

## CONVERSATIONS WITH MIKE MILKEN



### Greg Maffei

President and CEO, Liberty Media

*July 30, 2020*

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**Mike Milken:** Greg, thank you for joining me today.

Greg Maffei: Thank you for having me, Mike. It's an honor.

Well, you had the honor to work with many of the greatest entrepreneurs in the history of the United States. In my 50 years of financing businesses, it is very rare that you find people that are comfortable on both sides of the balance sheet. You've been able to handle diverse companies, and numerous industries, some of which have really been hurt like TripAdvisor by COVID-19, and some your cable companies and others, which people have turned to more during this period of time.

So I think maybe the best way to start is – you went to work for Microsoft as the CFO, you made the decision to leave and join another entrepreneur who didn't finish college named Larry Ellison at Oracle. Take us through those decisions in your life that you made, Greg, and that landed you back in 2005 with John [Malone at Liberty Media].

I was very fortuitous to join Microsoft at a time when they had been so successful right out of the blocks. They'd taken a little venture capital money early on, and it was still sitting in the bank when they went public. It was a cash generating machine. I remember when I was appointed treasurer, one of my friends said, 'okay, so you're the treasurer of Microsoft, What do you do after 10:00 AM?' There wasn't much to do other than just

count the money coming in, but we try to come up with a few different things to do that were different.

In early, 2000, I left to go become an entrepreneur myself and turn around or create a new company called 360 Networks, which was a fiber play. I joined in January and we went public in April of 2000. And by the following June we were out of money because it was entirely dependent upon all of our customers generating cash and ourselves generating cash for the capital markets. And when they shut in the back half of 2000, there really was nowhere to go. So I restructured that, built that up and we were fortunate enough to eventually sell that; that was not the success we'd hoped, but it ended up being a second kind of success.

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Larry Ellison called me and said, ‘do you want to come be co-president of Oracle?’ I was there a very brief period of time. John Malone called me and said, ‘do you want to come be CEO of Liberty?’ I had known John a long time back to my Microsoft days, and that was very appealing. I had the same respect for his financial engineering capabilities and really his vision of the industry that you did.

**You had companies that dominated the world back then, in the fifties, sixties, even in the seventies; companies like MGM; Time Warner, eventually Warner Brothers; Sony with its purchase of Columbia Studios and the record companies. But these content companies were the companies of their day. At the same time you had the birth of new telecommunication companies led by MCI, which accelerated fiber optics as we know it today and the internet building out. But very few of these companies made the transition to digital. As we moved to 5G and speeds have increased a thousand to a million fold and they were in old models. The growth of Netflix, which at the time it went public for a couple hundred million dollars when you had Blockbuster worth \$4 billion to \$5 billion; it took 20 Netflix to make one Blockbuster. At the end of the day, Blockbuster was worth actually less than zero; I think the senior creditors got two cents. As you reflect back on this, why do you feel these large content companies did not make this transition successfully?**

That's a great question, Mike. I think there are a host of reasons. It was a long uncertain road for some of them like Netflix. Remember Netflix started out mailing DVDs; it wasn't built on the streaming. It's the innovator's dilemma. They were in high-margin businesses. They were making a lot of money and they were worried about channel conflict and eating the lunch, the profitability that they had of the existing businesses.

And so then in many cases, they were slow to move. Because I had that digital history from Microsoft and some degree Oracle and 360 where we saw the power of fiber. I was lucky and John was also certainly aware given his PhD in engineering, we were aware of probably a little further out on some of these trends and what they might do. We looked at investing in Netflix at one point; we had our own channel conflicts, but we were smart enough to get out of our own businesses that we had that were more tied, like Starz, to the history and try and move out of them faster. But it's hard. When you're making a lot

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of money and you're in a good position, people are always focused on the next quarter or maybe the next year at most, not the next 10 years.

**So Greg, software companies in the end may be the most powerful business. You keep your customers, you just have to put up a website. Facebook is a website. Google is a website. Microsoft in many ways, doesn't even know who its customers are when it embeds it software into a computer today. But when you have**

**software you generate a lot of cash flow. As you go to join, John, you are in some businesses that are capital intensive; building out a cable system is capital intensive. In the early start of the industry, they over promised and much of the companies that were the first movers did not survive. John and Bob Magnus actually built the largest cable company by coming in and completing these systems. You made the decision to not only invest, but to double down, triple down on cable. What did you see about the cable industry?**

For years, the cable industry was always going to have free cash flow next year. And that was going to be the year in which it finally started to really reap the benefits of the investment in the plant that they've made. John was the first one to make that joke. To some degree when we got invested in Charter Communications in 2013, and then we put incremental capital in 2016, we saw that that old adage was actually now finally going to come true. Parts of the market certainly thought that the move to cord-cutting would be a negative for the cable business. But the traditional cable model of providing video is not the high-margin business. The growth of the internet, which I was lucky enough to see – you know, Bill Gates was smart enough to want to own a piece of that back in the mid-nineties and I was there when we were trying to own pieces of that – we saw that that was finally going to come to pass. Charter has gone from a period where they were investing as much as 22 percent of revenue into a CapEx [capital expenditures] and now it's going to come down into the low teens or below. That extra free cash flow was going

to be yielding far more attractive. You weren't having to set top box requirements; you aren't having the kind of CapEx requirements you had; you built out the digital network; and really it was time to accelerate the cash generation when we were lucky enough to invest at that time. And lucky enough to further do the deal where we bought Time Warner and Bright House and reap the benefits of those synergies.

**Greg, one of the things that struck me was that people don't necessarily realize the networks were not a large source of cable. So, the customer's paying a large bill. They're paying for ESPN and HBO or other services; much of that bill is just the sheer pass through to all the cable networks.**

As you rightly pointed out, an increasing percentage because they've been able to actually raise their prices to the cable companies much faster than the cable MSO – multiple system operatives – and able to pass it through to the end users. The cable companies have had to absorb the increased cost of a lot of that content.

**So if we go digital and now I have a million channels coming through digitally, I can now focus on the primary business, which is providing high-speed networks to homes, to offices and others around the country. So, the typical customer today is paying 50 percent or more for content and or 50 percent for the right to have high speed into their home. At some point you can tell the customer, we have no markup on content. You choose it, and here's the bill for access and here's the bill for your content.**

And that's happening as you see Mike. You've seen cord cutting and in effect customers going to reach and get their own video, whether it be a flavor of a Netflix or a Hulu or now a Disney Plus. And increasingly, bundles like YouTube that are replicating in some form or other the bundle that used to be on the cable system, but they're trying to cut up their own small ones. It's been very hard. The cable network operators, the providers of the content don't want us to reduce the carriage amounts. They push very hard to have the carriage amounts be as high as possible. Meaning we can't offer that á la carte version. We can't offer the customer what they want, we're required to offer a complete package. So that's the tension and these cable networks are in a real battle. They're trying to raise prices; they're trying to maintain market share. And they're also seeing some disintermediation and people over the side, either cord cutting or finding other ways to get that content. So they're challenged. I believe.

**Let's talk about this year and your management skills. You have an unbelievably diverse portfolio. You have home shopping and QVC; you have TripAdvisor that you are the chairman of; you have Sirius radio; Live Nation, that's dependent on events; Formula One; you are director of Barnes & Noble; you still had a position in Starz; you own a baseball team. And you sit down and you see beginning in January, what starting**

**occurred in the world. What are you going to do? How did you develop your management strategy February and March as you looked at the companies in your portfolio?**

We do have a very diverse portfolio. It fell into groups that work from home and the shutdown of businesses were beneficial to it, and we've had people for whom those shutdowns were hugely negative. We are blessed with, in every case, strong management teams who run those businesses, and it was absolutely closely working with them. At the Liberty level, we developed a green team and a red team. The red team's job was to play defense and first think mostly about liquidity and our downside.

And the green team was disposed to think about where could we take advantage of this. And we really began starting with daily calls – Zooms and WebExes, on Microsoft Teams – on liquidity and ensuring that those that were challenged were going to have sufficient liquidity. We ended up doing transactions at Formula One, transactions of Live Nation, transactions at TripAdvisor, that all bolstered the balance sheets and ensured first that you

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were going to have a liquidity, you were going to be able to survive. How much could we raise in capital? How much could we cut costs? And that was really the focus.

**How did you deal with your employees and the differences they had? If they were in New York, it was quite different, obviously in February and March than it was in other parts of the country.**

We had lot of businesses move immediately to work from home in every way, including at Liberty corporate, where it was relatively easy; a relatively small group. But as you note, much more difficult at say QVC, where they have fulfillment centers. But they went to social distancing at those fulfillment centers. They went to a relatively rigorous testing to the degree was available. As you know, testing has been a challenge. They went to as many protocols and procedures, but also offering incentives to those workers who wanted to work, were willing to work, and offering time off, leaves as much as possible to those who were fearful of working. That was certainly true at QVC; Charter, and QVC offered bonuses for those who were willing to work. And really both cases we benefited from that and gained share by gaining the trust of our employees and them feeling like they were rewarded.

**One of the things that you've just touched on was picking great managers, operating managers at the company level. How have you done that? What are the characteristics you look for in interacting with these individuals?**

The first thing we try to do is create an environment where they had freedom to operate and freedom to create an ownership culture. Certainly John has created that at Liberty. I hope I've sustained it. And we try to carry that out at the portfolio companies, where they had incentives that were aligned with ours and were long term. We might have opinions about things like the balance sheet around some of the strategic issues around some of the capital deployment, but we certainly weren't walking in and telling Tom Rutledge how to price his video content. We weren't walking in and telling Michael Rapino, which artists he should put on tour in which he shouldn't. You really need to have managers you believe in, have managers you trust, and let them have the freedom

to operate. And when you offer that kind of environment, you get hopefully good people who want to profit from it.

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**You do, but what I've found over the decades is you don't always make a hundred percent the right decision.**

Absolutely. What did Warren Buffet say, “if you bat .300, you go to the Hall of Fame.”

**But you've batted at a lot higher. Let's turn our attention to baseball and how you see something that is really a national pastime. My father-in-law was a Dodger fan and he looked forward to all**

**162 games and the playoffs. When I did a podcast with Mark Cuban, he pointed out, he learned long ago that the Dallas Mavericks really belong to the city. He might own them, but they belong to the city. Under Ted Turner's leadership, the Atlanta Braves became a national team with the first one to broadcast [nationally]. It's an historic franchise; Hank, Aaron moved to Atlanta to finish his career. How did you prepare the team financially for what was about to occur this year?**

Well, we were blessed with a relatively strong balance sheet and multiple sources of revenue. Most of the fans have not canceled their tickets, even if we've not yet said officially they're not going to be attending. We've got real demand. We have great sponsorship. We've done some tough cost cutting; it has not been easy in a lot of cases

to furlough employees, but it's been necessary to maintain a strong, longer-term franchise.

**Let's move to Live Nation. Something that our younger listeners are very familiar with, all those concerts coming to town and seeing them sell out within a minute or two minutes online. How do you shore up a company where you might not have an event in an entire year?**

All of these have their own sets of challenges. You're already seeing things like Toronto not allowing, the players to cross the border. And even if you do without fans, one thing we obviously don't have is the television revenue on a Live Nation the way we do in baseball or Formula One. So there's less certainty around that, but more variety and choice around the fact that we're going to open concerts sometime in the third or fourth quarter in Germany. We're going to have concerts in Taiwan or Seoul. We have such a global business. The demand is there among consumers, as you said, and the young people want to go, and the demand or supply to perform, the desire to perform it, the supply of content is there. So really what we need is safe ways to try and either socially distance or less-packed alternatives in the right markets. So we are more flexible in that business in many ways because of its global nature.

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**Have you looked at the pay-per-view option for Live Nation?**

People have tried a lot of variety of different things, whether it be drive-in concerts or pay-per-view or other things that you noted. I think those are interesting, but it's not the same as teenagers. My 17-year-olds or my 21-year-old wanting to go in live, be there with their friends, feel the thumping of that base; they got away from their parents and they were with their friends, and that's a very different kind of experience. That social experience is still very different; as cool as a pay-per-view concert could be, I don't think it's sustainable that we'll have the demand the same way.

**You just turned 60, but you would be one of the younger people, Greg, at a Rolling Stones concert. If you look at the first 20 to 30 rows, most of us are over 70 ...**

It's amazing how these bands have had legs and it's amazing how their fans have continued to want to go to recapture a part of their youth. The bands that you loved when you were 15 to 25 are the bands that form your life and you stick with you for your whole life.

**Let's talk about the other side of the ledger. You're now trying to figure out what role is Sirius going to play. People want diversity at home. There's so many different channels on Sirius today. I might not be driving in my car, but I could get Sirius at home on my computer. And so the hour or two hours a day I was in the car, I might not be in the car. How do you sit down and decide what direction for Sirius to take?**

First, they've taken great steps to maintain continuity. Think about having to bring in all of the people like Howard Stern and arranging to have him broadcast from the Hamptons in his garage or his basement rather. They've created new channels, like a coronavirus channel, which is free to air PSAs [public service announcements]. They created a meditation channel to help people, the Calm channel. So they've done a whole bunch of different kinds of content.

But the virus changed things quickly; auto dealer traffic fell 60 percent in Q1 and all the major auto makers OEM [original equipment manufacturers] suspended the North

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American production, with many shutting down for as much as two months. And sales were down 30 percent to 40 percent for most OEMs in the second quarter. But we've seen also the SAR was the lowest it's been in decades; the SAR, which is the measure of domestic auto consumption. The used car market also had multiple deflationary pressures, including Hertz filing for bankruptcy and dumping a bunch of cars. However, it's been an amazing turnaround. Auto sales have shown six consecutive weeks of recovery, with only being down a quarter

in May year-over-year, and June will be better yet. If you drive or try to drive into New York City, all you hear about is the amount of traffic. People don't want to take public transportation. The used-car market is on fire. The demand is unbelievably high, particularly as you would expect things like trucks. People want big, secure, comfort vehicles like they want comfort food. So we're actually seeing auto streaming levels, which fell in the beginning, rising back up and in June are now at pre-pandemic levels. It's amazing how you, you might think, 'oh, the economy is going to slow. You have slow auto sales.' Autos are booming.



**What about content to the home from Sirius?**

Well, I'd tell you a couple things. First, we have done a lot to try and extend the business. We bought Pandora, which is still the largest service in the U.S. It helped us also build a leg where we weren't just a subscription, but we had an ad-based free product. While that's a very competitive market, that's opened up a whole bunch of new opportunities for us. Just one note on content. And I don't know what this says about back to my point about comfort food and comfort cars, country music we're seeing up 13 percent over pre-pandemic levels. Many other kinds of content are actually down still a little; dance, EDM, rap, hip hop, Latin are all off a little, but country is on fire.

**Time Warner cable made a very unusual deal with the Dodgers, take or pay.**

Bad deal.

**If they don't play, they still pay for 30 years. And maybe it was one of the greatest sports deals ever done by an athletic club with Time Warner.**

Absolutely. Time Warner cable cut a very expensive deal to pay the Dodgers; the Dodgers profited dramatically. But when Time Warner cable went to have it carried on other cable systems and other satellite systems, the price was so high that all of them refused to carry it. We inherited that deal. Bad deal. We wrote it down, not for cashflow purposes, but for accounting purposes for fair value. At the time of the merger, we had a billion-dollar write-down on that contract, which doesn't speak to the value of the deal that Time Warner cable cut. The Time Warner cable was a good deal for us in other ways, but that part, not so good. I would argue, and this is perhaps self-serving, today the Dodgers benefit from a very high contract, high expensive contract to them, but they are hurt by the fact that only 30 percent of the market can see the content. Long-term demand for the Dodgers, long-term interest in the Dodgers, cannot be helped by having 70 percent of the market not be able to see your product.

**They also have the highest attendance in the major leagues. But I was a little surprised when you bought Time Warner cable and still controlled DirecTV that DirecTV didn't decide to broadcast.**

By the time we bought Time Warner cable, we were out of DirecTV. We were past that one; that didn't overlap. That would have been the more expensive fight in the Sirius fight, but we didn't overlap on that one.

**Well, let's talk about how has this affected your shopping channels. This environment we're in where people aren't going to the stores, another Seattle company, Amazon, has**

**obviously grown. Walmart has substantially changed its delivery policies. Kroger's hired 50,000 people so they can deliver. What has happened to the shopping channels in this period of time?**

If you look over the last couple of years, QVC has had a headwind. We talked earlier about cord-cutting and the reduction in number of video households is a headwind for QVC. When the pandemic occurred, much of that flipped, obviously helped by two trends. First, many stores were shut. Second, many people were home and both of those helped QVC and some of our other sort of related ones; you mentioned HSN, and also Zulily another Seattle company. We own Cornerstone Brands, Frontgate and Garnet Hill. All of them were able to adjust their mix and adjust to really take advantage of people's desire to cocoon, be home. We moved much of the inventory and on-air time that was spent on things like apparel and beauty over to gardening, home supply. In the case of

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Zulily, we sold I think something like one million face masks. We were really able to shift what our focus was, what we were promoting to take advantage of the trends and businesses been very strong. All of those brands – Cornerstone, Zulily, HSN and QVC – have seen growth. And it's interesting, as you obviously saw a store start to reopen, growth slowed. And now that we're seeing, in some cases, whether we call it the second wave or the continuation of the first wave, we can see in many markets we're starting to grow again faster because of people's fears or cases where stores have been closed.

**There's still the growth of Amazon and a million SKUs and others that appear here. How do you position these shopping channels in the future where people get used to using these other sources of merchandise?**

QVC, they're great at telling stories. They're great at building discovery and interest in products. If you know what you want, click away on Amazon. That's very hard for us to compete with. If it's something, you know, 'I want that gas grill. I want understand what the benefit of this one is versus that one;' if I understand about these garden supplies and how to get it planted and what to do – we can tell stories, we can explain things. We can make her – and about 90, 95 percent of our audience is female - we can make her feel like she's got a trusted friend. We can be a trusted friend and really educate and delight and build community on air for her. That's been a powerful tool for us that competes in a very different way than what Amazon does.

Less than a couple months ago, Greg, we had an incident in Minneapolis that's recorded on video and anyone in the world can see it. They can see it once, they can see a 10 times. It drives home this divide that during difficult periods the people at the lowest end of the socioeconomic ladder get hurt the worst. We see that out of the 15.5 million of those operating businesses, that in just a couple months – March and April – 20 percent of them are out of business. And it's not equal in a sense that 41 percent of all black-owned businesses have shut down. And a higher percentage of businesses led by immigrants and a higher percentage of businesses led by women have come under pressure. Talk about these events that were unfolding here and how are we going to communicate as a part of the Liberty family?

Well, I think all of our businesses have taken it on and addressed it. For some, it's unbelievably front and center; you think about a Live Nation and how many African-American artists we have addressing their needs. The company had a day of reflection and discussions, company-wide. The Braves, you think about the participation of African Americans in baseball; obviously tip your cap to 100 years of the Negro Leagues. We had a parade acknowledging the critical role that African Americans had played in at the Braves. If you look at Sirius, we've added diversity just recently on the board in the form of an African American woman director, and they've had many forums and many programs across the board addressing some of the issues you talked about. It is absolutely critical in a lot of these businesses.

And if I'd finished off on, probably the most visible the most recently is the “End Racism” and “We Race As One” efforts at Formula One; the kneeling that's gone on led by Louis Hamilton, the most successful driver in the world over the last 20 years is of African descent; British, not American. We don't have any great American F1 drivers, so that's not the challenge in this case. But he has led Black Lives Matter, worn that shirt and kneeled. So we've tried to let each company address its needs in the way they felt was most effective. But it's been clear that it's important and it's been critical given the kind of entertainment, sports businesses we're in, that our African Americans and people of African descent have been so critical, and they have a voice to speak to the issue in a way that gets heard strongly and meaningfully, and can be impressive.

We've had a major effort over the last particular decade to get 30 percent of women on boards. We're probably most successful in the U.K. in completing that with their FTSE 100 group. For many companies, the boards are more diverse than the management. And one of the things we've looked at is internships. Quite often, the intern class is diverse, but as it runs up over time through management, it kind of strips away. So you have intern class more diverse, board of directors more diverse, but the issues are in the middle. What are your thoughts? What do you think we could do differently?

Well, you know, it's funny, our biggest source at the corporate level of new people is we hire ex-investment banking analysts. The competition for women, put aside African

Americans, but for women, is brutal. They're so in demand at that lower level. Now, sustaining them at the higher levels is a challenge. We have much easier time frankly with women than we do with some of the other minorities. We are underrepresented Hispanic, we're underrepresented African American far more dramatically than we are with women. Women has been less of an issue, but what we find is you really need to take, and it's not always easy, because you're basically saying 'I'm going to take a risk on someone. I'm going to bet the person who maybe has less experience but potential and choose them over the person who may have had the more relevant experience.' That creates tensions because you've got managers who want to hire the best talent that meets my needs now. They aren't necessarily thinking about the longer term. Perhaps we should done more about diversity goals at the lower levels where you're really setting goals. We've had diversity goals in some cases, as you point out about adding board members. But that's easier; you've got people who get to think more broadly and longer term. If I'm that manager who is looking to deliver looking to deliver the work every week, I'm only thinking about who can help me get the work done right. And that's a tension in some cases.

**I think our analysis of the Milken Institute has shown that the challenge isn't the entrance as an intern or job; the challenge is upward mobility and preparing them for upward mobility.**

I think you're absolutely right. Not a problem at the low level, not a problem at the higher level. It's those rising levels that are the challenge.

**Well, Greg, thank you for joining us today and your insights and congratulations on what you've been able to accomplish. We look forward to your leadership in the future.**

Well, thank you, Mike. And as I said, it's such an honor to get to talk to you. The history of all you've done is so impressive and been so important. So thank you.

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