

THE WALL STREET JOURNAL.

Koch Brothers Angle for Bigger Role in Wall Street Deals

By James R. Hagerty – July 2nd, 2013

The billionaire brothers Charles and David Koch get lots of attention for bankrolling conservative causes. They would like more notice for another passion: buying and developing companies.

Koch Industries Inc., their closely held industrial conglomerate with annual sales of \$115 billion, made a splash last month by acknowledging an interest in buying newspapers. But Koch Industries also is looking at other possible investments, particularly in energy and agriculture-related businesses.

Despite the scale of their business holdings, including the makers of Lycra fibers and Angel Soft toilet tissue, the Koch brothers have long been overshadowed as deal-makers by their folksy neighbor in Omaha: Warren Buffett.

Enlarge Image

"He's done a great job of having a brand that if you want to sell your business and continue to run it, come here," Charles Koch, the 77-year-old chairman and chief executive of Koch Industries, said in a rare interview at the company's brown-granite headquarters on the edge of Wichita.

Another difference is that the Koch brothers, unlike Mr. Buffett, use their wealth in a high-profile way to support conservative political causes. The brothers co-founded the limited government think-tank Cato Institute.

Mr. Koch said he doesn't think his political views and activity hurt Koch Industries. There are few people, he said, "who live their lives by only a political dimension as opposed to, 'I like this product, it's really satisfying my needs.'"

Enlarge Image

Koch invested \$1.5 billion in glass maker Guardian Industries last year. Shown, an employee stacks glass at Guardian's Carleton, Mich., plant.

Steve Feilmeier, chief financial officer of Koch Industries, said some sellers have made pitches to Mr. Buffett alone "because he was viewed as the only person who could write a hefty check [and] could do it very quickly."

But Mr. Feilmeier said Koch Industries can do that too, and improve management of firms it acquires.

Mr. Buffett didn't respond to requests for comment.

Mr. Buffett made handsome profits by buying stakes in such blue chips as Goldman Sachs Group Inc. GS -0.33% and Dow Chemical Co. DOW -0.69% to shore up their balance sheets during the 2008-09 financial crisis, a Koch spokeswoman noted, adding: "Our goal would be to participate in similar transactions."

"We've been actively talking to Wall Street about making sure there are at least two phone calls placed on those situations going forward, not just one," Mr. Feilmeier said. The company also does its own research on possible investments and often has more than 100 on its watch list, said Dave Robertson, chief operating officer.

One reason Mr. Buffett may get more calls is that his Berkshire Hathaway Inc. BRKB -0.53% has invested in a wider variety of businesses, including financial services and retailing, areas generally shunned by Koch Industries. Berkshire also publishes its financial results, so its investment power is readily apparent. But w

While Koch executives say they aren't chasing blockbuster deals, they insist they are bounded only by their "capabilities," not by their current array of mostly industrial assets.

The U.S. oil and gas boom plays to Koch Industries' experience in moving energy through pipelines and processing crude oil. Koch executives also believe a growing world population will require heavy investments in U.S. food production. That may lead to more Koch investments in fertilizer, already a core business, and irrigation-related businesses.

In the past, Koch Industries tended to buy and absorb entire companies, including the paper towel, tissue and packaging giant Georgia-Pacific in 2005 and the Stainmaster carpet-fiber business in 2004. Lately, however, Koch has been settling for minority stakes.

Earlier this year, Koch agreed to buy \$240 million of preferred stock in American Greetings Corp., AM -0.05% which is helping finance the card company's proposed plan to go private. In an age when it's easy—and free—to post greetings on social media, the print card business has been shrinking.

A Koch spokeswoman said American Greetings is well-managed and creates value for people "who need a little extra help with just the right words."

Late last year, Koch Industries paid \$1.5 billion for a 44% stake in Guardian Industries Corp., the world's fourth-largest maker of glass. Koch also is preparing to help finance a new steel mill in Arkansas.

Koch Industries has pursued minority investments partly because executives think the cost of buying 100% control has risen too high in many cases.

"You need to go fish where the fish are," Mr. Feilmeier said, and lately that has meant reeling in minority stakes.

Koch Industries executives count investments in oil refining, fertilizer and Georgia-Pacific as some of their biggest successes. They admit to failures as well, and insist they learn from those mistakes.

One instructive flop was the purchase of a polyester business from Hoechst AG in 1998. Mr. Feilmeier said Koch Industries acquired dated production technology and failed to see the threat of growing competition from China. "In this case, we didn't have a clue what was going on inside China," he said. Since that "wake-up call," he added, the company has cultivated more expertise in global business trends.

Though Charles Koch abhors what he considers excessive U.S. government regulation, he lists expertise in compliance as one of his company's strengths, and as a skill it can offer to firms it acquires.

Koch Industries got an expensive lesson in compliance in 2000 when the U.S. Environmental Protection Agency fined it \$30 million for oil spilled from pipelines and oil facilities in Texas, Oklahoma, Kansas, Missouri, Louisiana and Alabama.

Many of the spills came from remote oil-gathering pipelines so small "you can't run a pig [pipeline cleaning and inspection device] through them," Mr. Koch said, "so you can't know when you're about to have corrosion, so you have leaks."

Since then, he said, Koch Industries has vastly improved its environmental and safety efforts.