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KPS CAPITAL PARTNERS WINS DEAL OF THE YEAR



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 Buyouts Insider

COVER STORY

Buyouts Deal of the Year Awards

2015

By Chris Witkowsky

KPS Capital Partners won Deal of the Year and Large-Market Deal of the Year for Waupaca Foundry, which sold for 6.5 times EBITDA.



Pictured L-R: KPS Capital Partners Managing Partner Michael Psaros, Partners Jay Bernstein and Raquel Palmer, and Managing Partner David Shapiro.

PHOTO BY ANASTASSIOS MENTIS

One of the great aspects of private equity is the industry's dedication to companies that actually make stuff.

For all the negative press private equity gets in the mainstream media, the majority of deals end up successful to varying degrees, making money for GPs and LPs and producing stronger companies with more efficient systems, new products and expanded markets.

It's with great pleasure, then, that I announce our Deal of the Year winners for 2015. Every one of them highlights the hard work and value that private equity brings to companies that make things that touch us in our daily lives:

- Deal of the Year/Large Market Deal of Year: **KPS Capital Partners** for **Waupaca Foundry**, a maker of iron castings that are used to fabricate parts for cars and industrial machines.
- Small Market Deal of Year: **High Road Capital Partners** for **Handi Quilter**, a producer of quilting machines.
- Middle Market Deal of Year: **Kinderhook Industries** for **Tectum Holdings**, a manufacturer of bed covers and bed liners for pickup trucks.
- European Deal of Year: **The Carlyle Group** for **Sermeta**, a maker of of stainless steel heat exchangers used in domestic and commercial boilers.

Why did these companies win? Perfor-

mance, of course, played a big part in our selection. But we also looked at other factors. Waupaca thrived on its more aggressive bet on an auto sector recovery. Tectum Holdings displayed brilliant resiliency after almost becoming another victim of the downturn in the auto sector. Sermeta created new products while simplifying its manufacturing processes, and Handi Quilter worked to become the premier player in its market space, the largely untapped quilting market.

This year's crop of winners is a great reminder that there are still a lot of companies in this country that make things – and private equity is in good position to keep them strong, healthy and growing. So sit back, crack open a brew and read on.

DEAL OF THE YEAR

KPS Capital Partners

2015

By Steve Gelsi



WAUPACA FOUNDRY

When **KPS Capital Partners** looked at a potential buyout of **Waupaca Foundry** in 2011, the U.S. automotive sector remained in the early stages of a recovery and credit availability on such deals was constrained.

Based on its experience in industrial turn-arounds, KPS recognized value in the unit of German conglomerate **ThyssenKrupp**. Moving quickly, it developed a strategy to sharply increase EBITDA.

“Our view was, ‘Wow, this is an opportunity; look at the market share; look at the leadership quality of management,’” said **David Shapiro**, one of four leaders at KPS along with **Jay Bernstein**, **Raquel Palmer** and **Michael Psaros**. “We thought there was tremendous potential.”

Waupaca Foundry produces various kinds of iron castings used to fabricate parts for automobiles and industrial machines. The economic downturn after the global financial crisis resulted in the permanent loss of a meaningful chunk of U.S. foundry capacity, due to large barriers of entry in the cost of adding new plants.

However, New York-based KPS felt more bullish than others on a recovery in the automotive sector, which accounted for roughly half of Waupaca’s business.

The deal presented another setback for a potential buyer: Lenders offered only about 2x EBITDA leverage for the purchase. But KPS looked past that hurdle as well.

“We figured if we have to do it with more equity now, we felt we could take the money out quickly (in the form of a dividend recap) based on our views of an improved operating

performance and that loan markets would come around,” Shapiro said.

KPS won the deal by paying about 4.2x EBITDA at a time when sentiment on the sector remained bearish. Using its own estimated EBITDA figure of \$192 million for the company that factored in synergies and growth, KPS figured it paid a “creation multiple” of about 3.3x EBITDA for Waupaca Foundry.

Capital for the deal came from the firm’s \$2 billion KPS Special Situations Fund III.

With Waupaca under its control, KPS kept existing management in place.

KPS directed about \$26 million from internally generated cash flow to launch four new molding machines and four new core-making machines in a move that increased shipping volumes by 60,000 metric tons. These and other actions resulted in more than 380 new employees to support capacity expansion and other efforts during the deal’s 29-month holding period. Revenue increased to \$1.9 billion from \$1.7 billion.

“We improved profitability by growing the top line and making the company more efficient,” Shapiro said. “By making their lines run more quickly and eliminating scrap and reducing down time, you don’t have to eliminate people or pay them less.”

With the company benefitting from the growth in the automotive sector and greater operating efficiency, KPS distributed \$325 million in cash to LPs and other stakeholders through two dividend recapitalizations that returned all of the firm’s invested capital plus a profit.

SNAPSHOT

Company: Waupaca Foundry

Lenders: GE Capital Markets Inc, RBC Capital Markets and Wells Fargo Capital Finance

Legal adviser: Paul, Weiss, Rifkind, Wharton & Garrison LLP

Financial adviser: Perella Weinberg Partners

WHY THEY WON

- Deal generated 5x return, gross IRR of 165 pct
- Sold business to Hitachi Metals for 6.5x EBITDA
- EBITDA increased by 45 pct to \$220 mln in about 29 months
- Total employment increased by 389 people to 3,838

By 2014, purchase price multiples in the sector had risen to 6x EBITDA from roughly 4x EBITDA in 2012, offering KPS the opportunity to sell at a higher multiple than it paid. Plus it had also grown EBITDA by that time to \$220 million.

KPS opted to sell Waupaca Foundry partly because the company needed to expand internationally to continue its growth. “Our view was if we could get 5x our money in two years, that seems like a pretty good outcome and we’ll leave the next stage of growth for the next buyer,” Shapiro said.

KPS sold Waupaca Foundry to strategic buyer **Hitachi Metals** for 6.5x EBITDA, a 50 percent premium over its purchase price multiple of about 4.2x EBITDA.

All told, the enterprise value of Waupaca Foundry climbed to \$1.44 billion at exit from \$631 million at purchase. The deal distributed \$1.14 billion of cash for a 5x return on the firm’s \$226 million equity investment, with a gross IRR of 165.2 percent.

“We buy good old-fashioned manufacturing companies,” Shapiro said. “Waupaca Foundry demonstrates our ability to see value where others do not.”