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FROM THE COVER

In Malone's image

BY GREG AVERY

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John Malone occasionally gets asked which is his favorite of all the media companies he controls.

He likens it to ranking his children.

There's the star, Liberty Media Corp., run by CEO Greg Maffei, whose tenure Malone describes as "brilliant."

There's Discovery Communications (Nasdaq: DIS CA), parent of the Discovery Channel and its affiliates, popular across the United States and abroad.

There's satellite broadcaster DirecTV (Nasdaq: DTV) — Malone's heartbreaker, because he had to stop being its chairman to satisfy the U.S. Department of Justice's media-ownership rules.

And then there's Liberty Global Inc., the multinational cable TV company run by CEO Mike Fries. It may be lesser-known, but it's the Malone company made most in the mogul's own image.

"Mike is running Liberty Global most like TCI," Malone said in an interview with the *Denver Business Journal*. "I think it comes closest to my way of thinking about how you should run a business."

Telecommunications Inc. (TCI) is the cable TV giant Malone built up in the 1980s and 1990s by buying cable companies across the nation. What used to be TCI is today a major part of Comcast Corp. (Nasdaq: CMCSA).



John Malone is the chairman of Liberty Media Corp.

No. 2 worldwide

Douglas County-based Liberty Global (Nasdaq: LBTYA) has grown into the world's second-largest cable TV company behind Comcast Corp. Liberty Global employs more than 20,000 people worldwide. About 120 work at its local headquarters.

Its \$4.1 billion operating cash flow is bigger than TCI's at the time of its \$46 billion sale to AT&T (NYSE: T) in 2000, Malone said, despite European cable being a smaller market for revenue.

Fries has done it the Malone way — using debt and reinvested cash to fuel the growth of



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Mike Fries is CEO of Liberty Global Inc.

a deal-making machine that reaps rewards for shareholders while minimizing taxes.

In 2010, Liberty Global sold its stake in Japan's Jupiter Communications, then bought UnityMedia, the second-largest cable franchise in Germany.

It reduced Liberty Global's Asian presence and concentrated it more in Europe, where 80 percent of Liberty Global's revenue comes from. Last month, Liberty Global doubled down on Germany, reaching a \$4.5 billion deal to buy Kabel Baden-Württemberg GmbH & Co., another large German cable company.

Such deals led the Communications Technology Professionals trade group to name Fries its Executive of the Year. It handed out the award April 7 at the Brown Palace hotel.

Fries doesn't boast about Liberty Global's 17.6 million subscribers or the \$13 billion worth of mergers and acquisitions it handled in the past year. He instead points to how Liberty

Global has spent \$8 billion since 2005 buying back nearly half the company's stock.

The point is to make Liberty Global worth more to its owners, not necessarily make it the biggest company — and certainly not to chase acquisitions for the sake of making deals, Fries said.

That's not the Malone way.

"We're all about building value around here, not building empires," Fries said. "That's my approach, and it's something John appreciates. You've got to believe in the wealth and the value we achieve, and let the good things come at us."

Fashioning the deal

Malone's businesses are famous for creating complex acquisitions, putting shareholder value above profits and avoiding generating taxes that, to him, represent an unnecessary drag on returns.

Fries' ability to manage a leveraged balance sheet is impressive, Malone said. Beyond the "financial engineering" that Malone cherishes, Fries leaves his ego out of deals, has assembled an impressive team to manage Liberty Global's different properties and made the company a place where talented people want to work, Malone said.

"I've been around in business coming on 50 years — and the cable business since '69 — and there's no executive I've run into that's better than Mike," Malone said. "Fundamentally, he's a leader. Mike knows how to organize people and give them credit for their success. He's not a ball hog, and that's pretty unique."

Liberty Media Corp., the Douglas

County-based company of which Malone is chairman and most publicly associated with, grew out of a collection of equity stakes in media, telecom and online companies that TCI had amassed. Liberty Media became independent from AT&T in 2002.

Liberty Media is parent company for the Starz and Encore cable movie channels, QVC shopping network and the Atlanta Braves baseball team; it owns controlling interest of DirecTV Group Inc., Sirius XM Satellite Radio and Expedia.com; plus it has major stakes in Live Nation (NYSE: LYV), CenturyLink Inc., Kroenke Arena Co. LLC and many others.

Liberty Media (Nasdaq: LCAPA) has been what Malone calls an "intellectual challenge"

LIBERTY GLOBAL: Mike Fries following in Malone's steps

of transforming highly taxable stakes in companies — News Corp., Time Warner, Sprint and others — into growing, asset-backed companies. Maffei, the former Microsoft CFO who Malone recruited away from Oracle, has handled this with brilliance, Malone said.

Liberty Media also turned much of Malone's attention to satellite TV and television programming.

Malone said he likes that Liberty Global (LGI) keeps him in cable TV. He helped establish that industry, which made him a billionaire.

LGI had been United Pan-Europe Communications (UPC), started by Gene Schneider, one of Denver's early cable pioneers.

Schneider hired Fries

Fries, a native Californian, had been a Paine Webber investment banker in New York City financing cable-industry deals. Schneider recruited Fries as UPC's fifth employee in 1990, putting him in charge of business development.

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John Malone,
chairman, Liberty Media Corp.

timing was good," Fries said.

He helped UPC buy cable systems in Europe and elsewhere. In 1998, Malone invested in Schneider's growing company. Fries became its president.

Six years later, Schneider sold his stake to Malone, and Fries became CEO. The business, then called United Global Comm, merged with Malone's Liberty Media International, creating Liberty Global.



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Mike Fries, CEO of Liberty Global Inc., has led the company to become the world's second-largest cable TV company, behind only Comcast Corp.

Malone and Fries, in 2005, foresaw the potential for LGI to buy cable systems that private equity funds had been acquiring and consolidating in Europe following the global telecom bust. After five to seven years — the typical duration of private equity investments — many of those companies would be put up for sale. That sales cycle creates a lot of opportunities for LGI today.

It has cable-related companies in 13 countries — mostly in Europe, but also in Chile and Puerto Rico — and a satellite TV service in Australia.

Its timing on deals has been good, Malone said.

Fries oversaw selling out of Japan at a premium in 2010, which helped Liberty Global afford to buy into Germany, where there's more potential for growth. Previously, Liberty Global sold a French cable system and bought a faster-growing Swiss one from financier George Soros.

Malone said he marvels how Fries has kept Liberty Global in the good graces of regulators, and navigated the business and employment environments of the 28 countries in which it has done business.

"He masters a cultural element that the U.S. cable guys don't have to," Malone said. Fries, an athletic 48-year-old, is also a fun guy to be around, Malone said.

Malone recounts a gathering at his lakeside property in Maine for some of his companies' leaders a few years ago. Fries wanted to go water-skiing on the lake, but there was no powerboat. So Fries got the pilot of a float plane to pull him around on the water, Malone said.

Fries also holds the "big air" record for jumps on a jet ski at Liberty Global's annual board retreat in the Bahamas, Malone said.

"And 22 trips to Europe last year? It's a mystery where he gets the energy," Malone said. "My wife says I was like that 25 years ago, but I don't know."