

Robichaux, Mark – Cable Cowboys

Wiley, 2002 [Business] Grade ★★★★★

John Malone, depicted in *The Outsiders* by William Thorndike, is renowned for shaping the cable industry and for the enormous wealth creation he amassed as CEO of Tele Communications Incorporated (TCI) and several spin-offs such as Liberty Media and Liberty Global. His early vision was that scale and possessing own content was hugely important in order to achieve bargaining power against content producers. Not only was his aim to build the largest cable company in the US but also to unite the cable industry leading to less competitiveness and more riches for TCI and himself. In some industries, like airlines, companies fight tooth and nail to the detriment of all, Malone was eager not to let that happen to cable.

The author of *Cable Cowboys*, Mark Robichaux, started to cover the cable industry as a reporter for the Wall Street Journal in 1991. Six years later it was evident that one man had had more impact on the industry than others. John Malone. Robichaux wrote the book with Malone's consent but it's not an authorized biography. He met Malone and many of his colleagues during the project.

The book is structured in chronological order following Malone's personal life and how he got in to the cable business in the first place. He started out in the telephone company Bell Labs but hated its bureaucracy. He moved on to McKinsey, where he learned that the key to a good management consultant was to be a good listener. Later, he joined TCI, despite having better offers elsewhere. He thought the potential long-term upside was better. TCI was owned and operated by Bob Magness (who wanted the "*smartest sonofabitch he could find*" to turn the company around) and the two struck up a lifelong friendship. When Malone came to TCI the business was flooded with debt and he had to fight from day one in order for the firm to survive.

After five tough years which is best summarized by Malone himself "*I'm the head of a little pip squeak company in debt up to its ass, a couple of million dollars in revenue, and not creditworthy to borrow from a bank – we're*

barely making it", he started to roll-up local cable businesses buying 500 companies over 10 years to build the largest cable operator in the US. During these years he never showed a profit as he wrote down cable assets aggressively. He thought it best for shareholders to minimize earnings, and by so taxes and instead focus on cash flows: "*Tax-sheltered cash flow could be leveraged to land more loans to create more tax-sheltered cash flow*". Malone was unconventional and right and produced 900x returns for his shareholders over a 30-year period.

Malone realized early on that he was a great capital allocator and deal-maker but he didn't like the operating side of running a huge business. Therefore, he ended up selling TCI to AT&T for USD 48 billion. Unfortunately, the cultures of the firms didn't match, and the merger became a disaster. As Malone had kept his shares in AT&T he lost USD 3.5 billion and one of his major regrets became that he didn't sell his shares at the time of the merger. AT&T later decided to spin-off Liberty Media which was operated by Malone and he continued his buying spree and financial engineering with Liberty.

One thing which I think could have been stressed more in the story is how Malone thought about mergers. As an investor you are trained to believe that mergers destroy value, which is questionable judging by the recent century. It surely wasn't the case when it came to Malone as his merger strategy realized very straightforward synergies. TCI was formed by buying smaller cable companies and used the larger size to its advantage by getting better deals from the programmers. The company also cut administrative costs to the minimum.

By reading this book you will not only learn about one of the most successful business leaders of the twentieth century but also how television and the internet has evolved. That is the main difference with the portrait in *The Outsiders* which is more condensed and focused on Malone.

Niklas Sävås, January 19, 2020