CONVERSATIONS WITH MIKE MILKEN

Todd Boehly

Co-founder, Chairman and CEO, Eldridge Industries

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Mike Milken: Good morning, Todd. Thanks for joining me.

Todd Boehly: Hi Mike. Thanks for having me.

The two of us have been on quite a journey together over the last few decades. Todd, you have had a unique ability to identify people of talent in the financial industry, insurance industry, entertainment industry, sports industry. What have you learned over the years identifying talent?

Well, I think we've had the really good opportunity to start from the credit side and learn industry from the credit side. We had a front-row seat to watching great management teams, getting deep into the themes that were driving industry without having to feel like we were the front end of the risk, right? Because where we sat in the capital structure allowed for kind of performance volatility, so to speak. So, what we were able to do over the years is get a knowledge across lots of industries, and then as we started to identify through a little bit of observation and trial-and-error, we were then able to back the stars with more and more capital. In the end, it comes down to return on time. And I've always found that when people are wasting time, usually that's a bad sign. And

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This interview has been lightly edited for clarity and readability.

for people who are really focused on your time, as much as their time, in the end time is the denominator of all things.

I think when we first met, I mentioned to you, as I looked at credit over a few hundred years, there were six lessons of credit. The first one was rates of return on equity are different based on the level of leverage. And as you and I saw in the financial crisis of 2008 or 2009, many companies increased or maintained the return on equity by doubling tripling, increasing five-fold their leverage, where therefore the quality of earnings was substantially less. Second, we talked about interest rates and how very few people have been able to predict them over a long period of time. Third, we talked about real estate and much of the problems of the last 30 to 40 years can be traced to an over-investment in residential real estate and a belief that all loans to real estate are good loans or investment grade. Fourth, we talked about sovereign debt and the challenges in sovereign debt. Fifth, we talked about the rating agencies and how they generally trail: if you're a young company are generally better than your rating, and if you're been around a long time your ratings are coming down slowly. But the most important one that you've just spoken about Todd, was how debt underpins all financial markets. And so, when we saw aback up in the markets in the fourth quarter of yields, we then saw almost a 20 percent drop in the stock market. And so, I think understanding and coming at it from a credit standpoint, as you've outlined, underpins all markets.

> "One of the problems with a mutual is you have limited flexibility with how you can raise capital. By having a stock company, now we can raise all different types of equity, capital preferred, common. We have capital markets that we can go to; we've done unsecured debt at the holding company; we've done preferred. So we continue to kind of extend the profile of Security Benefit so we de-risked it from any single event."

Now COVID-19; you're in numerous businesses. One of your businesses is the insurance business; your annuity holders, your life holders, they want to know you're safe. And I'm sure in March of 2020 people at your insurance companies were getting phone calls, 'are we okay?' By May, they wanted to know, 'please didn't sell, don't sell anything and hope you were fully invested.' But obviously you have a covenant with people that are your life holders, your annuity holders that their money will be there for them. How do you go about structuring portfolios so you can protect your downside in all markets and how do you communicate this to your policyholders?

We communicate through our policy holders through our sales force; we have our own on-staff sales force that covers the broker/dealer community, the banks who are looking to buy kind of short-dated three-, five-, seven-year multi-year guarantee annuities. We've built multiple types of products that have multiple profiles. Right now, we have an accumulation product that we're focused on. All these products are ultimately fixed-income products with the FIA; they have kickers related to an index that you choose as the investor. We spend a lot of time looking at what should we be investing our general account in. And most of the time we're focused on being very close to an asset. So whether it's a secured loan, senior secured loan, whether it's equipment, we're always focused on being attached to an asset. And we also want to be sourcing those assets by expert originators. So a lot of our activity has been, Eldridge will put equity capital into a business in order to start it and get it up and running. And then those experts like our partners at Stonebriar, which is out originating assets at 7.0, 7.5 percent equipment finance financings with what we hoped are mission critical equipment.

> **“Because the Dodgers were in bankruptcy when we bought them, we were able to track a lot of the information that others were thinking about relative to the value of those media rights in advance of us actually having to bid. Ultimately, we got really comfortable that it was going to be worth more than $2 billion.”**

And what's proven to be mission critical equipment today even when we've had bankruptcies, we've been able to recover because most of these businesses, when they reorganize around their balance sheet in this equipment finance world, for example, they need to have that equipment in order to be in business. So, it's mission critical business. So what we're trying to do is to think about how do we take our balance sheet and find wholesale asset economics that we source with experts, and then how do we then fund those assets with long-dated annuities or life policies that can ultimately follow through on whatever guarantee that they have because of the fact that we actually own the underlying asset. And then of course, to the extent that we have businesses that aren't performing, then we can easily effectively put them into runoff and not source any more assets from.

By being so flexible, one of the things that our insurance company Security Benefit has is very low leverage ratios. So if you look at the insurance industry, generally, the assets-to-equity relationship is somewhere between 12 and 14 times on average. We keep ours closer to eight to 10 times so we have much more flexibility on where we go. And I think that if you'll look right now, all the insurance companies in the world who generally don't go out and source and originate assets are sitting behind a computer trying to figure out how do we make our business model work with an investment-grade yield that's below two. We’ve focused on originations where we go source our asset. What I’ve also built is a very healthy tension. But again, what that really gives us is experts out in the field that are sourcing assets. And I've always believed that the sourcing of the asset is truly where alpha lies.

Security Benefit was a mutual insurance company. You demutualized it, put in significant equity, and today it would be similar to other insurance companies like Berkshire Hathaway that people are familiar with. Why in effect is Security Benefit a better credit today after you've put capital than it was before?

A mutual is an insurance company that's owned by its policyholders. So the owners of both the debt and the equity or the right side of the insurance company balance sheet are the same individual. What ended up happening was the previous management team at Security Benefit had gone out and really done two things. They bought a lot of AAA CBOs of CBOs that were yielding five, six, seven basis points more than a standard AAA. And ultimately in the crisis, those were backed by things like secondary mortgages and products that ended up not having value when the real estate market declined dramatically. So those AAA bonds ended up being worth close to worthless. So there was a couple hundred million dollar hole that came into the balance sheet of Security Benefit as a result of buying CBOs of CBOs in 2007, 2008.

> **"I think that the players have come to realize that baseball is better than no baseball. And I think they're struggling through what I think has been a major success for Major League Baseball. I think we're going to have a fun post season. I think we're going to have more playoff games than we've ever had. And I think people are going to love it."**

The other thing that the company did was it made an acquisition of a business called Rydex and it pulled capital out of its general account in order to buy an operating business called Rydex. Rydex was an asset management business. And when 2009 hit and the stock market went down dramatically, the revenue that Rydex was making was highly correlated with the notionals in the stock market. So as the stock market fell dramatically, the revenue that Rydex was making went down dramatically. So you had this to convert this convergence of these two things going on simultaneously within the Security Benefit balance sheet, so they needed to raise capital.

One of the problems with a mutual is you have limited flexibility with how you can raise capital. So the insurance commissioner decided that Security Benefit needed to raise equity capital and came to us and said, you've got all this experience managing insurance capital because we had been doing that at Guggenheim for several years. Would you take this business over, find a CEO, recapitalize it and make sure that you protect our policyholders for their policy? Because at that point they were no longer focused on the fact that they were owners of the business and they wanted equity capital to come into de-risk their policy. So we were able to do that and fortunate to do that. And therefore, by having a stock company now, now we can raise all different types of equity, capital preferred, common. We have capital markets that we can go to; we've done unsecured debt at the holding company; we've done preferred. So we continue to kind of extend the profile of Security Benefit so we de-risked it from any single event. And that's been really the flexibility that being a stock company has afforded us as we've transitioned from a stock to a mutual. They were a mutual from 1892 until 2008; they had been doing fine until strategically they made two really bad decisions, right in advance of the great financial crisis.

As you pointed out, one of their losses came from buying AAA securities backed by real estate derivatives. And, whereas there are only three or four companies in the United States rated AAA, the highest rating, they rated over 14,000 securities, almost all of them real estate structures, AAA. It's possible more money was lost in AAAs than any other rating category. Number two, you've talked about the ability to raise capital in the current form. How much money over the years have you put into Security Benefit since 2009 or 2010?

Between earnings that we've reinvested and capital that we've injected, it's north of $3 billion.

Let's talk about another one of your businesses, sports. You and your partners bought the Los Angeles Dodgers, the highest price ever paid for a baseball team. People thought it was extreme risk, but once again, risk is an understanding of what the assets are, what the structure is, and you and your partners divided the company into two parts: one a media company and one the baseball team itself. And it was de-risking the entire transaction in that structure. I'd like to talk a little bit about it because as we know, the media covered it quite differently.

One of the things that people didn't really appreciate was the fact that every 25, 30 years, depending on the contract, the baseball team actually gives birth to this new media contract. And because the media contract that we stepped into was expiring in 2012, we knew that we were going to have a shot at a new media contract. So ultimately, who buys those media contracts? Well, one of the biggest buyers was Fox back then when they had their regional sports network. And Fox had spent a lot of time analyzing what they were willing to pay.

Because the Dodgers were in bankruptcy when we bought them, we were able to track a lot of the information that others were thinking about relative to the value of those media rights in advance of us actually having to bid. And Fox had made a proposal to the previous owners of the Dodgers that we thought was very much a floor as to what that proposal would be worth, ultimately, if it came to market. And we knew we had Time Warner Cable, and we knew we had Fox, and we might've had one or two others that were very interested in the media rights because media rights for sports teams can attract quite big audiences. And of course the bigger the audience that one can attract, the more value.

So in 2013, we saw that the media rights were coming up for sale, and ultimately we ended up selling them to Time Warner Cable, and we sold 25 year's worth of media rights for about $8.4 billion. And in addition to the media rights, we also got a sponsorship deal with Time Warner Cable for another half a billion. So we ended up with approximately $9 billion paid out over 25 years from an investment-grade credit, right, which therefore made us very comfortable the value that we were paying, which was at that time the highest price ever paid. And of course, we've got the stadium itself, which you didn't mention; we got hundreds of acres of land outside of Dodger Stadium as well, which over time we hope to be able to develop. We've now invested a couple hundred million back into the stadium.

We went out and did the biggest trade ever with Boston, where we got Adrian Gonzalez, Josh Beckett, Carl Crawford and Nick Punto to come join the Dodgers. We had just acquired Hanley Ramirez as a shortstop from Miami. So we were really putting a lot of energy back because the idea is that we wanted to win now and we want to win later. We weren't going to wait to try to win. And we also knew that we had the media contract coming up in 2013, so if we didn't get really good energy back into the stadium, our odds that we would do as well on the media contracts as we hoped would be lower. I think our timing was impeccable. We had tremendous timing and we were able to buy it in 2012, and then the media contract came up in 2013, and then ultimately really what we ended up with was an $8.9 billion notional investment-grade bond coming from Time Warner Cable, which is now Charter Communications, which is over a $100 billion equity market cap. So we feel very good.

> **"Our team has been laser focused on how we can support the Black Lives Matter community. We're continuously pushing on how do we continue to add diversity, and I think we're a young enough group where that has always been the way we've approached the world. Our culture has been that diverse groups make better decisions."**

And unlike lending, media rights trading, if you don't get paid on your media rights, it's really easy to take them back and sell them again. But if you're lending money to a company and they don't pay you of course have to go through a whole process in order to try to recover your capital. Here, it's very easy. They don't pay you, take your rights back and you resell them. So it's not as if you have to go through an arduous foreclosure process. So I think he took our credit mentality and broke down what the Dodgers were and said, you have this team which generates revenue within the stadium – merchandise, sponsorship dollars – and we started thinking about that as the real estate asset and what was that real estate asset worth? What was the land around that asset worth? And then we tried to price the glow, and the glow being the beam from that stadium into the 5 million homes in Los Angeles, and what was that worth? Ultimately, we got really comfortable that it was going to be worth more than $2 billion. And of course, when we ended up doing it, people don't understand the intricacies because of course. If the media rights had been monetized the year before, and we were buying the team then we wouldn't have had that asset to monetize ourselves, and it would have probably been such that the seller would have kept that asset and tried to sell the team. So, the timing of when we bought the Dodgers was so important to the value.

What is it like to play a baseball game without fans in the stands or without even the owners in the stands?

I think they're doing a great job with the cutouts and with the noise and the music and the sound. Just last night, Walker Buehler struck out 11 batters, and they had the Ferris Bueller theme song going just as they would if all the fans were there. So, when you're watching it from home, other than kind of seeing the fans and the cutouts now and then, you can kind of feel like the energy's there. But when you're actually there in person, and I went to opening game, it was bizarre, right? You have a facility that's used to having 55,000 people in it, and the owners were required to sit in separate suites. So I was in one suite, we had an empty suite next to me, Earvin Johnson was in a seat down the row and then yet another empty seat, and then you had Peter Guber. So, we were just waving at each other, but we didn't want to violate any protocol, but you thought there and you thought, wow, this is the safest I've ever been, but it was definitely hollow. And I think that the players have come a long way to realize that baseball is better than no baseball. And I think they're struggling through what I think has been a major success for Major League Baseball. I think, again, the media likes to report these flare ups as disastrous and problematic, but the bottom line is we continue to have a season.

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We've had some hitches with both the Marlins and the Cardinals early on, and now they have to make up a lot of games. But I think it's been a huge success and a testament to the fortitude of humans that we're continuing to play this through and we're going to get to an end to a postseason. And I think we're going to have a fun post season. I think we're going to have more playoff games than we've ever had. And I think people are going to love it, and it continues to rate well because people are excited to add a little bit of normalcy back.

How did you deal with the issues with regard to the [2017] World Series and the stealing of signs? The Dodger fans want that World Series trophy in Los Angeles. How have you dealt with it as an owner and how the players dealt with it?

Well, the players are 20 and 8, so I think they're dealing with it with the idea that they're going to win a World Series. And I think as long as they win a World Series, I don't think that they'll look back and really have a lot of sour grapes around 2017. I think if you do look at Houston Astros stats and you look at their batting average in 2017, they were batting close to .282, .284, I think, I can't remember exactly, but it was in that ZIP code. And if you look at their batting average right now, they're batting .238, .240. So they've been on a little bit of a lift here, but when I was looking earlier, it was 40 points below what they were. So the question is, what was really going on.

And I think it is a little frustrating to have been so close. The situation I feel the worst for is for Clayton Kershaw, because I think he's one of the greatest pitchers of all time. And I don't think his playoff record represents that. And I think that perhaps in Game Five, which was a pivotal game down in Houston, when we were up 4-0, and then we were up 7-4, and we lost in extra innings. We went back to LA and then won Game Six and then lost Game Seven. I think that Game Five, had we won that Game Five, that would have been the Dodgers World Series. And I think that Clayton Kershaw would have had a different story.

We've got a great team this year, and we've added more and more pieces. Hopefully this year will prove to be our year and then I think we'll all get over it. Dave Roberts has done an amazing job: we've won seven [they secured their 8th after the interview] West titles in a row, we've been to two World Series.

When Mark [Walter] and I set out on this, we started to ask ourselves, what does success look like? And we said, winning the National League one out of every two years – so if we're playing 10 years we went five – would be something that we would be excited about. Winning one World Series out of 10 years would be something that we would be excited about. Getting to two World Series over 10 years would be something - that's how we define success. So we've hit every one of those bogeys in our seven years of ownership, or this will be our eighth without winning the World Series. So we have three more years before we run out of time knowing our original proposal, because I don't think as much as I tried to tell Mark that since we've won seven and not five, that that offsets the fact that we haven't won a World Series, but he doesn't think that's the case.

So Todd, for our listeners, they probably didn't remember you winning the Academy Award for Best Picture. And not only that, it was one of the most unusual Academy Award shows of all time, where Warren Beatty had announced that another picture had won the Academy Award and then it had to be taken back. How did your skills in the finance business lead you to an industry that has historically been very difficult to predict outcomes on? Today you own The Hollywood Reporter; you own companies that make shows, win Emmys, Academy Awards in what many perceive would be a risky business. Tell us the evolution of that.

Mike Tomaso, who worked with me for a long time at Guggenheim and runs CBAM, and co-founded A24 with me, we've got a lot of credit and experience together. He convinced me that there was a way to do the movie business that was more like the credit business than the venture capital business. And I don't mean negative of venture capital. I'm just more thinking about kind of a risk profile, because of course there are some movies that end up making 20 times their money and do very well; there are some that lose significant money.

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But I think when we started, we were looking at how do we go and sell markets against ideas? So our very first investments in movies where we would go and we would find a film director and who had put together a team, and now they were looking to raise money. And that team had marketing value, the actors had value that you could sell the rights to distribute the movie in Germany for this amount of dollars. And then you can go to the UK. So early days, we would go kind of market by market, collect money, and then we wouldn't start shooting until we knew we had more money coming in from sales than the movie cost.

So we were able to pre-sell in the foreign markets, these films, take the money and then do the movie. And at that time, the founder of A24 with us and the guy who's really made it, was the leading force behind making it successful – and as you've mentioned, won the Academy award with Moonlight – was a gentleman by the name of Daniel Katz. And he was working for Mike and I at Guggenheim with this idea, and really what he was really able to do was avoid a lot of the blow ups that were happening in the industry. We also watched MGM, the film company, go bankrupt at that time. Daniel was able to understand markets and he got us short the bank debt in MGM, which once they filed we were able to cover and make a good bit of money. So we came through this, started with it with this mentality of we're credit investors thinking about this as an IP asset and at what price point are we creating it relative to how much risk we have in it. And so, Daniel continued to impress us and said, 'I'd really like to go out and start my own business and do more of this as a distribution company'. So he started A24 and as a distribution company he would be bidding on product that had already been created with the idea of he would be the distribution. So he would know exactly what he was buying. And then he would have a sense as to where he could sell it. So he started being successful as a distribution business. And then he said, okay, I'm going to start taking some of my capital that I've made from the distribution business and I want to start making my own movies and owning the IP. Moonlight, which won the Oscar, was a couple million dollar investment for A24 that ended up generating, north of $75 million at the box office. So it was huge success for us.

MRC, another film and TV production company that I invested in, they built the high-end TV market with the advent of House of Cards on Netflix. They were one of the very early ones to realize that Netflix was becoming super successful based on how much bandwidth they were using, because one of the board members of MRC was at AT&T, and he was talking about the bandwidth capacity that Netflix was using as they were streaming in the early days. And ultimately, they bought House of Cards and we had six very successful seasons. And now Netflix buys more than $12 billion a year of content, and we've done Ozarks with them, and we've done a quite a bit with Netflix and have a great relationship with both MRC and A24.

You've been able to use a credit approach, diversifying your risk in the entertainment business of content. When I say most people don't know they're spending New Year's Eve with you, for my generation, Dick Clark was an icon – American Bandstand. So let's talk a little bit about what Dick Clark productions was and what he built.

Dick Clark was clearly an icon and he was very successful at bringing great talent together to put on great shows. So today Dick Clark Productions is five big shows: they broadcast the Golden Globes in January; they do the Billboard Music Awards; the Academy of Country Music awards; the American Music Awards in November; and then they did New Year's Rocking Eve. So there's a portfolio of five good shows that can get anywhere between 10 and 20 million people viewing them a night, with New Year's Rocking Eve being closer to 25 million. So New Year's Rocking Eve is the night that Dick Clark has dominated for a very long time, which is really nice to see because actually people really don't even try to compete against it at this point.

But the way we think about it is it's the professional sports environment for the talent, the actors, the singers, right? It's their equivalent of their professional sports games. On Billboard, we'll do somewhere between 18 and 20 acts for three hour night, and it's the best performers in the world using it for the opportunity to share their music with the world. And if you look at what happens the day after, usually downloads go way up, so there's revenue generated for the artist and the idea is to really showcase great talent and to help them make aware on TV with awareness.

But it's really another rights business. We put it all together, we produce it, and then we partner with a broadcast network who distributes it. We also build sponsorship and integrated sponsorship opportunities with big brands on it. It's harder and harder as media gets more and more fractionalized to get 20 million people to watch for something for three hours. So we believe that the value continues to go up, as the media world continues to get distributed further and further. When you grew up and when I was really young, you had ABC, CBS, NBC, and Fox, and you really had very limited places.

You didn't have Fox. That was a financing I did in the eighties.

When I was little, Fox was part of my ecosystem. So anyway, I think now you have obviously lots of media channels and Dick Clark Productions continues to do a great job working with the best talent in the world to put on the greatest shows.

I want to also talk about one of the things Todd is how the crisis we've seen this year, not just the coronavirus but the issues of equality, racism, being in the entertainment business, these things have affected you greatly.

Our team has been laser focused on how we can support the Black Lives Matter community. We've continued to push more and more talent inside of directors, and we're searching for more directors. Obviously, with the Dodgers, with Dave Roberts we have one of the African American managers that has done so well, and it's been something that it's been a focus of ours. You'll see that throughout our organization, we're continuously pushing on how do we continue to add diversity, and I think we're a young enough group where that has always been the way we've approached the world. Our culture has been that diverse groups make better decisions. And ultimately, we're continuing to push that, track it, monitor it, recognize that previously we probably weren't doing enough. And now we're doing even more about making sure that we're adding more and more diversity to our mix.

Whether that's over at MRC and the production side or A24; obviously the success of Moonlight was a huge win for us at A24. And then the focus at Billboard and The Hollywood Reporter on Black Lives Matter and justice, and thinking through how can we really be part of the solution. We have all of our businesses looking at that right now. How do we continue to add diversity to our mix? How do we think about how to identify? So we've just partnered with something called the Institute for Responsible Citizenship with a gentleman by the name of Bill Keyes, and we're running internship programs here at Eldridge in order to continue to add diversity to our ranks. We're also big supporters of the Jackie Robinson Foundation; one of my partners here at Eldridge is on the board, and we continue to look for ways to continue to bring more and more diversity into not only Eldridge itself, but all of our subsidiaries.

So Todd, you mentioned Jackie Robinson, and in many ways the Dodgers are a symbol for breaking the color line in professional sports, not just baseball: Branch Rickey and what occurred with Jackie Robinson. And it came home to me a few months ago when Lori and my oldest grandson Bailey did a report on Jackie Robinson for his school. He learned everything there was about Jackie Robinson, and he went in on his baseball team and got the right to wear number 42, and he wears the t-shirt to bed. So it's a role model now for subsequent generations. But in many ways, when you bought the Dodgers, you also bought a responsibility; not just to win for the fans, not just to have the most number of people in your stadium upgraded, but you bought a responsibility not just against racism but for equality. As you sat with Mark and your partners at the Dodgers this year and decided what was going to happen at the National Anthem, and obviously Dave Robert, your manager has taken a leadership role. Did you feel like I felt that you had more responsibility because you had the Dodgers?

> “One of the greatest joys for me was being able to teach my young three boys about Jackie Robinson through the Dodgers. And I think that that's given them more of a sense of responsibility, a sense of equity, a sense of making sure that they think about the future of the country.”

I think we've had that sense since we bought the team. One of the greatest joys for me was being able to teach my young three boys about Jackie Robinson through the Dodgers. And I think that that's given them more of a sense of responsibility, a sense of equity, a sense of making sure that they think about the future of the country. right? Because obviously if you're feeling right now in a super uncertain, unstable way, right? If you have real grounding and a real foundation that helps you kind of go through every day, day to day. And I think that the Dodgers ownership gave us a great opportunity and a great responsibility to make sure that we continue to think about funding businesses and ideas and themes that come from all diverse places.

We're excited because we've got a great partnership with two black men down in Washington, D.C., building something called the St. James, and the opportunity that we have there with them. Or spending our capital investing in media projects and how do we find more and more black directors in particular is something that A24 is really focused on. So I think the responsibility that's come through owning the Dodgers, I feel it more and more every day, because it's just, again, you, you feel like time is slipping and you really want to be able to continue to make a difference. And I think that those platforms give you the opportunity to make big differences. What we hope is that we'll be able to really not squander that opportunity, not only for my generation, but for the next generation, for my boys. I'm really hopeful that the generation below us will continue to be much more mindful about all these things.

Well, Todd, I want to thank you for joining us today. And I also want to thank you for your philanthropic efforts over the decades that we've partnered in that have made a great deal of difference in medical research and other areas. I'm sure on behalf of all your policyholders, they are excited that you've taken this credit approach to protect them and protect their savings and your responsibilities in that area. All the best to you, your team, and the family. And thank you for joining.

Thank you very much. Mike, take care.
