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October 2013 privateequityinternational.com

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WINNER – UPPER MID-MARKET

KPS Capital Partners: HHI Group Holdings

KPS Capital Partners' investment in HHI is really a story of five private equity deals bundled into one.

In 2005, the firm bought five failed automotive component manufacturers – three of which were EBITDA negative – and began consolidating them into a single business under the HHI brand. Seven years later, KPS sold the company for $750 million, generating an 11x return multiple and 69 percent gross IRR. Under the firm's ownership, EBITDA at HHI grew from $2 million to $141 million.

"All of that EBITDA generated was the result of shop floor excellence, turning each of the businesses around and integrating them," said Mike Psaros, KPS co-founder and managing partner. Today, HHI is the largest North American manufacturer of highly engineered, safety-critical forged components for automotive customers.

Remarkably, KPS was able to right-size each of the five manufacturers within 12 months of the initial acquisition. After installing a new management team, led by chief executive officer George Thanopoulos, KPS increased productivity at its manufacturing facilities by improving plant value streams, upgrading equipment, and introducing automation and robotics to the manufacturing process.

The firm also installed a new company-wide financial reporting and inventory tracking system and negotiated new collective bargaining agreements with eight workers' unions. In working with the United Auto Workers (UAW), the United Steelworkers (USW) and others, KPS helped to save 3,000 US manufacturing jobs and keep 15 manufacturing facilities up and running.

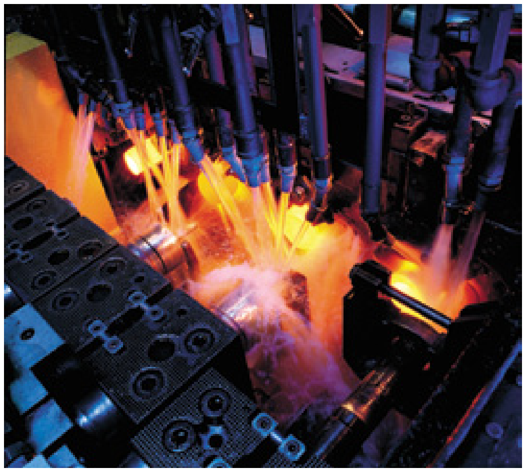
What KPS achieved with HHI is a textbook example of how private equity can unlock value through operational improvements. But the process of creating a profitable company out of five failed, left-for-dead businesses is by no means common in private equity. As judge Steve Kaplan, a professor of entrepreneurship and finance at the University of Chicago Booth School of Business, succinctly put it: "Cobbling together five companies is not easy".

KPS' investment in HHI also speaks to the firm's ability to go where others fear to tread – given that conditions in the automotive industry at the time were probably as bad as they've ever been.

"For a substantial portion of the time we were creating HHI, the automotive industry fell into a cataclysm – and so while it presented once in a lifetime opportunities to make acquisitions at valuations we'll probably never see again, we did have to contend with the unknown," Psaros said. "The challenges for this deal were all macro."

For judge Gwyneth Ketterer, former chief operating officer at Irving Place Capital, the word "challenge" is a bit of an understatement as it pertains to HHI.

"I can't help but be in awe of what the KPS folks accomplished in what was an awful time," she said. "Here they are dealing with the backdrop of the GM and Chrysler bankruptcies, tackling the American auto parts industry – which has historically been awful – and taking five distressed companies and integrating them. And on top of that, they had to deal with the unions."



HHI: five became one

According to Psaros, the moment when KPS knew it had added enough operational value to generate a strong investment came after just the second of five integrations – long before HHI was operating as a single, successful business.

"Our management team demonstrated its ability to successfully turn around two very troubled companies quickly and then integrate them," Psaros said. "That's when we had a template to go out and execute on the rest." ■

$2m
2005 EBITDA

$141m
2012 EBITDA

HIGHLY COMMENDED
Brookfield Asset Management – Longview Fibre and Packaging
Catterton Partners – Restoration Hardware