

Tomorrow, the world

Media mogul John Malone seems to be planning to abandon America. But much rests on his rival, Rupert Murdoch. **By Prue Clarke in New York**

The machinations of the chairman of Liberty Media Corporation, John Malone, have long kept industry pundits guessing. Part media mogul, part investment guru, Malone possesses extraordinary foresight and a capacity for brain-teasing financial strategies that have made him an enigma to competitors and analysts. His latest move — spinning off the company's international assets — has spawned myriad theories, including a growing suspicion among industry insiders that he is crafting a stunning climax: an exit from the United States market.

According to this theory, the key to the strategy is News Corporation. Rupert

Murdoch's company would seem the obvious buyer for many of Liberty's US assets, which include the QVC home shopping channel and a 50% stake in the hugely profitable Discovery Network. Malone upped the stakes in January by snapping up News Corporation stock, taking Liberty's stake to 18% (9.5% of the voting shares). Murdoch would love to get his hands on those shares.

Neither side is putting out wish-lists yet. In answer to analysts' questions this month about an asset swap, Malone said: "There are assets that News Corporation has that Liberty finds very attractive and wouldn't mind owning directly. And perhaps there are assets that Liberty has that News Corporation would find quite attractive over time."

No one thinks News will be selling any-

thing to Liberty any time soon, but some of Liberty's assets could be of interest. QVC would give Murdoch a successful interactive business, but the real jewel is Discovery, one of cable programming's most valuable properties. Last year, Discovery's revenue grew 17%, to \$US2 billion. Cashflow rose 30% to \$US500 million and is expected to grow at 20% in coming years. Analysts put Discovery's value between \$US10 billion and \$US14 billion.

News bought a two-thirds stake in the rival National Geographic Channel but it has yet to challenge Discovery seriously. National Geographic is in only half as many households and attracts less than 10% of the viewing audience. Still, Liberty's stake in Discovery is shared with two other owners, neither of which has been willing to sell.

Will News want those assets? Paul Kim, a New York media analyst with Swiss broking house Tradition Asiel, says: "They may or may not, depending on the price."

Others doubt that Murdoch will play Malone's game. Matthew Hannigan, cable analyst with Janco Partners, a Colorado investment-banking group, says: "People would like to believe the assets are going to go immediately to Murdoch. But the stock would be a lot higher if that was really about to happen soon." Liberty's share price has been about \$US11 for the past year.

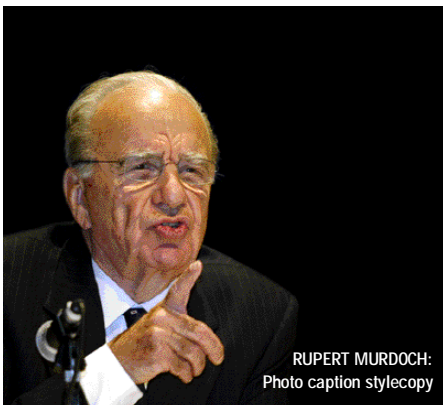
News is making no comment, but Murdoch said in December that he was not looking for any big acquisitions.

Another theory on Wall Street is that Malone is looking to hook up with Murdoch to build a global empire that encircles the world. According to this theory, Malone is buying up in Japan, Norway and eastern Europe — parts of the world News has not yet reached.

"That's ridiculous," says Kim. "Regulators would make it impossible," even if there were any benefits. A News insider says the idea has never come up.

International ambition

Meanwhile, Malone's efforts to move overseas took a big step in March with the unveiling of his plans to spin off Liberty's international assets into a separate entity to be floated on the NASDAQ exchange this year. The new company will represent about 15% of Liberty's \$US35 billion in assets and will include stakes in Japan's largest cable com-



RUPERT MURDOCH:
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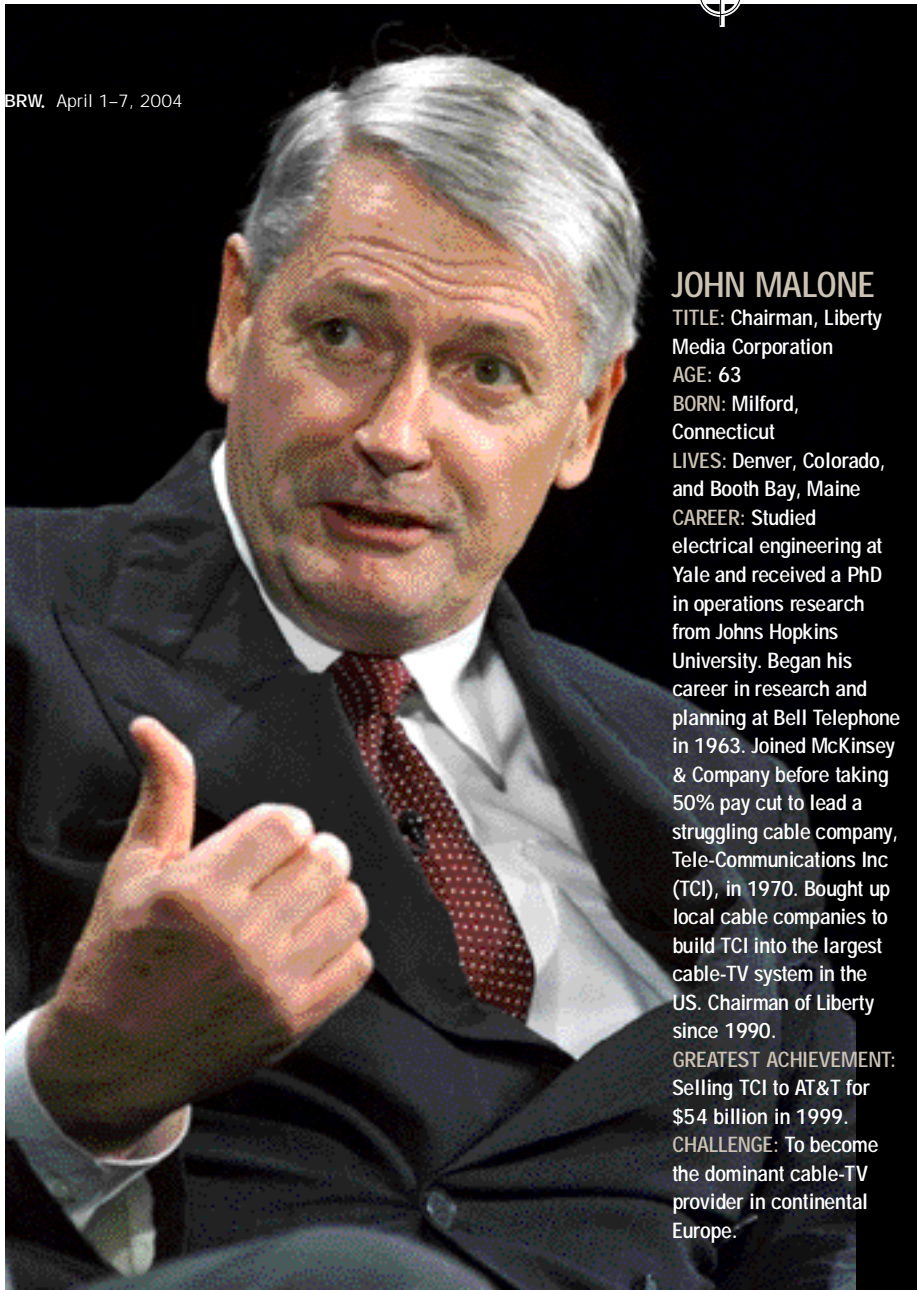
LIBERTY AT LARGE

1 Insiders say United States media baron John Malone is trying to compel Rupert Murdoch's News Corporation to buy Liberty Media Corporation's domestic US assets.

2 Analysts are divided over whether Murdoch will agree to buy the properties.

3 Liberty plans to spin off its \$US6-billion holding of international assets, including the European cable giant UGC, in an entity to be run by Malone. The new company will be the largest cable operator outside the US.

4 Analysts say Malone plans to abandon the saturated US media market.



JOHN MALONE

TITLE: Chairman, Liberty

Media Corporation

AGE: 63

BORN: Milford,
Connecticut

LIVES: Denver, Colorado,
and Booth Bay, Maine

CAREER: Studied
electrical engineering at
Yale and received a PhD
in operations research
from Johns Hopkins
University. Began his
career in research and
planning at Bell Telephone
in 1963. Joined McKinsey
& Company before taking
50% pay cut to lead a
struggling cable company,
Tele-Communications Inc
(TCI), in 1970. Bought up
local cable companies to
build TCI into the largest
cable-TV system in the
US. Chairman of Liberty
since 1990.

GREATEST ACHIEVEMENT:
Selling TCI to AT&T for
\$54 billion in 1999.

CHALLENGE: To become
the dominant cable-TV
provider in continental
Europe.

REUTERS/ROUSEF

pany, J-Com; multi-channel TV services in Latin America; and Jupiter Programming, a channel joint venture with Sumitomo. The crown jewel will be the controlling stake in Europe's UnitedGlobalCom (UGC), one of the largest broadband content distributors outside the US. Even before it strikes any deals, Liberty Media International (LMI), as the new company will be known, will be the largest cable operator outside the US, with 13.5 million viewers in 20 countries.

The big appeal for Wall Street is that Malone plans to run LMI himself. Malone's legend was built in the 1970s and 1980s, as he bought and bundled up local satellite systems into Tele-Communications Inc (TCI), America's largest cable company. In 1999 AT&T paid a cool (and, in hindsight, overvalued) \$US54 billion for the company. Malone wants to recreate that magic overseas. "We see the opportunity to build another TCI,

perhaps a little bigger," he says of his latest venture.

Hannigan says: "There's no question growth in media is greater overseas." Continental Europe's fledgling cable industry is likely to be LMI's chief target. "Multi-channel TV is less developed. Many markets do not have satellite TV, and analogue offers relatively few channels," says Hannigan.

Getting a foothold in Europe has proved a troublesome task for Malone. He managed to secure control of UGC in January, but regulators blocked him from buying a dominant position in Germany's cable industry in 2002. In Britain, his investment in Telewest, the debt-burdened cable operator, has been a headache, resulting in a \$US1.8-billion writedown three years ago.

Spinning off the international assets is also designed to bring some clarity to the unwieldy set of holdings that make up

Liberty. The company has essentially been a giant media mutual fund. Its assets were acquired because they struck Malone as a bargain, not because they formed part of an overall business plan. A consultant who has worked with the company says that before 2003 no one had the job of planning Liberty's overall strategy. (The investment portfolio is dominated by \$US7.6 billion in News stock, \$US4.7 billion of stock in Barry Driller's InterActiveCorp, and \$US3 billion of Time Warner shares.)

Malone's penchant for complicated derivative and hedging strategies has baffled investors. That lack of clarity has always weighed on the share price, but the present discount of 25% is wider than the 18% average of the past 10 years.

Liberty also faced pressure from the Securities and Exchange Commission (SEC), which threatened to rerate it from a media group to an investment group. That would limit the company's borrowing capacity and appeal to large institutional investors.

To please Wall Street and the SEC, Malone set about recasting Liberty as an operating company. He divided the assets into three divisions: Interactive (including QVC), Network (with the stakes in News and Discovery), and International. It is the Network division that he hopes to sell to News Corporation.

In the second half of 2003, Malone authorized an effort to acquire outright control of Liberty's affiliate companies.

Most analysts think Malone has done what he needs to do to narrow the share price discount. Merrill Lynch's Jessica Reif Cohen values the company at \$US17 a share. The more conservative Richard Bilotti of Morgan Stanley puts it at \$US15. He expects the stock to hit \$US14, about 20% higher than its present price.

The next step may well be to abandon the US altogether. "The US media market is a mess," says an industry consultant. The AOL Time Warner meltdown killed the myth of multi-platform synergies and an interactive nirvana. Three companies are swallowing up the cable-TV industry and News has sewn up satellite TV. "The titans of the industry are all looking around for acquisitions and seeing nothing," says the consultant. "Malone could well have decided to throw all his efforts into reshaping the world's cable industries in the image of TCI." ●