Q&A With William D. Cohan, Best Selling Author & Founding Partner At Puck

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Bill Stephenson

Alright, everyone. So we have one more quick session before we have drinks down on the floor. I've got John Kelly here, who's going to join us and he is gonna be interviewing Will Cohan. So I'll let John come up and he is going to kick us off. Thank you.

John Kelly

5:33:09PM

Guys thank you very much. Thanks for having me here. My name is John Kelly. As Bill said, I'm the Co-Founder of Puck, a new media company focused on the intersection of Wall Street in Washington, Silicon Valley, and Hollywood, and I am thrilled to introduce my friend and partner William D. Cohan, author of six books, four best sellers, including House of Cards, which became one of the defining narratives of Wall Street in the post-2008 era. Bill is at work right now on his seventh book and presumably is 5th best seller, Power Failure, which is the recent history of the General Electric Corporation and the Jack Welsh era and it's been amazing to me given what's taking place in our business climate now how much the lessons of the Welsh era and how many of the disciples of the Welsh are actually running some of these fortune 50 companies.

Anyway, without further ado, I want to welcome William D. Cohan, who had to afford to do this remotely although, I guess that is the name of the game in 2022. And I wanted to jump right into the topic that Bill has really been the defining voice on and that is this very small as you guys probably haven't heard of it, just small takeover bid with a company called Twitter by a guy named Elon Musk. And Bill, you've been all over this since the very, very beginning, can you sort of walk us through both the early steps of the ensemble here and then give us a sense of how you read these tea leaves? And I should say, before you jump in, one of my favorite things about Bill is to misquote that old ad from the eighties about the hair club Furman. He's not just a president, he's also a client who was our leading M&A banker for 20 years at Lazard, JP Morgan, and GE capital. So you can see things both from the journalist's perspective, and also from the banker's perspective. So anyway Bill, enough of me, tell us what the hell is going on at Twitter, past present, and future.

Willam D. Cohan

5:35:12PM

Well, first of all, I hope you all can hear me. Sorry for the raspy voice. It is a consequence of the times we live in. And John, thank you for that kind introduction, and I am just terribly sorry that I can't be there with you all in person as was the plan until this morning.

So I think the way I think about this, Musk's bid for Twitter is I break it up into two parts, two narratives. The genius of the January to April 25th narrative and then the post-April 25th narrative. Between January and April 25th, what Elon did was very stealthily bought in the market what turned out to be whatever 73 million shares, a 9.1% stake in the company. Nobody had a clue, which is not that unusual when people are trying to put together a big stake. But usually, things about Elon get out but he obviously listened to his advisors at Morgan Stanley, probably helped him put this together, and played it straight down the middle of the fairway.

He then was offered a board seat in exchange for limiting his ownership stake to about 15%. He said he would think about doing that. He actually said I think he would take that board seat. He changed his mind over a weekend and decided to make what amounts to really a hostile bid for the whole company at $54.20 in cash, and while a lot of the media were sort of incredulous that he would do this and what does it mean, my view early on was that, of course, this is going to be successful because Twitter makes about $1 billion a year in EBITDA, and that's being generous. And so a bid that values the company at $44 billion, 44 times EBITDA was obviously fair to the shareholders of Twitter from a financial point of view, which was the task that the board had to render, had to decide upon with the help of Goldman Sachs and JP Morgan Chase, who are giving the fairness opinions. So to me, it was obvious that Elon was going to succeed.

He then boxed the board into a corner. They came up with a poison pill, which really just meant that they had to deal with the board as opposed to doing a tender offer going back to the shareholders. And lo and behold, while most people couldn't quite believe it, by April 25th he had a merger agreement with the Twitter Board. Unfortunately, since April 25th, John, he's playing it more like a petulant child, and can't figure out whether he wants to own this thing or not.

John Kelly

5:38:35PM

One of the theories you positive, at least in our private conversations, and some things that you published at Puck, and you know by the way, Bill knows the bankers, who are advising Musk, you used to work with a number of them. Before we even get into the sort of active re-trading, can you give us a sense of what do you think caused this stark contrast? Is this an example of a person going from listening to the bankers and lawyers to then freelancing on their own or do you think there is a sort of larger madman negotiating tactic at place here? And before I before getting to the re-trade, can you tell us what are the consequences of screwing with these kinds of bankers? It's a technical question.

William D. Cohan

Well, I think when you're Elon Musk, the world's richest guy, it's clear John and everyone that all bets are kind of off. He's going to sometimes listen to those bankers and lawyers and sometimes not. Clearly, we're in the not phase of listening. For whatever reason I mean, maybe he has buyer's remorse, maybe he's decided he's overpaid, maybe he doesn't really want it at all but who knows.

But what I'm just sort of baffled by is if you're the CEO of a company like Tesla and the largest shareholders, if you own a company like Spacex, if you own a company like the Boeing company, these are capital intensive businesses. He needs Wall Street's help. He needs access. I mean, he may be the world's richest guy but he needs access to capital that Wall Street can provide.

So in the first phase of this, he was like a hero with Wall Street, Oh My God, making a $54.20 offer all in cash, saying he was going to X amount of equity and borrow Y amount of debt and just playing it straight down the middle of the fairway, playing it beautifully. Now, I'm pretty sure he is pissing off his bankers and his lawyers because he can't figure out what he wants to do and he's like ruining the deal.

And if he again continues to misbehave and doesn't close this deal, which even though he signed a merger agreement, he really needs to close it because he signed this agreement and he agreed to a specific performance, which means that if he doesn't close the deal, the lawsuits are going to be up towards [inaudible]. But, again, he's the world's richest guy, maybe he's going to enjoy litigating against Twitter for a very long time. But if he screws this up, that'll be its third screw-up because forced Solar City onto Tesla shareholders to basically help his family members, then he did the whole thing with funding secured on taking Tesla private, And this was an embarrassment, and so this would be my third major screw up in public. And this is would be a really bad screw-up because if he doesn't close this deal or he walks away or he plays the breakup theory, just decided he's going to litigate these guys into the ground, then the Twitter stocks going to go to the twenties and a lot of people are going to be really burned. People are going to remember that and he is not going to be able to raise the capital. It's going to be sort of like Donald Trump, in the sense that Donald Trump burned his creditors repeatedly and Wall Street stopped wanting to do business with him, and he faces that kind of risk right now.

Multiple speakers

5:42:23PM

He's going to be sort of like Donald Trump, in the sense that Donald Trump burned his creditors repeatedly and Wall Street stopped wanting to do business with him, and he faces that kind of risk right now. But one thing that you pointed out early and often is that similar to this [inaudible] it comes down to the fairness of opinion and then the-- [inaudible]. It's a paper that most people don't know what it is but yes. Tell us about the sort of migrant journey of this fairness opinion, because clearly the $54.20 bid, he was the only taker and it was probably a generous offer.

John Kelly

Twitter's market value has changed a lot in a month. Do think there is some sort of breaking point here that is not investment advice? Do you think that there is some sort of breaking point here that would allow him to say, "Okay, I am going to walk away, I can't get the money to do this, things have changed materially? And what might his bankers put up with? Because even if you reduce the bid to whatever, think of another 420 reference, by that amount then it would still probably be fair in the eyes of the bankers during the deal.

William D. Cohan

5:43:36PM

Let's say $44.20. Okay, sure, round numbers. Yes. It should be a big decrease obviously, but I still think even though the bankers and the board would be mighty pissed off, I still suspect at the end of the day they would agree that it was fair because if he doesn't do the deal and he just walks away as I said the stock will be in the twenties. But if he restructured the financing for the deal that makes it very hard for his bankers to pull the plug on him, and enable him to use that excuse. I mean, a great excuse for Elon at this point, again, assuming for whatever crazy he no longer wants to own this thing would be, "Oh, we can no longer raise the senior debt that we promised you," but the senior debt is basically $13 billion, and that's committed. There was going to be a tranche of debt of a margin loan for another 12 plus billion, but he eliminated that. First, he cut it in half to six and then he eliminated it, and incredibly, I really scratching my head about this, increased the equity portion, in other words, the amount of equity he's going to put in the deal from like 20 to 33.

So $33 billion out of the $44 billion is equity, that's basically unheard of in any kind of takeover that uses cash as opposed to stock. Our regular LBO, if you were really doing some sort of leveraged buyouts would be maybe 25% equity, maybe 30. For him to now go like two-thirds equity, it's pretty unheard of. Maybe he's doing that he can claim that he can't raise the equity, but I don't think it's going to be the senior debt providers who are going to walk away because that's pretty much of a slam dunk at this point.

Multiple speakers

5:45:43PM

So you think it's the FOEs that'll be harder to corral overtime? Well, if you can also include the some of the equity that was being rolled over like Prince Alwalee, his own equity that will be rolled over, he's raised about $13 billion of the 33 that was announced publicly. He only needs another $20 billion, which is actually a large amount of money, except maybe for the richest man in the world who obviously has got $150 billion worth of Tesla stock. So again, it's going to be very difficult for him to say to the lawyers or have the lawyers say or say to the board of Twitter, "Hey, I can't raise this last 20 billion," because he is the world's richest guy. And so, that's going to be a tough argument, but he hasn't announced where that money is coming from yet.

John Kelly

5:46:40PM

I want to pivot slightly here. Before I was on the way over, I read an interview that Bill did with Jamie Diamond, it was about 11 months ago before Puck was even launched. One of the things that I love most about Bill is we call him a two-ring reporter, that means that the person on the other end of the phone usually picks up by the second ring because they want to make sure that they can talk to them before the piece actually comes out. So you were talking to Diamond at the time about some early spidey sense, you had about the fed and inflation and I should say, I'll quote you Bill, I think you accurately predicted 20 of the two last recessions? Right.

Bill Stephenson

Yes, that's right, John. Thank you. I think I got this one right.

John Kelly

We were early here. At the time, Diamond said that he was all-in on the fed's behavior, but he also acknowledged that he agreed with you and agreed with some of at the time, the underwriting of Larry Summers. So I'd love to get your sense of how this is sort of on everyone's mind right now, particularly given them the new sort of warnings. Where do you think we are? You have talked to a lot of central bankers, give a sense of where you think we are and where we're headed, and what we should be looking out for from your perspective?

William D. Cohan

Look, I mean, I think again today is another example of where we're headed. It's very, very shaky at this point. I think until the market figures out and gets comfortable with how many interest rate increases we're going to get out of the feds at the next five meetings, how much, how long it's going to go on for. With inflation running at 8.6 a year, if you want to have real interest rates be positive you have got to be above that which would be 9%-10% short term interest rates, which is less than Volcker did back in the late 70s early 80s. So we've got a lot of interest headroom here that maybe inflation will moderate somewhat. I just think we're in a very, very uncertain time, I think you got to give credit to Larry Summers foreseeing this early and it's unfortunate that the feds didn't listen to him and get on top of this early. It could have been mitigated somewhat but I really worry about how soft the landing can be, whether there can be enough phone put on the runway to make this a soft landing.

The irony for me of course is that to me, these kinds of corrections are very healthy. It takes a lot of the steam out of the bubbles and a lot of the air, and things got really out of control, irrationally exuberant, we can even say. And so I think it's a healthy correction, although it stinks, nobody likes it, it's painful. There's no constituency or a very, very small constituency for high- interest rates and low stock prices. And there's a very big constituency for high stock prices and low interest rates. So when we're flipping that scenario on the head, nobody is going to be happy except for maybe some clever short sellers. So I feel on the one hand it's healthy with where we are but we've got a lot of pain to go through yet.

John Kelly

5:50:33PM

We were chatting this morning, and you pointed out a of sort of interesting counterfactual here, which is that the Obama White house, one of the ways that Summers was encouraged to take on the NSE job is that a larger opportunity of feds was sort of dangled before him too to entice him to come back to the public sector after all these years and success in the private sector. Anyway, it ended up not working out that way, Obama appointed Janet Yellen. Do people ever play counterfactual games here or is the wrinkle of COVID just so complicated that it is hard to know?

William D. Cohan

Well, I think first of all, it's very interesting trade that was supposedly made and Obama talked about it in his book. Mary had been Bill Clinton's last Treasury Secretary, so to come in as National Economic Advisor, I'm sorry to say, it sounds like it's a demotion for poor Larry. But he agreed to do it because Obama promised him he would be fed Chairman after Bernanke's second term was up. And the progressives just went crazy because of course, Larry's a lightning rod. That didn't happen and Janet Yellen got nominated and approved and she just continued Bernanke's policies as had Jerome Powell.

I think Larry having talked to him plenty of times now, and I wrote my first baby care profile in 2009 about Larry when he was in the National Economic Advisers' Office in the White House. One nice thing was it was up the steps right above the Oval Office, so adjacent to power means he's powerful I guess, but he was early to see that the inflation was not transitory, it was real. He was, I think, early and outspoken about talking about how QE had gone on for too long, it needed to be curtailed, and that interest rates needed to rise to stop the irrational exuberance. Of course, nobody listened to him and now we're in this fix. So I don't know, I kind of think that if Larry had actually become Head Chairman in 2014 or whatever we wouldn't be quite in this fix that we're in now. Obviously, it's hard to know, it's impossible to prove, but Larry is a guy who sees around corners about as well as anybody I've ever met and he's wicked smart as we used to say in Massachusetts. So I hold onto the fantasy that it would've been different, not that it matters.

Multiple speakers

5:53:29PM

Let's go from a counterfactual a to post tax on-- I want to also leave time for questions if there are any on the floor. You've just completed a book called Power Failure about the rise and fall in the 3-headed split of GE. Jackpots is undergoing sort of a reappraisal in the culture, now there is a book by a New York times author that casts new light on I guess, the management philosophies of Jack. I'd love to sort of hear your topline on the Jack of history, you didn't just reported the guy without knowing him quite well, so I'm curious how you sort of define his legacy.

William D. Cohan

Okay. Well, not to be too unkind--

John Kelly

Go for it.

William D. Cohan

Okay. I did interview Jack, many, many hours with Jack before he died in March of 2020. I've also spent many hours with Geoff [inaudible] his successor, and with John Flannery, Geoff [inaudible] successor. I am afraid I don't agree with the premise of the book that just came out by David Gellar that the New York Times demand a new probe of capitalism. First of all, capitalism was flawed it was not perfect, but it's not broken. It's got flaws, so maybe we can work on fixing them and we always talk about how to fix it but it's an incredible system by and large, certainly better than any of the alternatives, and Jack, I' just don't agree with the premise of it. I studied Jack for 20 years, very, very well. I started at the beginning, that's probably the problem, this book is 800 pages. So it's [inaudible] but it's an incredible story too of the rise and fall of this iconic American company and how it became the most valuable company in the world under Jack. And this was not done by men, who probed capitalism, this was done by a man who understood what he had to do to create value for shareholders, and to increase the profits, to essentially play by the capitalist playbook better than anybody had done, and he also had a big personality, and a big megaphone and used it. So I don't fault them for any of that.

John Kelly

Let me ask you, I guess I got a $330 billion question, which is, GE was the most valuable company in the world about 20 years ago, and I think it's been delisted. If you could just breakdown why management transitions don't work overtime, what went wrong, there, I'd love to get your topline notes, you're a GE therapist at this point, what didn't happen after Jack that others can learn from?

William D. Cohan

The short answer is [inaudible]. Jack really pumped things up like Elon Musk really pumps things up, and people got into it. I mean people loved it GE beat earnings quarter after quarter, paid a nice dividend, steady as she goes, reliable, innovative, kind of exciting Jack Welch. And so the research analysts loved it, they didn't understand the fact that the company was financial services and most of the research analysts who covered GE were industrial analysts, so that was a problem. People forget but Geoff took over for Jack four days before 911. So after 911, of course, we know that the world changed dramatically. First of all, GE make engines on the claims that went into the towers, it had reinsured several of the towers down there. He was involved in all sorts of lawsuits that owned NBC of course and that went no commercials for at least a week costing hundreds of millions of dollars. When Sarbanes Oxley came into play, the whole disclosure world changed.

I think that Jack thought he had given--certainly, he didn't--be he thought he had given Geoff [inaudible] a straight flush. He couldn't play that hand. In fact just gave Geoff [inaudible] a more modest kind of straight, a low number straight and it was a good hand, usually a winning hand, but Geoff didn't play it particularly well. I mean every time he had a big decision to make, in my judgment, I hate to say this, but he made the wrong decision or he often made the wrong decision and it costs the company dearly and he didn't want to listen to--Jack was a very sort of all inclusive guy, wanted to hear what everybody had to say, even though he overruled people a lot. Geoff was more imperial and didn't want to necessarily hear what the senior executives wanted to say, if they disagreed with him, and it forced a lot of them to leave the company, and he became increasingly imperial and it just didn't work.

Bill Stephenson

[inaudible] time for questions.

John Kelly

Thank you, Bill. We're out of time now, but I'd love to welcome if there's any questions from the floor.

Unknown Speaker

Hey, John, I have a question.

John Kelly

There you are.

Multiple speakers

[inaudible] in a secret undisclosed location. Yes, we are.

Unknown Speaker

We both are.

Bill Stephenson

5:59:44PM

Yeah, so thank you very much for doing this and John, thank you for stepping in. By the way, everybody, if you haven't subscribed to Puck, please do so. It's great, it's thought-provoking, timely, and I promise you that you will be better for subscribing. So I just wanted to say that because I'm a subscriber and get great utility out of it. Will, I just had a question for you, which is, do you think Musk has any political aspirations?

William D. Cohan

It's an interesting question. I mean, I never would've thought Donald Trump had political aspirations. I mean, he reminds me of Donald Trump certainly, his business antics, obviously, Musk was a 1 million times more successful businessman than Donald Trump but the way he has alienated Wall Street and become sort of his own guy who doesn't listen anybody. I mean, I can't imagine somebody like Elon Musk being popular enough to get elected but I couldn't imagine

Donald Trump being popular enough to get elected either, so things like this do happen and it has crossed my mind.

Bill Stephenson

Okay, thanks for that.

John Kelly

Yes, God forbid. Guys, thank you so much. Bob, thank you. Bill, thank you.

William D. Cohan

6:01:25PM

Thank you John, and again, sorry, I couldn't be there in person.

John Kelly

Thanks, guys.

Calendar