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Going global

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Mergers and acquisitions maven Jim Patton spends his days fixing up ailing manufacturers the world over *[From our print edition featured in Monday's City Paper]*

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Jim Patton is founder and senior managing partner of KPAC Solutions, a private-equity firm that acquires distressed manufacturers and seeks to turn around their fortunes. Patton entered the investment world after a short career as a HVAC repairman and has since managed more than 25 companies in all parts of the world. Patton recently sat down with correspondent Philip Nannie to discuss his approach and the global M&A climate.

Let's begin by asking the obvious. What exactly do the initials KPAC stand for and what sort of business are you in?

KPAC is Kennedy Patton Acquisition Corporation, a name we've settled on after many attempts at other names and variations of initials through the years. Historically, the names would change as we acquired new businesses but now we hold everything under the KPAC Solutions umbrella.

This means the underlying companies and their respective holdings are not assets of KPAC. Each is its own tax-paying entity, whether they be LLCs, S Corps or whatever. Before we formed this holding company, we were 10 different names for 12 different acquisitions and it was quite confusing.

So the initials indicate the names of the companies or the names of the people involved?

Always the people involved. We would simply use the first letter of a partner's last name, so we eventually had to settle on something, which is how we came to KPAC.

What is KPAC's objective?

KPAC Solutions is most simply a private investment company that buys other companies, fixes those companies up and turns them around and then sells the fixed-up and more efficient entities to other buyers. More specifically, we are looking for distressed and underperforming manufacturing and industrial businesses that meet certain criteria.

Our main objective is to find distressed companies usually in the Fortune 1000 category. We're seeking to acquire companies with annual sales numbers between $20 million and $300 million.

Beyond those static numbers, I'm sure there are other criteria. What are you specifically looking for that gives you a sense that the company you want is salvageable and worth the price you're getting ready to offer?

There are several. But, most fundamentally, the companies that are attractive to us have poor cash flow management, too much debt and inherent operating problems usually dealing with inefficiencies that really shouldn't be there.

Also, these companies don't have a viable strategic plan and, as a result, the current management is unable to move the company forward. And finally, we seek companies that manufacture the type of products that allow for globalization.

Why globalize? What do you mean by that?

In the manufacturing world, we want the opportunity to market and sell whatever it is we're producing anywhere in the world. So, whatever company we've determined should be our next acquisition, that company will have a product that can be globalized. We feel the best opportunities for growth exist the world over.

Is there any interest on your part in a Middle Tennessee company?

No, but we certainly wouldn't overlook any local opportunities. Since our inception, the focus has been global with operations in France, Mexico, China and elsewhere, including the United States.

When you find a company you wish to pursue, what sorts of processes to you follow so that your decision to purchase will be informed and have a decent chance of success?

We use a purchase accounting approach to determine value. We obviously take a very close look at the balance sheet of the company we're looking to acquire. It's imperative that those numbers are completely accurate. If not, the deal dies.

When dealing with operations in the United States, the IRS must bless the acquisition so they make sure the beginning balance sheet we've prepared as acquirer is an exact representation of the seller's balance sheet. It's these things coupled with our look at the other factors I've already mentioned that complete the process and give us confidence the deal will succeed.

How many companies are now under the KPAC Solutions umbrella?

Two.

Just two?

Yes, we never intended to own very many companies. In fact, I'd say most M&A firms don't deal with large numbers. I know that Platinum Equity in California has 32 under ownership and Sun Capital in Florida has 15. So, we're small by those standards.

What are the companies owned under the KPAC umbrella?

KPAC owns Kemmer Prazision LLC, a drill-bit manufacturing company. These bits are used in the beginning stages of manufacturing printed circuit boards. The other company is Cyclam LLC, which manufacturers a mechanical seal used on water pumps for the automotive industry. Both employ around 1,000.

What's your take on the state of the global M&A industry?

As we all know, Asia is leading the world with year-over-year GNP growth. That fact, coupled with the ever-increasing population in that part of the world — a population that's rapidly growing in personal wealth — I would say that if you aren't leading the field to capture this market, then you are way behind.

In Europe, poor fiscal restraint is slowing the market there, as here. However in Germany, a rebounding economy has surprised everyone. And in the United States, things were turning for the better and then we've had the recent jump in oil prices and additions to our fast-growing fiscal debt.

I believe that when the Fed fully engages, this will create some optimism. There will always be pockets of prosperity in a country as diverse as ours. It's my hope that this fact alone gives encouragement to one or two growth segments of our economy and the subsequent growth in those will provide a toehold for the rest of the country to follow.

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