McTevia Analyzes New Private Equity Venture

Psarouthakis gears up fundraising for private-equity firm

By Tom Henderson
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John Psarouthakis, who flew high in the 1980s and crashed in the 1990s running two firms that bought underperforming manufacturing companies, will start fundraising later this month for a new private-equity firm targeting troubled manufacturers.

Bloomfield Hills-based JPInvest L.L.C., armed with what Psarouthakis hopes will be a fund of at least $100 million, will start with Michigan companies, including auto suppliers, and later branch out to the Midwest.
"We're about to finalize our private-offering memorandum," Psarouthakis said. "We hope to start hitting the road the end of this month. When will we have the money raised? I wish I knew."

Psarouthakis said the company hopes to raise the money in three rounds over coming months. The first round of at least $10 million will come from high-net-worth individuals, with following rounds from institutional investors. He said he hopes to have an agreement in place to buy at least one company by the end of the year.

The firm will target companies that are underperforming but not in bankruptcy and have between $20 million and $200 million in revenue.

"We must have manufacturing in the USA, Michigan and the Midwest," said Psarouthakis. "Not only do we need goods made, but also the huge capital flow in these industries must stay here. We must increase our efforts to become more competitive and keep factories here."

A native of Greece and a former rocket scientist at Martin Marietta, Psarouthakis, 74, worked on mergers and acquisitions while at Taylor-based Masco Corp. in the 1970s.

And for the last few years, he has divided his time between Ann Arbor and Greece, where he helped set up an MBA program and an institute for business management at the American College of Thessaloniki.

But it was at Ann Arbor-based JP Industries Inc. where he built his reputation in the 1980s, parlaying a series of acquisitions of troubled auto suppliers into a Fortune 500 company with $500 million in revenue. In March 1990, JP Industries was sold to a British firm, T&N plc.

In October 1991, Psarouthakis founded Ann Arbor-based JPE Inc. to again buy underperforming manufacturing companies.

The company went public on Nasdaq in October 1993, but a planned second offering in 1995 to pare down debt was a bust.

In 1997, JPE had revenue of $287 million but was losing money and was deeply in debt. In August 1998, the company was delisted.

Heinz Prechter's ASC Holdings Inc. bought a majority stake in JPE, which was sold after his death in 2002 to Southfield-based Questor Management Co. L.L.C., which sold off its subsidiaries.

Jim McTevia, whose Bingham Farms-based McTevia & Associates L.L.C. does consulting for distressed and turnaround companies, thinks Psarouthakis may find a cool reception when fund-raising begins because of JPE's difficulties.

"When you have a track record and have been around a long time and you fumble, people don't remember much more than the fumble. Going out to the market and raising money might be difficult," McTevia said.

McTevia also said the climate for turnarounds is tougher now than it was in the 1980s.

"We had an economic upside looking at us in those years. We didn't have the turmoil we have now, particularly in the auto-supplier market. There are going to be big successes, but there will be many, many more failures for these private-equity firms being formed to do turnarounds."

David Brophy, an associate professor at the Stephen M. Ross School of Business at the University of Michigan and director of the school's Center for Venture Capital and Private Equity Finance, thinks finding investors won't be a problem.

"You have to be accepted by the marketplace and I think he will be, based on his successes in the 1980s," Brophy said. "The 1990s were kind of a weird market that favored high-flying growth companies at a time when he was doing turnarounds. Now, private equity is booming."

Psarouthakis said JPInvest will benefit from lessons he learned at JPE. He said he will do more due diligence, and that he will avoid companies that have too much reliance on one customer.

"We have developed operating models that respond to today's realities," said Psarouthakis. "These models apply to how we evaluate and price a company."