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Deal Of The Year Awards

Buyouts AWARDS 2013

CHS Capital Spawning Three PE Firms

THOMSON REUTERS

TURNAROUND OF THE YEAR AND DEAL OF THE YEAR
KPS Capital Partners LP

The Building Of A Brewing Conglomerate

At a time when the global brewing industry was undergoing rapid consolidation and internationalization, **KPS Capital Partners LP** collected a series of neglected and cast-off beer brands, fashioning them into the No. 3 U.S. brewer.

Over the course of its four-year ownership, the New York buyout firm earned an 8.9x return multiple and a 93 percent IRR on its investment in **North American Breweries Inc.** by the time of the company's sale to a foreign strategic buyer, Cerveceria Costa Rica SA, which was seeking to expand in the United States.

"We did not just buy a business and lever it up. We created a company," said **Raquel Palmer**, a partner of KPS Capital Partners and a member of its investment committee who headed the North American Breweries transaction. The firm, working with local union and political leaders, also nearly doubled employment at the portfolio company's flagship operation in Rochester, N.Y., to more than 500, while enhancing the downtown facility with a "brew house" to provide a destination for visitors.

As a result, North American Breweries won for KPS Capital the *Buyouts* 2013 Turnaround Of The Year award. The firm also received overall Deal Of The Year by vote of the magazine's editors. Notably, it was the second year in a row for KPS Capital to sweep that particular doubleheader; the firm won the same pair of awards in 2012 for the company's stewardship of Attends Healthcare Inc., a maker of products for adult incontinence.

In the case of North American Breweries, KPS Capital was able to ride the wave of consolidation that was sweeping the brewing industry in 2008. The firm became aware of the upstate High Falls Brewery through a contact, and was able to buy the company through a complex, out-of-court recapitalization that called for concessions from equity and debt holders as well as the local government and union workers.

The firm acquired a couple of well-regarded regional beer brands—Genesee and Dundee—along with a 100-year-old brewery operating at half capacity and sales in double-digit decline, Palmer said. "The equipment was not well maintained. The management team did not have the skillset to turn the business around. They also didn't have the capital."

What High Falls Brewery did have—the firm soon changed the company name back to Genesee Brewing Company—was a nationwide distribution network through which it distributed flavored malt beverages for Pernod Ricard USA LLC under the Seagram's Escapes and Smooth brands. KPS Capital negotiated a separate deal with Pernod Ricard to take over those brands in the United States. Both deals closed in February 2009.

While this activity was taking place in upstate New York, in Washington, D.C., antitrust officials were negotiating the terms of the mega-deal that would result in the formation of Anheuser-Busch InBev. One term was the divestiture of the Canadian brand Labatt. KPS Capital added the high-performing import to its burgeoning beer portfolio in March 2009.

Upgrading Production

The firm installed new management, beginning with **Rich Lozyniak**, a veteran KPS Capital operator. Lozyniak was not a beer guy—in his previous stint with KPS Capital he had run a company making industrial compressors—but he was a team-builder who could work with the union and develop the company's potential. "We rely heavily on our managers to execute our plans, and to take them beyond our original investment thesis," Palmer said.

An early priority operationally was to upgrade the brewery's production lines, Palmer said. "The first thing we did was to invest behind a 24-ounce canning line," she said. "It was one of the brewers on the shop floor who said to us as part of our due diligence, 'What's really missing here is that we don't sell a 24-ounce can. We need that packaging capability.' That's where most people in America get their beer, in a convenience store, and that is the No. 1 package, the 24-ounce can. If you can't offer that convenience store a 24-ounce can, then they're not interested in the rest of your products."

The strategy worked. Through improved marketing and upgraded production, the Genesee brand grew at a 20 percent compound annual growth rate during KPS Capital's ownership, and the Seagrams brand had a 40 percent growth rate, Palmer said, at a time when industry growth was essentially flat. Growth, in turn, enabled the firm to recapitalize the company, repaying the investors plus a profit in less than two years.

Along the way, KPS Capital added Independent Brewers United to its portfolio in August 2010, expanding its higher margin craft beer business with the brands Magic Hat in Vermont and Pyramid on the West Coast. But with no further transformative acquisitions on the horizon, KPS Capital hired UBS last year to conduct an auction. The ultimate buyer, Cerveceria Costa Rica SA, was a Costa Rican brewer that owned a brand called Imperial, for which High Falls had been exclusive distributor in the United States.

"They had seen firsthand our transformation of the management team and the business itself, so they had grown up through the business with us," Palmer said. "They had the best kind of due diligence, to see the company from the start through the process by UBS." *–S.B.*

SNAPSHOT:

Firm: KPS Capital Partners LP
Target: North American Breweries Inc.
Return Multiple: 8.9x
Acquiror: Cerveceria Costa Rica SA
Sale Price: $388 million
Advisor: UBS Securities LLC

Buyouts AWARDS 2013

WHY THE FIRM WON

- Seeing value where others didn't
- Putting together an operationally focused turnaround plan
- Working with multiples stakeholders to drive value
- Delivering a superior return in a short time