On Tax—Michael Stanton of Peloton

Len Teti: Welcome to On Tax—A Cravath Podcast. I'm Len Teti, a partner in the Tax Department of Cravath, Swaine & Moore, a premier U.S. law firm based in New York City.

On each episode of On Tax, I talk to professionals in the Cravath network about their life and work in the world of tax. We focus on the human side of tax law, highlighting the people, connections and stories that make this space such a fascinating and dynamic area of practice. I hope you enjoy this episode.

Today, our guest is Mike Stanton. Mike is the Corporate Treasurer of Peloton and the Global Head of Tax and Treasury. Mike, welcome to the podcast, and thanks for joining us.

Michael Stanton: Thanks so much for having me, Len.

Len: It's a thrill to have you, Mike. So, for all of our guests, we have to chart their career in tax, and maybe you can tell me how far back we have to go in your life to start to understand how you ended up on a track toward a tax profession.

Michael: Sure. Tax for me was a little unintentional. So, I think actually we'd have to go back to my first job out of college, which was not tax; it was in finance. I'd always wanted to work in finance, and I joined a company, A.G. Edwards, out of college. And I really loved it. I was managing investment portfolios for clients, and I had gone the whole Series 7 and 66 license path. And things were great until about 2008, when the world of finance collapsed a bit.

I had already been thinking about getting an advanced degree, mainly with the intent of just furthering my career in finance. And for me, MBA and J.D. were the two that were always around. And so, when the finance world took a bit of a tumble, I thought it was an appropriate time to go ahead and do that.

Len: So, you went to law school during the financial crisis. Is that right?

Michael: I did. Yeah, I got to ride out a lot of that turmoil during the crisis. And, for me, the goal was always to go back to finance. In fact, I wanted to go back to A.G. Edwards, but while I was at law school the company had been bought and sold a couple of times.

Len: And meanwhile, you're chugging through law school. And so, at what point in law school did you find yourself taking tax classes or otherwise kind of pulled in the direction of tax law specialist?

Michael: I came across a really influential professor for me, Professor Linda Galler, and she introduced me to tax. She was their taxation professor, and I just started doing some more courses with her in my 2L year, when you had a chance to take some electives.

And there was something about it that really resonated with me. It was kind of the interesting problem-solving, and tax always felt a little bit like a choose-your-own-adventure book. It's: If X go to Y, if Y go to Z, and, oh, by the way, if LMNOP, then scrap it all, go look for some case law and try and apply the facts. But I enjoyed that; it was a lot of fun.

And so, I ended up doing a tax concentration with her as my professor, and that was how I fell into tax. And I couldn't have been luckier, because what an amazing path it's taken me on ever since.

Len: You know, you've reminded me of my own journey, when I've told people I sort of fell into tax, and I think I kind of tripped into it a couple of times. On reflection, I'm very surprised that I ended up doing tax. I think anybody who knew me in 12th grade would not be surprised that I'm a lawyer. But I think they'd be very surprised I'm doing tax and the sort of law that I am doing.

Do you feel that way yourself? If you could talk to yourself in college, would you just be stunned?

Michael: Absolutely, there's no way that I saw this on the horizon. I could have seen the MBA path, and there was a point in time when I was making that decision of, "Do I leave finance and go get an MBA and come back as is the normal path that you might commonly hear, or do I take this the route of a lawyer?"

I had a few people in my life that were particularly influential or people that I trusted when I talked about things. And first and foremost, is my dad.

To me, he was always very good at taking an objective perspective on things and kind of removing emotion, removing a lot of these ancillary components of decision-making and really getting down to the core of an issue, and then helping talk through the pros and cons. He was also a lawyer, too, so I'm sure there was some influence there.

The two things that everybody pointed out, was that having gone through a bit of that financial crisis, you can always work when you're a lawyer. You can hang a shingle, so to speak, and earn an income. But the thing that really resonated with me was, a J.D. will provide a different perspective.

Everybody unanimously said: "Look, if you're going to go back to finance, and you do it with a J.D., you're going to look at problems differently than everybody else. You're going to evaluate different solution paths differently than everybody else, and that could be a real strength." And so, that's the mindset with which I went off to law school.

Len: So, you're coming out of law school; you're applying for jobs in the tax universe. I suppose if you've weathered out the storm, it's like 2010 or 2011. What do you remember about the job market for junior tax associates and tax lawyers back then?

Michael: It wasn't great, just because during the financial turmoil that was occurring a lot of people made similar decisions to me. There was a big influx of individuals going back to both law school and MBAs, et cetera, which meant that the job market was quite flooded when I was coming out of law school and looking to be employed again.

And again, just in life, I've always taken the mentality of: If you're on a wave, you've got to ride that wave, and if it's breaking left, that means you're going left. If it's breaking right, you've got to break right with it.

So, I was taking interviews at the large firms, and I was taking interviews at banks as well. And still assessing whether I could go back to finance.

The curveball was someone in my network had recommended, "Hey, you've got this interesting finance background, and you've also got this tax law educational background now; go talk to our contacts at Deloitte," and that was really interesting for me.

And they looked at me and saw an individual with an academic background with that tax law background, who also has real-world experience in finance. And they talked me through what their hedge funds group does in New York, and they said, "You could be quite valuable here."

And ultimately, that's the choice I made. I went to the Big Four world. I joined Deloitte and, wow, what an amazing opportunity, because I got to experience such a wide variety of clients, different fact patterns. Now, I don't want to glorify it too much. I also did my fair share of K-1s and partnership tax returns, and I had to learn a lot of the tax accounting on the job.

But again, this is where mentors come into play. And I've been fortunate to have a couple throughout my life. Just like Professor Galler was a mentor to me of tax law, I had a partner at Deloitte that also had a tax law background who was very patient with me, and helped teach me the accounting, and helped really just give me the space to fail, which I thought was quite valuable.

He challenged me with projects that maybe he wouldn't have given other new hires. And in particular, I can remember back to one, which years later—decades later, whatever it is—he definitely knew the answer. He asked me to look at the tax implications of investing in gold. And we had a hedge fund client that could buy the bullion. They could buy stocks of companies that work in the space of gold. They could invest directly in a mining company.

And he wanted me to lay out the different tax implications associated with this client doing either of these options, and what a cool research project. And then, of course, he got me into learning about the feeder fund structures that these hedge funds rely on for investments from investors outside of the U.S.

It was just an amazing learning opportunity, a chance to see a ton of different clients, and a chance to really broaden my finance knowledge base, my tax law knowledge base. I quite enjoyed going to Deloitte, and I feel like I made a good decision.

Len: I want to note here that a lot of our guests went to law school and then started as tax lawyers at big firms. Many of them, of course, started at Cravath; that's how I know them.

But I think a lot of people come into the tax law from the accounting side, and by accounting side, I actually mean the GAAP accounting side. They may have majored in accounting in college or had some exposure to that kind of thinking. And so, they come to tax from a place that's numerical, quantitative, sort of based in accounting.

And I think you come to tax from a third place. You come to tax from the finance background. You went to law school, but then you started your legal career working at an accounting firm. And of course, you mentioned doing K-1s and doing tax accounting. And I think that is kind of a third way in, which we really haven't had represented particularly well among our guests.

Can you talk to me about how you started thinking about your future? Because now, you have your first job out of law school, and you're doing tax every day, and you're liking it. And I think at this point, I imagine you can start to chart a career in tax. What were the options that were available to you as the economy improved, especially, and as your experience deepened?

Michael: This one comes down to a Tax Code section that's no longer around, and I'll piece this back together—it's going to seem a little out of the way.

But Section 199—the Domestic Production Activities Deduction that used to exist before the Tax Cuts and Jobs Act—was a unique deduction that could be very sizable for anybody that was making things in the U.S. There was a very small paragraph in there that applied it to computer software development in the U.S.

One of those projects that Eric had given me was for a very large client, and they were looking at computer software development that they were doing in the U.S. And I started to really dig into the space; it was somewhat novel to apply this deduction to computer software. And so, by chance, I got tagged to join this team, since I knew the finance space.

It was so interesting because we got to go in there and learn about a business, and then we got to take everything that we learned and apply it to this very sizable deduction calculation that was material to these businesses.

And that was when I decided that perhaps I was going to stay in the Big Four, at least for a while. And I did, and ultimately, I did end up moving from Deloitte to KPMG, but that was really purely because of travel.

Len: And so, eventually, you decided to make the jump from the Big Four to an in-house role. And I guess at this point in your career—having interviewed lots of in-house folks about this deduction, and having understood how a lot of your clients while you're at the Big Four are operated and organized—you'd probably seen a lot of different types of American companies.

So, when you were making the jump as kind of an educated consumer, actually, of what in-house jobs had to offer, what things did you prioritize, and how did you delineate among the choices you had and make a decision?

Michael: I had seen a lot of different tax departments in my time at both Deloitte and KPMG. One thing that came out so wildly clearly among everybody is that some tax departments are very siloed, and some tax departments are business partners.

And the ones who were able to drive value for their organization were the ones who were business partners. The siloed focused solely on compliance, almost like a red tape type of function within the company. They were constantly battling fires from what I viewed from my client service perspective being on their accounts, and I didn't want that. I didn't want to just be putting out fires and doing the next filing and managing a compliance calendar. What I wanted was to help drive value and really seek out interesting problem sets, and try and use my experiences to contribute to the organization as a whole.

So, I ended up at a large medical device company, medtech company, Stryker, a very, very large global company. I took what was called their Group Tax Leader position for two of their business lines. One was their orthopaedics and spine business, which by any stretch was its own beast of a company within the company. And then their GQO business as well, which was more of the manufacturing-quality business line.

And I had two CFOs to support, because there was a CFO for each of the business lines. And my job was to help them on everything from M&A transactions to working with the head of finance, the VP of finance who reported to the CFO, to make sure for all of our global filings that their teams were giving us the accurate data.

And I was getting them to our centralized team to do all the filings, the state tax returns, and the federal return, and the local country returns, and all the data that our transfer pricing team needed for their country-by-country filings. And I had a really interesting job there as kind of that main point of contact to interact with the whole business unit.

Len: One question I wonder about as you talk about this experience in your career is: What do in-house tax folks think that external advisors could do better? I'm obviously swimming in the external advisor space, and I drop in most of the time in the course of transactions for clients, but you've been on both sides of the fence. You've been an external advisor, and you have lots of experience in-house.

And maybe it's a little early in this episode for this question, but I'm really curious: As you reflect upon your experience as an external advisor and the way you receive advice from external advisors today, what do you think external advisors should be doing differently or keep doing well?

Michael: I think the best advisors that I work with, whether it's from law firms that we use or from Big Four consultancies, are the ones who think beyond the slide deck. Too often advisors are thinking about the pages in the deck and then the deliverable that goes to the client. That's one piece of the puzzle.

It's the advisors and tax attorneys and even bankers on the banking side that can step back and say, "Here's our deck, but let me talk you through how we actually implement this, and what it means for you going forward." Those advisors, the ones that can zoom out and see the whole picture or take the time to try to see the whole picture, those are the ones that are quite frankly the most value-add, and the ones that I enjoy working with.

Because we can take the conversation to a whole different place when you've zoomed out from a specific technical question. Yes, I want that technical question answered when I engage an outside advisor, and maybe the reason I'm going to them is because of their deep knowledge base of that tax law issue.

But then I need them to help me understand after we implement this particular piece of advice—how do we continue to comply with it? Or are there business changes that we need to implement or process changes that we need to implement so that we don't trip up in the future? Those advisors are the ones that are the most value-add.

Len: That resonates with me, and my experience is a lot of times the things you're asking for awareness on are actually non-tax things. So, if the slide deck says, "Well, we're going to convert this entity from a corporation to an LLC." Fine. Tax lawyer says, "We're just going to convert it," or "We're going to merge it—fine, you're going to have an LLC."

But somebody who has got broader experience—a tax professional has broader experience—can say, "Now, we're going to have to talk to your in-house legal folks because this entity is party to a ton of contracts, and just converting it to an LLC might trigger various problems in those contracts."

Or, "This entity is a guarantor of your debt, and converting it to an LLC might be easy or might not be easy." Or, "Hey, heads up on this: In order for this to work, this entity has to become a guarantor on some debt." Those are all sorts of things that have tax relevance. They're important to the tax plan.

Michael: Len, that resonates with me. I'll tell you, from my treasury perspective, I can't tell you how important it is to have that ability to zoom out and say—whether it's cap structure impacts like you're talking about there, or even employment law. Sometimes, maybe you're dissolving an entity, or maybe you're doing an out-from-under transaction on the tax side. But you have to look at those intercompany agreements and why they were put in place in the first time. Those advisors are the ones who really help drive value.

Len: And when I talk to somebody in your position, I would say, "It's time to bring this to the GC's office," or "It's time to bring this to the CFO's office." But let's make sure that we don't hide these issues from them, because they're going to find them once they give them to their teams to go through them. So, we want to make sure that they know that we're sensitive to these issues; we're not just drawing up tax slides in a sandbox somewhere.

Michael: And I'll bring that back, Len. It goes back to what I said earlier when I was looking at in-house tax teams. The ones who can be business partners, and partner with the legal team, and partner with all the different functions within the org—they drive the most value.

And so, to your point, being able to know when to engage your CLO's org and to be good partners and try and say, "Hey, here's some bogeys out there; let's watch out for these." Or, "Let's start solutioning," or "Let's get your input on the many other bogeys that we likely missed."

It comes down to just being a really good business partner and making sure that the tax team is not approaching any problem set in a silo and, instead, zooming out. And that means the advisors, too, and consultants.

Len: So, Stryker sounded like just a big job, a lot of different constituencies and roles to play. So, then how did you pivot to Peloton, where you are now?

Michael: I've got to tell you: I probably would have retired at Stryker, worked there the rest of my career and retired there—was a really fantastic place, and worked with some really amazing people. And I guess very on brand, I was in the car driving home with my family from doing the Lake Placid, New York, Half Ironman triathlon.

Len: You did it, or your whole family did it, or what?

Michael: No, no, just me.

I did it, and the family was there to watch and pity me when I couldn't walk afterwards. But we're in the car driving back to New Jersey from that, and I got a call from the recruiter. And so I pulled over, because my kids are rambunctious and I could not have taken a call with a recruiter in that car.
And I stepped out, and I took the call. And it was the recruiter from Peloton, and we had an amazing conversation. They were at that time pre-IPO, and they were starting to build out a number of the functions that they ultimately felt they needed to have when they went public, which they later did.

And so, they were hiring for a head of tax to build out the tax department. And so, very on brand, I was coming back from that and very fortuitously took the call, and ended up proceeding to have further interviews with their team and the CFO at the time.

And she and I had great conversations about what the team could look like, and if I were to lead a tax team at Peloton, what would be the objective or what would be my focus. And she was very aligned with that business enablement type of vision.

Someone that would partner with the business to try to drive value and to act as a strategic partner, not just as a compliance org. I did not want that. I didn't want to walk into a scenario where the CFO said, "Just do the filings, and keep us compliant."

Instead, I had somebody who was aware of value that could be driven by the tax team, and very supportive of that. And so, I took the leap. It was not a light decision by any means for me.

Like I said, I was really happy at Stryker. I ended up having a conversation with Stryker's head of tax and their senior director and saying, "I think I need to try this, but I'm not sure that I want to leave you guys." And they were very supportive, and that was a big part of it.

I guess this comes back to mentors along the way. They became mentors for me and at just about every inflection point in the journey, there has been somebody there that has been a catalyst to the change and supportive of that change.

And so, with their support and a little bit of a desire for some adrenaline, I guess on my part, I took the opportunity and ran with it, and I couldn't be happier that I did that.

Len: Wow, that's interesting because it strikes me, and as you described it, Stryker was a sort of fully formed, professional organization that had stable businesses and big kind of multi-jurisdictional issues. And Peloton was an upstart—as you said, pre-IPO, didn't have a tax function, so not fully formed—and you had to make a decision about whether you wanted to be involved in doing the forming.

There's got to be something about you or your experience or instincts that draw you to that. Because you've got to be some sort of a builder or like growing a team and hiring out for a team. How has it worked out?

Michael: For me, the building is incredibly exciting, and the problem-solving is incredibly academically stimulating. And so, I find that having that stimulation really brings the best out of me personally. And then, one of the things I loved and longed for from my Deloitte days was the team environment.

I think I tried to bring a little of that into what I tried to build here, and that is a team of really smart people who are less focused on hierarchy and more focused on good ideas winning out, and also who are willing to listen and hear everybody else's ideas.

I also pulled a lot from my Stryker days, because I just thought they had an incredible team.

And one of the things that I think they did very well: They gave people a safe space to try and to learn and to fail. And when you fail, it wasn't, "OK, CYA, let's …" It was, "Let's understand why. Let's figure it out, and then let's rebuild stronger."

And if you're not in a safe space where you can push the boundaries and where you can be creative—even in a field that is somewhat, I guess, stereotypically, less creative or at least considered less creative, which I say that out loud and I realize that it's completely wrong. It's incredibly creative; you have to be.

You know, when you create a safe space for people to push the boundaries like that, you get some amazing ideas.

And so, I think we've been able to build that environment here at Peloton, and it helps that the culture in general at this company is very much supportive of that. It's a "together we go far" mentality. That's the tagline that a lot of Peloton members out there will know and will resonate with them. That also permeates into the actual office experience. We are very collaborative here.

Len: I'm just struck by this idea of being given room to fail, and I'm thinking about failure and the growth that comes from that. Obviously, in a world like ours, in the tax world, failure can be catastrophic financially. For example, Cravath wouldn't be around very often if our tax advice failed all the time.

So, we're not talking about failure as an ultimate result. We're talking about failures along the way of coming up with a successful structure or a successful transaction. We're talking about trying a bunch of things in order to figure out the thing that works best.

I think Thomas Edison said, “When I figure out a way that a light bulb can’t be made, I haven’t failed at making a light bulb. I’ve just figured out another way not to make a light bulb.”

I’m a big fan of music and in particular orchestral music, and a conductor I like to watch on YouTube sometimes will make a point of saying, “When an orchestra musician plays a wrong note—an obviously wrong note—as a conductor, you can make an ugly face and you can stop the music, and you can say like, ‘Why haven’t you played the right note? It’s F sharp, not F natural or something.’” But instead, this particular conductor says, he likes to just say, “How fascinating.”

Michael: Right.

Len: That’s really interesting. It’s not what the composer wrote, but that’s a really interesting sound right there. Let’s go back, and let’s do it with the F sharp this time. And I think that kind of disarming way of welcoming failure—or, as I like to tell my associates, our job is to catch each other’s mistakes. We want to try not to make mistakes, but we’re all going to make mistakes. The job here is as a team to catch each other’s mistakes before they go out the door, before the deal closes, et cetera.

And so, I think it’s really worth both supervisors and junior workers who are coming up through the ranks to understand what productive failure looks like, and how it can benefit a whole team.

Michael: That’s a really important clarification on that, thank you. And I think that’s right. It’s on us as team leaders, as managers, to give that space to fail. And then it’s also on us to help catch them and then build from there. And yeah, it’s an exciting part of the process. You don’t want to fail on your filings, team here will know that—

Len: Can’t miss important deadlines.

Michael: Can’t miss deadlines, that’s right. And deadlines are always known, so there’s not many excuses. But when you’re thinking about a creative plan, or when you’re thinking about … maybe it’s not a creative plan, but it’s an interesting set of facts, and applying them to a certain Tax Code and how it might be supportable or not supportable; you need to evaluate both sides of it. Well, that’s the area that you need to be able to bounce ideas around and be safe to fail, have a bad idea, have the team say, “Well, here’s why that’s a bad idea,” and be a support system for each other.

It’s really about creating that space where ideas can flow freely, and then things may not always be a failure. I kind of use that as the extreme example, but just a safe space to think, to really kind of push yourself outside of your own comfort zone.

Len: That’s really interesting.

And then, Mike, as we mentioned at the beginning, in addition to being the Global Head of Tax at Peloton, you’re also the Corporate Treasurer and the Global Head of Treasury. And so, it seems to me that that’s a kind of a tax-adjacent role, but different than tax. And so, I wonder if you can tell us about the sorts of things you do in that capacity and how your tax life has or hasn’t prepared you for those tasks.

Michael: Absolutely. When I have to put my treasurer hat on, I find it really valuable to have had the tax experience. And of course, for me, I get to pull from having had the finance experience as well.

But as many of us know, tax impacts everything—from cross-border fiscal flows or doing a treaty review to determine if something should be a dividend or a royalty as the most efficient way to move some money across a border. Those types of analyses are where tax needs to support things like treasury.

And so, I’ve really enjoyed being able to bring the teams together and help them think proactively, whether it’s thinking about capital structure and not only the financial benefit that you get for the organization, but also the downstream impacts on the tax side. Or whether you’re thinking about intercompany agreements from a tax perspective, and then, oh, you need to think about currency, or you need to think about your banking structure.

These two functions operate so well together. And so, I've really enjoyed looking at tax and treasury as a combined way to drive value for the organization.

And it's quite interesting, particularly at this company because we have some novel issues that we deal with and we're also located in a few different countries. And so, you get to tackle some challenging problems both from the treasury perspective and also the tax perspective.

Len: That's really interesting.

So, Mike, one of the things we like to do at the end of our podcast episodes is to talk to our guests about things they like to do outside of tax. You already mentioned an interest in triathlon. I'm going to guess that you ride the Peloton and also maybe ride bikes in addition to swimming and running. But what do you like to do in your spare time?

Michael: Yeah, you're spot on there, on the bike riding, and I'm as addicted as anybody to the Peloton ecosphere. I really enjoy it—what it's done for me both physically and also mental well-being as well. But for me, the number one hobby outside of work is my kids.

I have two boys that are particularly into lacrosse and flag football right now, so I find myself doing a lot of that. And then aside from that, I do need to scratch the adrenaline itch every now and then. So, for me, that's skiing in the winter and surfing in the summers, and sprinkling in some golf just to remind myself that I'm a terrible athlete sometimes.

Len: Mike Stanton, the Corporate Treasurer of Peloton and the Global Head of Tax and Treasury, has been our guest today. Mike, it's really been a treat to get to know you and talk to you, thank you so much for joining us.

Michael: You too, Len. Thanks so much for having me

Len: That's all for this episode of On Tax—A Cravath Podcast. You can find us online at cravath.com/podcast, and don't forget to subscribe on Apple Podcasts, Google Podcasts or Spotify.

If you enjoy the show, please consider rating or reviewing us wherever you listen. We'd also love to hear from you directly. You can tell us what you'd like to hear on the show by emailing podcast@cravath.com.

I'm your host, Len Teti—thanks for listening.