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For most of this decade, our business development group worked overtime to help various Koch companies make more than \$32 billion in acquisitions and investments.

But now, given the global economic crisis, we are rethinking everything – especially new acquisitions.

Unlike Koch Industries, many acquiring companies are now so overleveraged (debt-ridden) and undercapitalized (short of cash) that they cannot grow and may not even survive.

The challenge for KII's business development group is to help our businesses find the best alternatives for investing capital in this extremely challenging environment.

Bye-bye bubble

What happened in the housing market also happened in the world of industry. That is, asset values and demand inflated at a phenomenal pace, fueled by government policies promoting cheap and plentiful debt.

| "We are rethinking everything."

Countless business acquisitions were made using extremely high leverage, even though higher debt levels involve significantly higher risk.

When the credit bubble burst, values began plummeting, leaving thousands of businesses (and millions of homeowners) owing far more for their recent purchases than they are worth.

You might think this devaluation represents an enormous buying opportunity. The problem is, even at today's lower prices, most assets are still vastly overpriced.

It may take years to fully resolve this situation and absorb the excesses in our economy. Meanwhile, a flood of interventionist policies is making it even more difficult to find solid ground.

Three-step process

We believe our first priority is to ensure that existing Koch companies are on sound financial footing with optimized

balance sheets.

We've made great progress in this area, but still have work to do.

Second, we want to rethink our activities to ensure that we focus on existing or "organic" business activities that can be profitable now.

When capital is scarce, as it is in the market today, it is even more important to direct it toward those activities that create the most value for our customers.

Only after we have accomplished these first two steps can we begin to focus on the third: finding and making profitable acquisitions.

Unpredictable

There are plenty of "for sale" signs on assets these days, but predicting which assets will strengthen the competitive position of our existing businesses has become trickier than ever.

Faced with struggling economies and civil unrest, governments around the world are proposing an astonishing array of new monetary policies, taxes and regulations on top of far-reaching environmental and energy legislation.

Today, our biggest challenge is trying to understand this flood of new policies and the implications for all of us.

Aside from creating profound uncertainty for businesses, at least one thing is clear: it is now governments – rather than markets – that are determining which businesses and industries will be winners or losers.

Bigger government, decreasing property rights and fewer incentives to produce (because of higher taxes and other regulations) can only lower our level of prosperity and economic freedom.

Public sector partners

Because of this, a big part of our business development strategy is to work much more closely with the Koch Companies Public Sector team.

KCPS includes many of the public policy experts we need

as we navigate these uncharted waters.

By working closely with KCPS, we hope to identify opportunities, defend against threats and avoid becoming competitively disadvantaged.

Together, we have to understand the long-term ramifications of government policy if we want to avoid making poor choices.

Given the current regime change in Washington (as well as changes in Europe and elsewhere), this is a daunting task.

The more governments interfere in markets, the more prolonged our recovery will be.

What's more, when governments end up taking over businesses and entire countries, then our own governments become – in effect – our competitors.

To not only prosper but survive in such an environment, we must be involved in the development and application of public policy.

Even though the rules seem to change daily, we will – as always – commit to 10,000 percent compliance, regardless of whether we agree with the policies in effect.

Staying competitive

As innovative problem-solvers, we still want to grow, experiment and try new things in hopes of delivering greater value for our customers and society.

When governments replace markets in determining winners and losers, we all lose.

I'm convinced there are likely to be tremendous opportunities at the end of this dark economic tunnel.

When this crisis ends, other businesses will likely be cash-constrained. We won't be.

Until then, we're happy to spend our capital strengthening our existing businesses.

We think that's a great way to create value as principled entrepreneurs. ■