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Teneo Insights

Coronavirus Update: A Weekly Call Hosted by Teneo

A discussion between, Dr. Jerome Hauer, Gabriel Wildau, Kevin Kajiwara, Martha Carter, Orson Porter, Tony Sayegh.

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Kevin Kajiwara (KK): Good morning everyone or good afternoon and thank you for joining today's Teneo insights call. I'm Kevin Kajiwara, Co-President of Teneo's Political Risk Advisory business and thank you for joining our latest call on the Coronavirus and its impact politically, economically and on companies.

Joining me today we've got a number of my colleagues to discuss a number of issues. First, we'll start with where we are on the disease outbreak itself and we will have Dr. Jerry Hauer, who's a Senior Advisor to Teneo Risk. Many of you will recognize his voice on here. He's a leading expert in emergency response to management and crisis planning. Jerry was the Commissioner of the Division of Homeland Security and Emergency Services for the State of New York and the Director of the Office of Counterterrorism. He was also the Acting Assistant Secretary for the Office of Public Health Emergency Preparedness at the U.S. Department of Health and Human Services.

It is April so we are moving into proxy season. Obviously raising a lot of questions on the governance front and to help us with that we have Martha Carter. Martha is a Vice Chair of Teneo and the Head of our Governance Advisory business. She focuses on shareholder engagement, activism defense, executive compensation, and all other matters of governance best

practices for C-suites and boards and she was previously the Head of Global Research at ISS.

We'll then turn our attention to what is happening in Washington following the passage of the fiscal bill last week. Joining me is Orson Porter. He's a Senior Managing Director and the Head of Teneo's Washington office who leads our government affairs efforts. Orson was the U.S. Director of Government and Public Affairs for NIKE and previously served in the White House as a Special Assistant to Bill Clinton.

Running counterpoint to him is Tony Sayegh. He's the Managing Director with Teneo, advising clients on strategic communications, public affairs, government relations and media. Tony joins Teneo following a stint in the Trump Administration. He was Assistant Secretary of the Treasury leading the Office of Public Affairs for Secretary Mnuchin.

Finally, we're going to turn our attention to China, which is something we will be doing with increasing frequency in our future calls as China tries to re-emerge from the impact of the Coronavirus. Joining me today is Gabriel Wildau. He's a Senior Vice President in the Teneo Political Risk Advisory business. He heads up our analysis of China in the U.S. and Gabe was formally the Shanghai Bureau Chief for the Financial Times.

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Let me just start here by saying that the world will hit a milestone today with the 1 millionth confirmed case globally. Meanwhile as we've all seen, the global economy has really hit a wall. The latest evidence being the initial jobless claims number in the United States which just dropped a moment ago in excess of 6.6 million. That comes on top of the \$3.3 million record number that we saw last week. That number last week was already implying an unemployment rate of over 5½% for April so clearly, we are now looking at over 10 million jobs lost in the last two weeks or filed unemployment.

The news and prognosis for the virus has also not been encouraging over the last week. It's really difficult to believe at this point that on March 1, the U.S. had 70 reported cases. By the end of the month the number of cases has increased to 183,000. Today we're at about 220,000 which is double that of any other country.

With that, let's get started Jerry. Why don't you bring us up to date on the outbreak and the trajectory and the latest we've learned on the science here.

Dr. Jerry Hauer (JH): Great thanks, Kevin. Good morning everybody. Let me start with the current numbers as Kevin mentioned. We're approaching a million cases worldwide and we're rapidly approaching about 50,000 deaths worldwide. Here in the U.S. we're at about 216,000-217,000 cases with about 5,100 deaths. One of the things we continue to see is this escalation in both Spain and Italy. Spain has 170,000 cases and 10,000 deaths with Italy at 110,000 cases and 1,300 deaths. At the current rate I fully expect to see over 10,000 deaths in the next five to six days here in the U.S. We're going to see an accelerated pace over the next several weeks where we'll see two to three times the number of deaths that we're seeing now as we start to reach the peak.

One of the things I've been asked is why the case fatality rate is so high in Italy. Right now, it hovers at around 10%. By comparison, worldwide, the case fatality rate is about 3.4% and in China it was about 2-3%. Contributing to this high number of deaths is a number of factors.

One is the age of the population. Most or many of the deaths are in people between 80 and 90 years old. The other factor that has played a big role is the number of hospitals that are and were and continue to be overwhelmed by the number of cases. And being overwhelmed they've had to make very difficult decisions about the length of time they keep people on respirators and when they choose to humanely terminate care for a number of these people.

The other thing that has come up in looking at deaths in Italy is because they're so overwhelmed they have found that the deaths that are not even attributable to COVID-19 are being classified as COVID-related deaths and they feel that that's driving up the case fatality rate.

Let me turn to one of the topics that Kevin mentioned and that's a question of how long this epidemic will last here in the U.S. There are a number of models describing the overall path of the outbreak and several describing the various components of the outbreak.

The Institute for Health Metrics and Evaluation is projecting about 93,000 deaths here in the U.S. They are also projecting about 16,000 deaths in New York. Personally, I think those numbers are low. I think we'll be over 100,000 deaths in the U.S., and I think we'll be closer to 17,000 or 18,000 deaths in New York state.

They had the trajectory of the number of deaths lasting right through July. You have to realize that people on ventilators that are put on ventilators in May, may be on the ventilator for 30 days or more. Their survival at 30 days is very low. But some of those people will die 30 days down the road so the deaths will continue into late June or July.

Another model has the pandemic and the demand for beds peaking at the end of April. If you look at what Andrew Cuomo is projecting, his numbers and his projections have the peak somewhere in the next 15 days. This is a very fluid situation, so the models are not exact at this point.

One of the experts at the University of Pennsylvania believes that with strict adherence to self-quarantine, we could see easing of the situation in June and some counties within the U.S. could be eased or they could relax the restrictions sooner than that.

Another model at this point in time has a two-phase approach. It's a model that involves aggressive control, aggressive treatment, quarantine and testing. So, in essence, it clamps things down to ensure that there is aggressive control of quarantine and isolation and ensuring that hospitals are prepared to treat the large number of cases they'll be seeing. Phase 2 of that model allows businesses and universities to reopen but remote working continues and social gatherings are limited.

The key to Phase 2 is keeping the vulnerable population, those over 60 to 65, in self-quarantine for a longer period of time, possibly going into July or August. With Phase 2, there is the ability because of the controls, quarantine and treatment capabilities, that if there is a spread, we can revert back to Phase 1 and clamp things down again. Phase 2 will end when we have vaccines, when the other treatments are available, and when testing is more wide spread.

This is a more measured geographic approach and the bottom line, as we can move forward and I know it's not what people want to hear, but the bottom line, is that despite calls to re-open the country quickly, I think we are inside and in self-quarantine at least through May. Although there will be a desire to use the Phase 2 approach and to open parts of the country and declare victory, I don't see that being a widespread type of activity at this point in time.

So, I think that two to three months is minimum and for a large portion of the population scaling up could be four months down the road, if not five.

Kevin, I'll turn it back over to you.

KK: One other question for you, Jerry on this front. At the outset of this it really appeared that it was older people and people with pre-existing conditions that were the most impacted, the most vulnerable. However, the data in the United States is showing that this skews much younger than originally thought. Any comment on that?

JH: Yes sure, Kevin, 20% roughly of the cases here in the United States are in the population between 20 and about 45 years old. We're also, unfortunately, starting to see some deaths in very young kids. We had two deaths in the last week that were in infants, not something that we saw reported in China.

KK: Got it. Well, so clearly the message here is that this is going to last much longer but without a whole lot of certainty given the variety of models that we're seeing out there. But as I mentioned at the outset, we're in April and we're heading into the heart of proxy season so, Martha, I want to turn to you, and see what some of the major governance trends you're seeing are. It appears that things like virtual meetings appear to be accepted now by investors as a new normal, for example. But are investors changing their views or giving companies a pass this proxy season?

Martha Carter (MC): Yes thanks, Kevin, and as you said, the world has gone to virtual annual shareholder meetings. I think when we were on this call a couple of weeks ago, I talked about companies thinking about it and of course the world has moved rapidly in two weeks' time. So, the only thing left on virtual meetings, which is now a necessity, is really on the how to. How to have two-way dialogue with investors as you do it. How to have a transparent question and answer

session and so on. So, with regard to virtual meetings, if you have any specifics or questions on the how to do, we did publish an article on it that's available on our website.

Beyond that, we're really seeing investors and proxy advisors expect good governance and effective leadership during the crisis. There are some major investors out there that are signaling pretty clearly that they're not letting up on their views and their demands regarding all of ESG. The E, the S, and the G. Blackrock, for example, stated in January in its annual letter that sustainability was really at the core of investment for them and they've indicated recently they're going to keep the pressure on companies and hold them to the governance standards that they expect.

And State Street Global Advisors, SSGA, pretty much followed suit just a couple days ago. They put out proxy season guidance and indicated that they recognize that right now the engagement conversations with companies are going to shift but that they really believe that ESG issues have to be part of the bigger picture and clearly articulated as part of the company's overall business strategy and that was from SSGA. So, these are pretty clear messages that ESG is going to continue to matter for these investors.

KK: Yes, I want to follow up on the ESG front in a second here. But you just mentioned the proxy advisors and their expectations. Where are they allowing some latitude for companies?

MC: Well there is a bit of discussion coming from proxy advisors and of course the first place we saw it was on those virtual shareholder meetings. It's typically a stance that they haven't liked all that much. They felt that it disenfranchised shareholder's ability to participate. They've certainly softened their view

on that by necessity. And it's a little early to tell where ISS and Glass Lewis will come out as we are in proxy season. We'll know a lot more by the end of it and as we see all of these issues roll up into the aggregate.

It seems to be right now that ISS and Glass Lewis are continuing to apply their voting policies as they normally do. So, whether it's Say on Pay director elections, shareholder proposals but one thing that's notable is that Glass Lewis recently put out a pretty detailed message regarding how they viewed this year in the lens of the crisis. How they viewed discretion, things that they are looking at including executive compensation, including board diversity, capital allocation, and so on and that article and a number of others we actually have cited in our latest Teneo Insights piece which we just posted on stakeholder capitalism and ESG.

KK: You've mentioned ESG a few times now, so I want to get back to that. Obviously, it's been such a critical element over the last couple of years so, from what you're saying, ESG, in the midst of this crisis, is certainly not taking a back seat and that the focus is going to continue by large investors.

MC: Investors don't want the momentum that's been gained in ESG to really let up. I've mentioned the BlackRock and State Street but this is plenty of other investors as well and if we can go back in time a bit to one of the last crisis that we lived through and any lessons learned after the 2008 financial crisis, we really saw a big increase in ESG.

If, for those that lived through that, think back to the PRI signatories, just a complete proliferation of investor stewardship codes all around the world. We had the advent of Say on Pay. We just had a tremendous increase in focusing in on stakeholder views, shareholder engagement.

Speaking of stakeholder views, companies put their stake in the ground on stakeholder views last summer with the corporate purpose statement by the Business Roundtable that was published last August that people remember had a lot of signatories, over 880 corporate signatories. So, investors are looking for boards and management to really be effective leaders over all of the letters in that alphabet ES&G.

Human capital management plays a big role this year. Goes without saying there's a lot of news on employee comp and benefits, worker conditions, worker safety during this pandemic. There's been a lot of companies too that have done a great job of putting out disclosures on the level of support that they're providing to their community, whether it's through donations, foundations. So, communicating all of these actions to shareholders is really going to be an important part, not just of company's disclosures this year but also rolling into next proxy season.

KK: Just coming beyond that, you obviously speak to a lot of our clients at the highest levels and you're also familiar with what institutional investors want to know. So what do you think companies really need to be ready for now?

MC: Yes, certainly be ready for some tough questions. There's going to be questions during the virtual shareholder meetings that you have. Companies are looking at shareholder engagement, probably most of which will happen off proxy season so later on in the year.

But investors are going to be looking on several areas of focus. Executive compensation is going to be big and some of those decisions have yet to play out. Compensation committees are going to be taking a look over the summer and into the fall at some key decisions. Things like paying out retention awards where incentive plans haven't paid out or modifying

awards that use relative TSR. Or making decisions on executive compensation where the backdrop is that there's been a lot of layoffs of rank and file employees. So really good rationale under the umbrella of everything that's happened this year is going to be very important.

And then board oversight, especially in the human capital management area is going to be really important. And then, back to old school take-over defenses. We may likely see a return of poison pills and that's going to have to be carefully managed as well. And then back to where I began which was just a statement by BlackRock, they've really signaled something that they signaled before, which is they expect companies to be compliant with the frameworks for SASB and TCFD by the end of the year.

So, all in all a lot of topics for companies to engage with shareholders during and after the crisis and like any crisis at the end of this there's going to be winners and losers and we focus a lot on who survives from a financial perspective. But really companies and boards that demonstrate effective leadership and oversight are going to be the ones that really survive and they're going to have to do that in all areas of governance.

KK: Yes thanks, Martha, and I just want to reiterate for our audience that Martha and her team have been doing a lot of work and actually writing on this as well and that is accessible on the Teneo website or also you can contact your Teneo contact and they will get it to you, so thank you.

I want to move now to what's happening in Washington. Obviously, we passed and signed, since our last call on Thursday of last week, the biggest fiscal deal in U.S. history. So, let's turn now to the implementation. Tony, last week you had indicated that, passing the bill as giant as it was and requiring bipartisan support that it had

was, in fact, actually, the easy part. And now the work really needs to begin to set up the mechanics of how this is going to be efficiently deployed and in a timely fashion and it functions with the Treasury, the Federal Reserve, other agencies and the like.

Tony, so far, a week into this thing, how is this playing out? I know that they're requesting an application deadline of Friday. I believe American Airlines and Southwest Airlines have indicated they are applying but how are things playing out?

TS: That's right, Kevin, so I think the biggest part of the goal was to immediately release massive amounts of liquidity into these businesses to prevent ongoing job losses and the number you started with on the call was 6.7 million losses reported now and 10 million if you combine it from last week. I mean that's staggering. That's precisely what the administration and Congress worked together to try to mitigate it as much as possible.

So, this week the Treasury, which is really the agency that's been tasked with most of the implementation of the Phase 3 bill. You had focus on releasing some guidance and clarity immediately on employee retention programs, unemployment insurance, paid sick leave and payroll protection, largely focused on companies making sure they're keeping their payrolls and keeping their employees whole during the next eight weeks, which is what they built Phase 3 around. Keeping stabilization of the labor market and the economy over the next two months, essentially.

The biggest piece I think is going to be announced in the next 24-hours is the SBA loan program. And part of that is the loan forgiveness aspect if the small businesses of under 500 employees utilize the loans for operating costs and payrolls.

I am pretty sure the President today, during his press conference, will highlight some of these provisions. Because as of tomorrow these loan applications are going to start being accepted by the banks and I would expect the President and others to be upfront about the fact that this is going to get tricky.

There's going to be an overwhelming amount of requests for these loans. The banks have been working with the administration, particularly the bigger banks – Bank of America, Goldman and others to try to work the system out.

It's going to have kinks and I think there is going to be a little pain up front. But I think the ultimate goal of the administration is to reassure businesses that the money will be there and you will get it and your employees will be able to be paid if you apply for this program. And there are some kinks. Two that I have noticed, is if you are an existing SBA 7A loan recipient you probably have a better shot at getting it and at least quickly and that's something that's going to have to be worked out because many businesses are not existing recipients of the 7A program.

Number two, I think you have an issue where community and regional banks have not been set up yet to provide these loans so they're going to have to work on those two things. But that's going to be a large part of today and all this stuff has to be worked out sooner than later and this is something that you're seeing the administration focused on 24/7.

I would just add one last thing on implementation and Treasury. Last week I detailed the half a trillion-dollar lending authority within Treasury and then when you combine it with the FED, over \$4 trillion lending authority.

It is becoming evident that Treasury is going to be running this program with a lot of their existing team. It's very likely that the Deputy Secretary, Justin Muzinich begins to run point on administering this half a trillion-dollar lending authority.

You have Brent McIntosh, who's Under Secretary for International Affairs, who is kind of working along the airline kind of group and he's going to be leading the team that works on airline-related relief and then you have the small business programs and loans being administered by a few of the Assistant Secretaries in Economic Policy and Domestic Finance.

So, Treasury's definitely trying to quickly – it was passed last Friday, we're now on Thursday, not even a week – quickly put together all of the infrastructure necessary to deploy the programs that were passed by Congress and signed by the President.

KK: Yes thanks Tony. Orson, I'm interested to get an indication from you what the priorities are at the other end of Pennsylvania Avenue. I mean, Tony has just indicated the speed with which they want to implement all of the tools that were enabled by the legislation last week but it strikes me that every single day street estimates for the economy and for unemployment continue to deteriorate as evidenced by the number this morning.

And when you think about the fiscal deal which has been referred to as stimulus but I would suggest it's really more a survival bill than a stimulus bill at this point, you know, 10% of GDP, I mean if you were to, back of the envelope, spread that over the course of the year, that's one month and one week. It seems like the question is was it big enough and is it happening fast enough really. And therefore, is there more to come?

We've heard the Speaker already talking about a Phase 4. Where are we on priorities at the other end particularly on Democratic side of the aisle?

OP: That's a good question and brings up probably the most important piece of this which is, what are the politics? If I don't say anything that you should remember, note that there's 215 days until the election and although DC is responding to the crisis, it is really revolved around the election day itself. And what they do dictates how quickly or how bipartisan or how enthusiastic they are towards doing things in the coming months.

But you know, you see that Congress is on recess, rightly or wrongly. To their credit the leadership on both houses are here, which is a good thing.

Additionally, DC is on lockdown and as you announced earlier, you've got nearly 7 million people file for unemployment so if there's an issue with people receiving checks because the banks don't have people to work to receive the calls for the SBA loans, people are calling state offices who are calling lines that are not being answered because those too people are at home because they have to watch their kids.

So, the glitch is real. And as the glitch becomes harder to address, so will the partisan blame game come in. Having said that, I do see the rhetoric, particularly in Congress becoming a little bit more partisan. You've seen the Democrats come out in support of an infrastructure bill basically focused on things like water, roads, and expanding the broadband or the internet, which is all good.

President Trump rightly said that he would support any jobs bill but, Mitch McConnell immediately said that his concern was addressing the current crisis. We should slow the debate on any additional spending packages

and when his team or when the Senate comes back, he's going to really keep focus to a constituency base that he cares about which will be appointments of judges.

So, all that to say is, I think Dems will continue to talk about jobs and state support, supporting the governors, helping governors build budget crisis, etc. And you will see Republicans talk a lot about making certain the supply chain is well kept and to address any issues of the recently passed bill.

But know that, 215 days away is the election. As we move into May that number gets smaller. As we move into June the number gets smaller and then it gets harder and harder to pass some of these major bills. So, \$2 trillion was a historic feat.

They're now talking about another \$2 trillion infrastructure bill. That's \$4 trillion in a matter of weeks. That is a hard pill to swallow for a lot of Republicans and Democrats on both sides of the aisle. So, I think, you'll see a stronger partisan debate. You'll see the President kind of step back and allow Congress to figure it out. But if the sentiment in the poll numbers that they're worried about that 215 days that the election continues to drop, then the blame game starts and things get unfortunately where they were before this all started. We find ourselves in grid lock.

KK: Yes thanks, I now want to turn to Gabe and China.

It's pretty clear that the world did not pay enough attention to China on the way into this crisis and I don't think we should lose focus on China as we watch it attempt to both get out of the health crisis and to restart its economy and to that end we'll be focusing a lot on China in the weeks to come on this call.

But for today, Gabe, I want to focus a little bit on the data. There's so much controversy and criticism of China and I guess the big question, when you cut through all of that, is what do we really see? Or what is it really telling us and how reliable is it?

On the viral front itself, in the wake of the U.S. intelligence report yesterday that came out that suggested that China had been concealing the data at the highest levels, not just through the incompetence or incentives for lower levels of government.

And then we've also seen one of the Chinese counties, Jia county, today go into lock down again. So, what are you seeing on the data on that front? How do you interpret that?

GW: Thanks Kevin, yes, I think this is an important question for two reasons. One being the public health implications and then the necessity of having accurate data but beyond that there's also this kind of global struggle to narrow this contest between the U.S. and China to control the narrative over this virus and to China's very striking efforts over the last few weeks to position itself as a global leader in public health and to promote its accomplishments diplomatically to position itself as a provider of aid and as a model for other countries to follow controlling the virus.

So of course if the numbers are false then China's claims to global leadership are undermined and we've seen the sniping between the U.S. and China where we've seen various very high level executives Mike Pompeo, the Secretary of State, and Robert O'Brien, the National Security Advisor, stating very clearly they think the numbers are fake.

Our view here, and we've been telling clients, is that broadly speaking, we believe that China's case count and best count is reliable. Now that's not to say that it's precise. There may be a degree of undercounting for technical reasons but we do not see evidence of a large-scale intentional cover-up. There's a couple of reasons for that. The most important is that it's just simply not feasible for local government officials or central government officials to cover up a large number of cases.

What we saw during the height of the outbreak in Wuhan is that despite the very intense censorship apparatus in place in China word gets out when hospitals are overwhelmed, when there's patients flooding in, when there's widespread illness. People figure it out.

It leaks on social media. It leaks into the few handfuls of regular news media outlets that are able to, that have some freedom, that are independent to a degree, independent from the state and able to report politically sensitive news. And then even if those stories or the social media posts eventually get deleted people notice them before they're deleted.

Beyond that we can definitely observe that they're shutting down these field hospitals. These emergency hospitals are being shut down in Wuhan and elsewhere. And that's just not something you do if you're still suffering a major upswing in terms of the outbreak.

In terms of the incentives for local officials, what we see clearly is that yes, there are incentives to restart the economy and those incentives potentially create corresponding incentives to conceal the number of cases. But what we've argued is that the countervailing incentive is to not to cover up cases. There's a very stern warning from President Xi and Premier Li about punishment for local authorities that do conceal cases, that are creating countervailing incentive to be honest about the case count.

And as you mentioned in Hunan Province, Jia County in Hunan Province which borders the epicenter of Hubei they did re-impose a lockdown yesterday. Which to me indicates that local officials are willing to admit where there's points of vulnerability and to re-impose quarantine restrictions that slow down the economy. We've also seen other measures that indicate that officials are continuing to be cautious and to put virus control and prevention in some cases above restarting the economy or above restarting normal life.

So, we've seen that for example the College Entrance Exam which usually takes place in June has been postponed by a month to July. That's the famous Gaokao, a huge gathering of high school students all over the country. Movie theaters were closed after initially reopened. Movie theaters were closed. So, taken together, that indicates that the virus control is still a very high policy priority despite the push to restart the economy.

KK: And finally, what about on the economics? Obviously, the data is lagging and we're not seeing the real March numbers for a while yet so we've been reliant on anecdotal information. But every one of these whether it's electricity usage, traffic patterns, or a number of people standing in line outside of an Apple store there can be a counterargument for why those are actually suggesting that people aren't taking the subway so they're driving more. Hence the traffic patterns and then there's no traffic on the weekends.

Not letting as many people into the Apple store so there's a longer line outside and companies just turning on the machinery to suggest electricity usage so that they can say yes, that they've restarted operations. What do you think about the data that we're seeing so far on the economic restart?

GW: So, you're right that there has been a lot of attempts to up the indicators, like, electricity or traffic to get a handle on the degree of restart of the economic activity. The latest data we've seen out on Monday suggests that the restart has been slower than what some of the other data was suggesting.

The Purchasing Manager's Index, the P.M.I. came out on Monday and it showed a level of 52 for the manufacturing sector where 50 is the threshold between expansion and contraction. And so, 52 is a mild expansion but importantly it's a month-on-month expansion. So, February was way down at 36, an historically low number. Thirty-six is back where we were during the financial crisis, even lower. So that was February and then we got up to 52 for March which means a mild expansion over that very low base from February.

So that suggests that the restart is proceeding but proceeding pretty slowly. And the reasons for that are a few. There's some workers that are only still getting back to the major cities from their hometowns after the extended Lunar New Year. And then when they do get back they're still subject to a 14-day quarantine in most cities.

We've also seen that companies, even though they've restarted, they're still being cautious. So, for example some people are coming back to the office or to the factory but they're doing it in shifts. So only 1/2 or 1/3 of the normal amount of workers are actually present. And so, when we see these headline numbers about the number of companies that have restarted those may be accurate but although they've restarted they're not operating at full capacity yet.

We are seeing a continued amount of a high degree of caution in terms of companies not wanting to be blamed if there's an outbreak. We've seen some companies that have new cases in recent weeks

getting shamed by the government, so companies are still continuing to be cautious in terms of rushing back to work.

Then we have the additional factors of who's going to buy these products. Assuming the manufacturing sector gets back going, the rest of the world is heading into a deep recession. So global demand is weighing on the Chinese economy and you still have some supply chain disruptions as well. I mentioned the labor shortages.

So, I think the lesson learned from China is that economic restart when it occurs is going to be stepwise, it's going to be gradual, it's going to be halting, it's going to be two steps forward, one step back. It's not just like flipping a switch.

KK: Thank you, Gabe. As we open the floor for questions, let me ask a follow-up question to Jerry. We've had a head-spinning number of, and quite frankly for those of us who aren't, who are laypeople on this subject, it's very complex. But every single day we hear about a new therapy. Where we are in the vaccine development stage, therapies that have historically been used for other illnesses possibly being applicable here. Where are we on this and are there any silver bullets out there?

JH: Vaccines at this point, they're accelerating the pace and trying to get a vaccine developed. Vaccine will be very important in trying to ensure if we have a second wave that we have some kind of protection as that second wave evolves. Vaccine at this point in time is still 12 to 18 months out from here at a very minimum.

The other therapeutics, there are over 60 different trials or therapeutics being looked at. The one that you hear about the most is Zithromaxin, an antibiotic, and

Hydroxychloroquine, an anti-malaria. The combination is supposed to reduce the viral load. That's being tested in a number of places now. We hope to see some preliminary data in a month or two and that could be a very important therapeutic in trying to reduce the severity of the disease in people.

There are what's called the convalescent plasma where you take people who you know have had COVID-19, you test them to make sure they no longer have the virus but that they have antibodies. You draw their plasma, you process it, and you give it to people who are either very sick or to healthcare workers to protect them. It boosts the level of antibodies either in the sick person or in the healthcare worker.

That I think we could probably see in a shorter period of time. In fact, what I'm reading is that they're looking at people who are in desperate situations, they're taking plasma from people known to have had the disease, they're not processing it. They're just giving them the plasma with antibodies to people who are in very serious condition.

KK: Last week we saw an enormous amount of news regarding ventilators both in terms of the shortages that many healthcare professionals and governors are talking about and then some of the highly politicized battles we've seen in Washington over this. But can you just comment on this because we've been talking about some of the auto manufacturers and other companies for instance started to make ventilators. We've talked about companies that are rehabilitating old ventilators and the like. How complex are these machines? My understanding is that there are an awful lot of parts involved here and the supply chains come from countries around the world frankly. Can you talk about that?

JH: Sure. Ventilators are fairly complex. They're complex not because of the physical components but because of the I.T. component, the computer

component which regulates how often a patient is forced to inhale, is forced to exhale, what speed, what pressure it's at, the detection of any anomalies. They're fairly complicated machines.

One of the reasons that the stockpile has not been as robust as we would've liked it to be is because of the complicated nature of the ventilators. Maintaining 75 or 100,000 ventilators is a very difficult process. It's not something you just pull off the shelf and say we've got a working ventilator. They require at least yearly maintenance to make sure everything's working and to make sure the tubing hasn't begun to degrade.

KK: Gabe, I wanted to turn back to you for one second because, you talked at the outset about some of the data coming out of China. And obviously there's been an incredulous response here. And one of those is that China once it got its act together, imposed draconian social distancing measures. At the same time we have now imposed pretty draconian social distancing measures in the United States. We certainly feel it here in New York.

And yet as Jerry has pointed out, the numbers continue to go up. But it seems to me that we're not actually comparing apples to apples when we talk about social distancing measures. Is that fair? I mean, was China's markedly different than what we're doing here?

GW: It was, Kevin. I think what I see in the U.S. is that social distancing is ramping up. But I think it is still difficult for people in the U.S. or elsewhere to really understand or to imagine the degree of fastidiousness and the extreme nature of the some of the social distancing measures in China. I'll just give a few examples.

I mean, maybe people have seen the pictures of the elevators with the tape on the floor where only four people can get in the elevator and it's divided into quadrants where each person stands. But beyond that,

they were many elevators had these kind of chopstick dispensers on the wall where you would take a single-use chopstick to use to push the button. And then dispose of it in this receptacle that was essentially like one of those hazardous waste needle disposal baskets that you would see in a doctor's office. That's kind of a funny example.

But everything from shopping from stores and we're starting to see this in the U.S. Waiting in line outside the store with person spaced 6 feet apart. We were seeing the corporate dining halls, I mean some of this is still in effect as people go back to work. But corporate dining halls where they have these long lunch tables and they set up these dividers, these makeshift cubicles. So that each person was eating alone or had these dividers on either side of them at the table.

We had controlled entry to apartment complexes, residential apartment complexes so everyone in the complex would be issued an entry pass that you had to show to a security guard. So if you didn't live there, you didn't have an entry pass then you couldn't go in. And so, there was no visiting friends allowed.

And we saw there was a video that circulated on the internet where she was a Chinese-born person but a naturalized Australian citizen who was living in China. There was a video of her neighbors confronting her after she'd come in from a run. She was supposed to be subject to a 14-day quarantine.

She went out for a run, her neighbors scolded her. She sort of brushed them off and then a few minutes later the police show up and she's deported back to Australia. Just for going on a run. So to me that is another reason to think that the numbers are again broadly reliable because the degree of social distancing in China was just several notches above still where we are here in the U.S.

KK: Okay, great. Thank you. We're coming up on the bottom of the hour so if there are no further questions, we will wrap the call up here. I want to thank everybody for joining and thanks again to Jerry Hauer and Martha Carter, Tony Sayegh and Orson Porter and Gabe Wildau.

I cannot wait for the day when we can have a conference call on something else. But so long as this remains the primary story and the primary issue that all of you are confronting, we will continue to hold these conference calls every Thursday morning at this time. So please look out for the next invite.

And with that thank you very much and have a good day. If you have any questions that did not get answered on this call you can email us at teneoinsights@teneo.com or of course contact your contact at Teneo. Thank you very much and have a good rest of the week.



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