

Powerful allies are in cards for American Greetings

Wichita's formidable billionaire Koch brothers have equity muscle to spare in aiding American Greetings' go-private deal

By: Michelle Park – April 8, 2013

Nestled in paragraph four of last week's announcement about the Weiss family finally striking a deal to take private American Greetings Corp. was another revelation: The impossibly wealthy, very Libertarian Koch family is investing alongside them to get the deal done.

And, according to those familiar with the Wichita, Kan.-based Koch Industries Inc. conglomerate, that investment means the “very cautious” Koch brothers see value in the greeting card maker — and could be buying an inside look at the company before they pull the trigger on an even bigger deal.

Koch (pronounced coke) AG Investment LLC — a subsidiary of Koch Industries, the second-largest privately held company in the country with more than \$100 billion in annual revenue — is infusing \$240 million into American Greetings through a preferred stock investment.

Koch owns a diverse group of companies involved in oil refining and chemicals, fibers and polymers, and cattle ranching, to name a few sectors.

Led by brothers Charles and David Koch, the company and its investments have been growing like weeds. During a period when many companies were contracting, it doubled its revenue and increased employment fivefold from 2000 to 2011, according to a story last September in *The Wichita Eagle*. Koch's growth has been aided by acquisitions such as its \$21 billion deal in 2005 for pulp and paper company Georgia-Pacific Corp.

Koch subsidiaries also often take positions in other companies. Last December, Koch bought a 45% stake in Guardian Industries Inc., a Michigan-based architectural and automotive glass supplier, becoming its largest single shareholder.

Now there's this investment that will add greeting cards to the mix as they participate in the Weiss family's effort to take the company private in a deal with a total value of \$878 million.

According to *Forbes*, Charles and David Koch tie as the world's sixth-richest person with matching net worth figures of \$34 billion. Yet, at least back in 2004, they still showed up for work, a former executive of theirs said.

“If you have that kind of wealth, you're not going in every day because you need money,”

said Lloyd Boyd, who last worked for Koch in 2004 as the chief information officer for one of its subsidiaries.

“They bring such passion and heartfelt commitment to the business,” Mr. Boyd said.

The Kochs believe ownership has tremendous value, and that people who own something are more apt to bring value to it, said Mr. Boyd, now chief information officer of Friedkin Services Group, a Houston company owned by a wealthy family that he says operates similarly to Koch Industries.

The Kochs also believe in limited government and in a philosophy called Market-Based Management, both of which have attracted a fair amount of attention over the years.

Free enterprise guys

A management philosophy and practice developed by Charles Koch and described at length in his book, “The Science of Success,” Market-Based Management applies to managing a large organization with the same principles that make market economies work, explained Malcolm C. Harris Sr., a finance professor and economist at Friends University in Wichita.

The Koch brothers are outspoken Libertarians who believe in free market enterprise, said Mr. Boyd, who departed amicably after eight years with the company and for some time worked directly with David Koch, who was the 1980 Libertarian candidate for vice president.

The core of the Koch philosophy is that an organization's role is to create value in society. The Kochs believe centrally controlled organizations do not work well, and they see to it that decision-making occurs at the lowest possible level, Mr. Boyd said.

“You're empowered to make decisions,” he said.

The Kochs' beliefs have been met with a fair amount of criticism on both sides of the political aisle, Mr. Boyd said.

“There's a lot of turmoil around Koch and the Koch brothers,” he said

There have been accusations that the Kochs have secret meetings with other billionaires to collude and coerce any given administration to do what they want, Mr. Boyd said, and doubt has been expressed that their kind of wealth could be amassed through honest means.

“Most of that stuff is complete garbage,” Mr. Boyd said.

“He (Charles) believes in winning by pure competition,” he said. “If you've got a better product or service, you should succeed. If you don't, you will fail and you should fail.”

Mind if I join you?

The Koch brothers, he noted, do support organizations that promote their beliefs, such as the Cato Institute, which Charles Koch helped form. Its website describes Cato as

dedicated to the principles of individual liberty, limited government, free markets and peace.

For all the family's wealth, Mr. Boyd was struck by Charles Koch's humility. He would eat lunch in the company cafeteria but didn't just sit down; he would ask first, "Do you mind if I sit down?"

"It struck me, obviously to this day, because I thought, you own the place," Mr. Boyd said. "What am I going to do — say no?"

Both brothers, he said, are extremely bright.

"I've never seen two people who can absorb information so fast and internalize it and fire out questions that are very detailed," Mr. Boyd said. "It's extremely impressive how intelligent they are."

Builders, not shredders

Both American Greetings and Koch Industries declined comment for this story.

However, an April 1 *Wichita Eagle* story quoted Koch Industries' chief financial officer as saying Koch subsidiaries often make investments in companies they don't plan to operate if they have confidence in the management and the long-term future of the business.

"It's not dying," the newspaper quoted Steve Feilmeier as saying about the greeting card business. "Its revenues are flat to slightly growing. ... Send your wife a text for her birthday and see how that works out for you. Cards still matter."

The Koch brothers are very cautious investors, noted Dr. Harris from Friends University.

"They do their homework with a very sharp pencil," he said. "They would treat a \$240 million investment as if it were money coming out of Charles or David Koch's pocket, so they would be rather tough with the scrutiny."

And the Kochs don't invest to tear a company apart, said Tim Witsman, president of the Wichita Independent Business Association, of which Koch Industries is a very active member.

"They're not people who go in and buy up companies to just shred them," Mr. Witsman said. "They are builders and operators, so that means they see, between the market and what can be done with that company, good value."

Vote of confidence in AG

The American Greetings transaction is a bit unusual for the Kochs in that they tend to invest and take some control over a company, Dr. Harris said.

In this case, Koch will buy between 220,000 and 260,000 nonvoting preferred shares in American Greetings at a price of \$980 apiece.

“Since this is a passive investment, I think it's a vote of confidence in the management and the family's running of the business,” Dr. Harris said.

Koch also tends to be involved in business-to-business companies, not business-to-consumer, though its 2005 purchase of Georgia-Pacific — the company behind ubiquitous brands such as Brawny paper towels and Quilted Northern and Angel Soft toilet paper — added more retail to its portfolio.

For about a quarter-billion dollars — their investment in American Greetings — the Kochs “get in to see how the (greeting card) business works” and simultaneously may learn ways to improve the base product Georgia-Pacific makes, said Mr. Boyd, the former employee. The Kochs also will gain knowledge that could pave the way for additional investment in American Greetings, he said.

As for the Weisses, they secure the capital they need now, probably will have access to more capital as a result of their relationship with Koch, and also gain credibility with a partner the size of Koch, said Ron Ryan, an associate professor of management and entrepreneurship at Newman University in Wichita.

Given the nonvoting nature of the stock Koch is buying, it's likely the American Greetings investment is a purely financial deal with a pretty good return for Koch, Dr. Ryan said. However, it also may reflect a bit of long-range planning.

“What do you think will happen with oil and gas 30 years from now?” Dr. Ryan said, referring to Koch's significant investments in the energy business. “We may not need oil and gas. It's a good way for them (Koch) to diversify.”