

CONVERSATIONS WITH MIKE MILKEN



Barry Diller

Chairman and Senior Executive, IAC; Chairman and Senior Executive, Expedia Group

June 16, 2020

Mike Milken: Thank you for joining me this morning.

Barry Diller: Happy to be with you, Mike.

How has your life changed in the last three or four months?

There is no objectivity when you're going through something like this because you're living in the moment of it. It's hard to pull back and say, 'Oh my God, I am here in the same basic place that I have been for now more than two months.' I spend hours and hours a day on my computer focused on a screen. I don't have peripheral vision of people. This is one of those crises, we've never had. I mean everybody says it, but it's true. Every crisis we've had before, it's been clear about what it was and what you do about it. Certainly 9/11; certainly the 2008 financial crisis. This one, because we really know so little, we don't know what really to do about it.

I think I viewed it the same. You can understand a financial problem: 2008, 2009 started with an over-investment in residential real estate and the idea that any mortgage was good ... and then you discovered they weren't. Here, no matter what we do, the ultimate decisions will be made on how we control this virus. Do we have a solution? My life changed a great deal when I concluded that we needed to accelerate science. We converted all 10 centers at the Milken Institute to work on the virus. I would say to you that the cooperation today between pharmaceutical companies,

biotech companies, and the government has never been better as we race for a solution.

“There are really two forces at work that we're seeing, and they're getting more segregated every day. There's one faction that says, ‘I want to go back to work. Stop telling me what to do.’ And then the people who are saying, ‘absolutely not. You must social distance. You must not continue life until we figure this out.’ ”

As I think back over all of our interactions, as we are about to enter in our fifth decade with one another, our fifth decade Barry, is understanding the individual, the American public and their reaction. What do you see as their reaction to this?

There are really two forces at work that we're seeing and they're getting more segregated every day. There's one faction that says, ‘I want to go back to work. Stop telling me what to do. You don't have the issues I have. You have jobs. You're going to have jobs in the future.’ And then the people who are saying, ‘absolutely not. You must social distance. You must not continue life until we figure this out.’ Those two forces are now being played out and will continue through June, July, August, and we'll see what those consequences are. I think once people push to stop isolating, there's no holding them back, I would say up to martial law. I think those forces will continue despite the science unless you get to some catastrophic number of cases. But that's what I think has happened.

My life over the last say, three months, 18 hours a day, has been trying to look at the facts. When you look at what occurred in Italy, and you see 96% of the people that died had preconditions: one precondition, two or three. I agree with you. I feel Americans, outside of maybe New York and New Jersey and parts of Los Angeles maybe, but it never had a surge in California, have felt they tried that. It's over and they're moving on.

I've been doing these podcasts, and I did one with Paul Romer, who won the Nobel Prize in economics. Paul's view is we should just test everybody and get immediate responses, and then let you know whether you can go out or not go out based on

accurate tests. Those that don't test accordingly won't go out. Those that do test clear will go out. Those that are at significant risks, those in chemotherapy or other things where their immune system has been suppressed, will not go out.

There are different approaches today to it. In a podcast I did with Joe Tsai, co-founder of Alibaba, at their headquarters they had about 40,000 employees and they went from 40,000 to a couple hundred for maintenance who didn't really interact with each other. And now, they're back today to 35,000, 36,000. They have done it by taking everyone's temperature, but also having green go or yellow or red. You can't go in the building unless you're green.

But I have been very optimistic. More than a hundred vaccines are under development, 12 into humans; there are antivirals. Only four people passed away in Hong Kong with a three-part antiviral. Today those antibodies where people that have had it are being turned into serum that quite possibly can give a person immunity.

Many of the companies that you've been involved with interact with travel leisure. How do you open a Broadway show? How do the actors feel about it? How do the patrons feel about it? Who's sitting next to you? Are you selling every other seat and what are you doing in a city that was ground zero for this virus? Let's take a look at your own portfolio and how you view travel, movement to hotels and airlines, cruise ships, etc. What's going to happen?

"This next three months will be the petri dish for what's going to happen; what happens in these next three months as we reengage in work. I think the mess -and it is a mess - of the next couple of months is going to teach us many things. I don't have the answer ... but I have a lot of questions."

We see signs in China, not so much in Western Europe, but in Asia and we certainly see them in the U.S., where local travel, meaning travel 100 to 600 miles from where you live by car, is fairly robust and is almost back to pre-COVID levels. That's for vacation homes. That's for places where you can drive to; resort areas in the panhandle area [of Florida] are packed actually. We're not seeing and won't see air travel, certainly not international air travel. A little domestic air travel is picking up, but we're not going to see that until people feel safer about being in planes. As you know, there's no such thing as social distancing in an airplane. We're not seeing it yet because people feel unsafe. Travel is probably one of the last to actually get back the robust growth, much less parity with what it was last year. I don't think travel comes back certainly until 2021, maybe 2022, which is why I think we've got to protect these airlines. We cannot let this air grid

that's been built over these last years for getting people anywhere in the world. The infrastructure needs to be protected. I hope it will be.

I'm assume if there was a vaccine available in September, October that people believed in, you and have a much different view. And that pent-up demand to travel once they felt they were safe would snap back very quickly.

My experience, Mike, was this: we actually bought Expedia 40 days before 9/11. We had in that transaction a material adverse change clause, which 9/11, given air traffic was shut down completely, was able to be exercised. We all sat around and said, 'should we spend at that time, real money, a billion or so, to buy Expedia under these conditions? Or should we just get out of the deal? We had the right to. Somebody in the room said, 'if there's life, there's travel.' I heard it in my ear and I said, we're closing the deal. And by the way, it turned out all right. Two months of pent-up travel demand came back flourishing. I expect the same will happen. The problem is this, this time, the question of if there's life, there's travel. The question is, is if there is life? Sustainable, countable life.

I have spent such a significant amount of time on this area. My family challenges, my father's cancer, my mother-in-law's cancer, Lori and my children's health issues, has thrust me into the medical area for almost 50 years trying to search for an acceleration of cures. I was unsuccessful in accelerating any science in melanoma fast enough to save my father's life.

But today it's so much different. The virus DNA that was put out on January 11th by the Chinese scientists; anyone in the world knew the DNA of the virus and 63 days later – nine weeks – Moderna had a vaccine into a human being on March 16th. That was not possible five years ago, 10 years ago. So I am optimistic, based on science, that we'll have a solution for it. But your point is well taken.

But one of the things that you and I have spoken about over a long period of time is that there's a market of stocks, not a stock market. These type of events really drive that home. As I look at the seven most valuable companies in the world as measured by market cap, not counting Aramco, every single one of them believed in one thing: They believed in technology and the internet, which you based your company on. You have succeeded where very few have because very few have transitioned to a world of connectivity from the world that they were in.

If I look at the values of those companies that you grew up with and were familiar with in the mail room at William Morris in the 1960s: Columbia, MGM, Warner Brothers, Universal, Paramount, UA, none of them are independent in a sense today. Disney I'm leaving out because it had actually a pretty small library back in those days. The gaming

companies, the video gaming companies of Electronic Arts and Activision are worth substantially more than these companies that we grew up with.

"[With each technological development, the incumbent media powerhouses, these Hollywood studios, really got it wrong. But they were able to simply acquire those companies that had new areas of competition. So they kept their hegemony. It ended when digital came along and they ran into Amazon and Netflix. Their ability to buy those companies didn't exist because they were vastly larger than them.]"

A number of years ago, when someone asked you on a session, is Netflix friend or foe, you responded foe. What did these companies that you were studying – their movies and television shows and other things back in the 1960s – what did they miss that had dominated the media scene so much for so many decades?

They were never prescient ... ever. Let's be clear about that. From the earliest days of the movie business, the first

threat, so to speak, to the nascent movie business was radio. Actually Paramount bought half of Bill Paley's fledging radio network, but sold it a few years later. Throughout the development from movies to television, movie studios hated television, thought it was a threat, which it was, to their business. They didn't invest in it in the early period. They tried to block it. The same was true about cable networks. You'd think that the all-news cable network would have come from one of the three networks broadcast news operations. Instead, it came from the left field of Mr. Turner in Atlanta.

So each development, the incumbent media powerhouses, these Hollywood studios, really got it wrong. However, because they had hegemony over the worldwide movie business infrastructure, they were able after they'd made these mistakes, when these businesses got to a sufficient size, they were able through the ingenuity of Steve Ross, Charlie Bluhdorn, Lou Wasserman, were able to simply acquire those companies that had new areas of competition. So they kept their hegemony. They basically kept it until a very few years ago when it ended for them. It ended for them when digital came along and unlike their ability to previously buy whoever was competing with them, they came up against Amazon and Netflix. Their ability to buy those companies didn't exist because they were vastly larger than them. All at once in a couple of years, Hollywood lost, forever by the way, its hegemony over the media business. That's gone. It is.

The only interesting surprise is that up until five, 10 years ago, right in that period, they had held on to it for almost a hundred years. Not through their own innovation and ingenuity, but by their economic might. But their economic finally came up against a very hard wall of greater economic might ... and they're finished. When I said Netflix was a foe, that was before they had any market power. John Malone and I together said, 'why doesn't cable create their own Netflix?' But that couldn't be accomplished for various historical reasons. Instead of saying this is going to be our ultimate destruction, this direct relationship with the consumer, instead they sold all their libraries to this new company, allowing it to crush them eventually. I analogize it to people who build a rocket, set it off, and then run to where it's going to fall.

“A little domestic air travel is picking up, but we're not going to see [a return to normal] until people feel safer about being in planes. As you well know, there's no such thing as social distancing in an airplane. We're not seeing it yet because people feel unsafe. Travel is probably one of the last to actually get back the robust growth.”

Now why do you make that analogy?

The rocket analogy?

Yes. Why do you make that?

Well, I make it because I'm 50 miles away from where a rocket's going to go off tomorrow for the first time in a decade or so.

I'd like to go back to how you see the virus that we've experienced; this experience is changing people. In a sense, the person who worked in a grocery store has now become essential. Or a person that was picking fruit in the fields. Will we have substantially different views of jobs when this is over? Of that nurse who was willing to work in a hospital during this time or someone that played a vital role in food distribution or the delivery person who's delivering things to your home? Will we view these jobs differently in the future and understanding as we come out of this, how dependent we are on each other?

Interesting question, Mike. I don't know the answer, but if you really want to deal at the essence of income inequality, it is the value we place on different roles and how we

compensate them. I don't have the answer to this at all. But I do think that a lot of us, and us, being very broadly the business community, are beginning to think things through slightly differently, just slightly because it's only superficial and we haven't yet engaged. We're still not back to work. This next three months is the petri dish for what's going to happen, and what happens in these next three months as we reengage in work, we'll figure out if there are different work rules? Are there different values placed on some of these things? I think the mess, and it is a mess, of the next couple of months is going to teach us many things. So I don't have the answer, but I do have this, and I think I share this with a lot of people: I've got a lot of questions.

Barry, I look forward to hearing those questions and working with you and thank you for joining me today.

Thank you, Mike. You too. Bye-bye.
