KPS follows big killing with big fund

by David Carey

KPS Special Situations Funds, a New York private equity firm specializing in turnarounds of troubled businesses, landed $404 million in commitments from outside investors for its second investment fund, KPS cofounder and principal Michael Psaros said Monday.

Feb. 27's wrap-up of KPS Special Situations Fund II LP coincided with KPS' sale of a portfolio company, New Flyer Industries Ltd.—the most profitable investment in the firm's 12-year history.

The $404 million surpassed KPS' original fundraising target by $54 million. The amount also was nearly double the $210 million KPS previously corralled for its $160 million first fund, KPS Special Situations Fund I LP, which it raised in 1998, and a $50 million supplemental investment vehicle.

Psaros said he and the firm's other founding partners, Eugene Keilin and David Shapiro, turned to Probitas Partners, a San Francisco placement agent, to help nail down the final $180 million. KPS raised the first approximately $225 million on its own.

"When we first went out to fundraise" in 2002, he said, "it was an exceedingly difficult fundraising environment." He observed that KPS garnered the bulk of the new fund's commitments before the recent resurgence of the capital markets made fundraising easier.

According to Psaros, the new fund attracted more than 30 institutional investors, almost three times the dozen or so investors that backed KPS' earlier fund. Only one investor in the first fund did not re-up, said Psaros, who declined to identify any investors.

Psaros said KPS would not tinker with its long-time investment approach. The firm, which in the early 1990s was a restructuring consultant before it began to put money into turnarounds, buys controlling stakes in companies that undergo restructurings in or out of bankruptcy court. It typically injects equity capital in conjunction with a reorganization's taking effect, instead of amassing debt in advance of a workout.

In each case KPS works closely with a company's managers and with labor unions to rein in costs, boost revenues and bolster profitability.

The firm already has put about $50 million of the $404 million to work in three portfolio companies: Wire Rope Corp. of America, purchased in June; Speedline Technologies Inc., a maker of equipment used to assemble printed circuit boards, acquired in November; and AmeriCast Technologies Inc., a producer of engineered steel and iron sand casting KPS took over this year.

KPS' record isn't spotless. A blast-furnace explosion at a plant owned by Republic Engineered Products, triggered by the East Coast power blackout of Aug. 14, 2003, sent the steel-products maker into Chapter 11. The company's collapse cost KPS its $40 million investment.

Even so, that loss paled in comparison with KPS' gain when it sold New Flyer, a Winnipeg, Manitoba-based bus maker, to Harvest Partners Inc. and Lightyear Fund LLC for about $300 million.

KPS bought New Flyer in March 2002 and proceeded to pull it out of a steep financial and operational nosedive. In the two years KPS owned it, New Flyer's order backlog quintupled and its Ebitda more than tripled.

In the New Flyer sale, which closed Feb. 27, KPS reaped more than seven times its $28 million investment. ■

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