# John Malone – The Mavericks Lecture 2012

I saw this fascinating lecture by John Malone from 2012 and wanted to share the highlights. There are some profound lessons to be learned from Malone both for students of business and investing. William Thorndike honored him with a whole chapter in *The Outsiders* which we reviewed some years back while Marc Robichaux honored him with a whole book in *Cable Cowboys*, reviewed by us recently. I want to give my special thanks to Tren Griffin who brought me into studying Malone through his blog posts and podcast episodes!

Find my highlights from the video below:

**Mergers & Acquisitions**
*"If synergies are real then it's a very good idea to make an acquisition"*

Horizontal vs vertical deals
Horizontal acquisitions are much easier. Vertical deals seldom work as the buyer doesn't understand the business.
Culture is the most important factor in mergers – in horizontal deals its often wise to fire the top guy as the culture is seldom aligned. In vertical acquisition you need to keep the people at the top as you don't understand the business as well as them.

**Main synergies in horizontal acquisitions in the cable business**
*"The two most important and straightforward synergies in the cable business are programming costs and overhead costs."*

Programming costs - you get them down due to bargaining power driven by size
Overhead costs - you don't need two offices if you have operations in a nearby town
Financial synergies - Sometimes you can optimize taxes by buying a money losing business
Operating synergies - Be skeptical on these
Revenue synergies - Use the existing platform to distribute the new programming content.

**Due diligence**
*"There is no easy answer on how to best conduct due diligence - you need to learn the business the best you can, use the best people you can find, and you need to avoid becoming emotional in order to understand if the acquisition will work out or not."*

The people who are most affected by the merger are often not involved in the diligence process which is a mistake. The lower level staff must be involved. Lack of diligence is what kills most deals.

**Leverage**
*"I like leverage, I think leverage is your friend if you are prudent about it"*.

What is the optimal amount of leverage? It very much depends on the predictability of the cash flow stream from the business. The more predictable - the easier it is to increase leverage. Up to five times cash flow is good. But you need to understand how much capital the business really needs. In manufacturing businesses, you shouldn't take it up nearly as high.

In Liberty Global International (editor's note: where Malone is chairman) four times EBITDA is the floor and five times is the ceiling. If you can't find an acquisition, then you buy back shares and take the leverage ratio back up. It's also very much a function on how much you can borrow for - if you can borrow cheap then your ROE can be very high.

**Taxes and offshore money**
*"The Government is your partner, you just don't want them to take their share early."*

If you buy a company with stock, you are not able to amortize the cost over time and reduce future taxes against your operating profit which you can do with cash or debt.

Monetizing tax losses - you must use the tax law as a friend.

**Tax deductions on debt interest**
*"No wonder why money is not invested in the US".*

Bringing money back to the US leads to high taxes - business therefore keeps the money offshore (editor's note: at the time the US tax rate was 35% which was brought down to 15% changing the dynamics a bit). When you look at international business the money shown on the balance sheets is offshore.

**Tracking stocks**
*"Tracking stocks has only worked for us and not for others and that is down to me having control over the whole structure"*

The benefits of a tracking stock are that there are no tax costs in separation. Furthermore, if one business is profitable and the other isn't then you net the two and reduce taxes. The sum of the parts value is also clearer as the right investors can own the respective stocks. The focus from management on its business is also better.

Other reasons for issuing a tracking stock: Sometimes you are not allowed to spin-off a business. Other times the business is not ready to live on its own.

Niklas Sävås, February 9, 2020
Twitter @Investbythebook
www.investingbythebooks.com