear Capital see a number of opportunities for New Flyer, and believe that the company is now well positioned to pursue further growth. **Ira Kleinman**, a senior managing director with Harvest Partners, told *Buyouts*, "KPS did a great job turning this business around, but we believe there are a lot of opportunities left to go after." Kleinman feels the company is now better suited to expand the number of municipalities that it sells into, and explained that the opportunity for the company is "mainly focused on growing market share."

New Flyer, headquartered in Winnipeg, Manitoba, already delivers its buses to public transit authorities in New York, Los Angeles, Vancouver, Atlanta, Seattle, and other metropolises throughout the U.S. and Canada. Both Harvest and Lightyear believe the importance of mass transit in large cities will ensure that New Flyer maintains steady growth. "Broadly speaking, almost all cities are emphasizing mass transit, and with that in mind, are looking for ways to deliver higher quality [transit options]," said Lightyear Chairman and CEO **Donald Marron**.

To finance the transaction, Harvest and Lightyear will apply senior debt and mezzanine financing to the debt package, which will be provided by **Citigroup** and **Oaktree Capital**, respectively. The equity portion, led by Harvest, will come out of **Harvest Partners IV L.P.** and **The Lightyear Fund L.P.** —*K.M.*

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