

Original ideas

An April 1 announcement about Koch investing in a greeting card company was no April Fool's joke. It was just the latest example of Koch Industries' investment capability in action.



American Greetings' brands include Gibson and Carlton Cards, Papyrus stores and licensed characters such as Strawberry Shortcake, Hollie Hobby and Care Bears.

According to Steve Feilmeier, CFO for Koch Industries, a KII subsidiary, AG Investment, LLC, has made a preferred equity investment of about \$240 million in American Greetings Corporation.

If, as expected, the \$878 million buyout deal closes this summer, American Greetings will once again be privately held by its founders, the Weiss family, who established the business in 1906 and took it public in 1952.

"We committed this equity capital because we think the Weiss family are excellent managers and innovators," Feilmeier said. "We also saw this transaction as a mutually beneficial opportunity.

"That's what true origination is all about – building relationships and finding new opportunities to help create value."

All or nothing?

There was a time, not so long ago, when it seemed Koch companies would never consider a transaction that resulted in less than a majority stake – or, at the very least, half-ownership.

"In the old days," Feilmeier admitted, "our approach was usually to own and control, but now we're much more willing to make substantial minority investments.

He says many of the counterparties approaching Koch don't want to sell their

company. "They're looking for help solving a problem, like the need for extra liquidity to grow or the expertise to go global.

"Because we're entrepreneurial, privately held and well-capitalized," Feilmeier said, "we can respond quickly to those requests."

Building blocks

Anyone who has read Charles Koch's book, *The Science of Success*, knows about Koch's foray into commercial real estate in the late 1970s and early '80s.

What most people don't know is that Koch is back in the commercial real estate market.

Koch Asset Management Group, based in Scottsdale, Ariz., and Koch Enterprise Development have made more than a billion dollars' worth of real estate investments from coast to coast in the U.S.

According to Chris Robertson, managing director of real estate for KAMG, these projects range from newly built office space in Santa Clara, Calif., to renovated apartments in Orlando, Fla.

"In Denver, our investment fund bought a high-rise office building and completely refurbished it," Robertson said. "It's now fully leased and will soon be sold."

Another project involves building a series of apartments in Alabama, near the Birmingham Country Club. Those will replace some very dated units built in the 1940s.

Paying attention to the wants and needs of customers has been essential.

"Apartment tenants in Orlando said they wanted to replace the tennis courts, which were largely unused, with a pool and workout facility. So that's what's happening."

Enviable position

Koch's investment capability relies on several important advantages, including access to capital and the ability to make decisions quickly with minimal bureaucracy.

But those advantages are not enough.

"We try to align with like-minded management teams and be problem solvers," said Matt Flamini, president of Koch Equity Development. "This requires listening to the needs of counterparties and being flexible with investment structures."

Flamini said the ultimate goal is to structure an investment that meets the needs of the counterparty and provides an appropriate return for the risk Koch is assuming. "Our flexibility often sets us apart from other investors.

"Once you've defined your acquisition or investment strategy," Flamini added, "it's really about getting the message to the marketplace, proactively meeting with potential investment candidates and listening willingly, so we can be problem-solvers."

Flamini contrasts Koch's approach with those who try to line up several prospective buyers for a business or asset in hopes of bidding up the purchase price.

"That's unlikely to produce any real value, especially in today's environment of artificially low interest rates," Flamini said. "Far too many companies are willing to over-borrow and then overspend."

"To conduct our business successfully," Feilmeier concluded, "we've got to apply MBM® to everything we're doing.

"We need to continually work at listening to and understanding our customers in order to anticipate and profitably satisfy their needs."



Koch Asset Management has invested in real estate transactions ranging from office space in Silicon Valley (above) to apartments in Orlando (below).

