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## PEOPLE NEWS

## 5 QUESTIONS WITH MIKE PSAROS

**KPS Capital Partners** last week announced that it has closed its third fund with $1.2 billion in capital commitments (see story, page 5). So Editor-at-Large **Dan Primack** sat down with co-founder and Managing Partner **Mike Psaros** to ask him five questions.

**Q. This was an oversubscribed fund. How did you go about deciding who got in, who didn't and specific allocations? Did you cut out an entire class of LPs, like public pensions or funds of funds?**

**A.** We did not cut out an entire class of LPs. Substantially all of our existing LPs returned, and KPS invited a small select group of new LPs to invest.

We had three criteria for LPs. First, we wanted to form a group of the world's largest blue-chip investors.

Second, LPs needed to be able to scale with our growth going forward, and also needed the ability to co-invest. We think that we really raised a much larger fund than $1.2 billion, because of the LPs co-invest capital.

Third, it was critical for us to have significant LPs in Europe and Asia. Approximately 20% of our LPs are European or Asian—particularly Japanese—and we were taken aback by the magnitude of capital outside of the United States, and the sophistication of the institutions.

**Q. Almost all of KPS' deals are for North American companies. Does the inclusion of foreign LPs indicate a desire for more geographic diversification?**

**A.** You're correct that all of our platform investments have been for North American companies, but those platforms have made acquisitions or joint ventures around the world, and we've successfully done a turnaround in Germany with **Ebro** and even in Brazil with **Ashcroft**.

**Q. This fund is nearly three times the size of its predecessor. Is this more a reflection of market growth or firm growth?**

**A.** It's a reflection on KPS. We could have raised a $4 billion fund, but chose not to. The reason for the self-imposed hard cap on about $1 billion is because anything larger would have put our firm culture at risk. [Managing Partner] **David Shapiro** and I have worked together for 16 years, and nearly 13 years with [Partner] **Raquel Palmer**. We have something that works, and didn't want to mess with it too much.

**Q. KPS talks a lot about its relationship with organized labor, and you have a section about it on your website. What is the history there?**

**A.** We have an extraordinary relationship with all of the large industrial, transportation and service unions in the U.S. and Canada. Big unions probably constitute about 25% to 33% of our deal flow. Unions are also a great barrier to entry for us, because they might choose to work with us and not someone else. In most cases where a company has organized labor, doing the deal without the union is impossible to accomplish.

When there is a union, we talk to them on a fully transparent basis. We explain why we think the company failed, what we'll do to fix it and what others will do to contribute to the fix. We also ask the union to do certain things, and make sure the workforce understands what our game-plan is.

**Q. Some private equity firms have said that sharing the game plan with unions can negate competitive advantage when bidding on a deal, even considering it to be trade secret. Do you agree?**

**A.** We're thankfully not involved in competitive situations, and perhaps would think differently if we were. But, that said, the general statement is ridiculous. Stunningly stupid. Either you recognize that the union representing employees is critical to success, or you compromise your ability to succeed.

And if you do recognize it, then you recognize that your workforce needs to understand the turnaround plan and what's required to execute on it. That's why our central thesis when working on turnaround is transparency.

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