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Teneo Insights

Coronavirus: A weekly update from Teneo

A discussion between Patricia Russo , Jerome Hauer, Ph.D., and Kevin Kajiwara

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Kevin Kajiawara (KK): Good day, everyone. Welcome to today's Teneo Insights conference call. I'm Kevin Kajiawara, President of Teneo Political Risk Advisory calling in live today from New York City. Thank you for joining our weekly call on the coronavirus. Last Friday, the nonfarm payroll data revealed what we've been picking up on for weeks with the initial jobless claims number. That was that 20.5 million people had lost their jobs in April, the most ever. Unemployment, at a 50-year low as recently as February, tripled from that level to 14.7%, the highest since the Great Depression. More sobering still, I think is that number would have been more like 20% if furloughed workers were included. Goldman Sachs yesterday revised estimates and now suggests that unemployment will peak at about 25%. As you probably saw the Fed Chairman, Jerome Powell, yesterday gave further indication of the depths of economic struggle.

Whatever you think of the rhetoric and whatever you think of the quality of leadership we're experiencing right now, I think it's completely understandable that the White House and the President himself want the economy to get back to work. The question, as ever, is going to be whether the coronavirus, as well as our efforts to mitigate it, are going to allow that to happen anytime soon and what that's going to look like going forward.

My guests today to help us sort through all of this are two Teneo Senior Advisors, Patricia Russo and Dr. Jerry Hauer. Pat is the Chairman of Hewlett Packard Enterprise. She also serves on the boards of General Motors, Merck and KKR. She was the CEO of Lucent Technologies and its successor Alcatel-Lucent. She was the President and COO of Eastman Kodak. Jerry is a familiar voice to many of you on this call. He's the former Commissioner of the Division of Homeland Security and Emergency Services for the state of New York and Director of the Office of Counterterrorism. He was also the Acting Assistant Secretary of the U.S. Department of Health and Human Services for Public Health Emergency Preparedness. I'm happy to have both of them here with me today.

As ever, we'll have time for your questions following our general conversation. You can submit your question in written form at any time during the call by clicking the moderator chat icon at the top of your screen. All questions will remain anonymous.

Jerry, I've started many of these calls by imploring our listeners to carefully watch what is happening in Asia and in Europe, especially Asia. First into the pandemic and first to restart their economies. This week I think we've been confronted with just how challenging that can and will be. In South Korea, which has thus far been the global



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benchmark in terms of coronavirus control, had 34 new cases on Monday, which had morphed into 102 by Tuesday, tied to an individual who'd visited nightclubs. The result not only are health authorities now contact tracing more than 5,000 people, but nightlife has been re-shut down in Seoul and school reopening's have been delayed by at least another week.

In Hong Kong, 23 straight days without any local transmission came to an end yesterday. In Wuhan, China, a small cluster of six cases has resulted in authorities now starting the testing of 11 million people over a 10-day period. What's embarrassing about this from an American point of view, of course, is that they're going to test 11 million people over 10 days, to date United States has conducted just over 9.5 million tests throughout this process.

Jerry let's start by talking about the state of the outbreak in the U.S. within the context of reopening. We saw Dr. Fauci and his colleagues testifying yesterday, cautioning about reopening within the context of many states not having met the threshold guidance from the White House itself. What's your take on where we are on this right now?

Dr. Jerome Hauer (JH): Several things, Kevin. First of all, South Korea. I think that the outbreak in South Korea shows just how one person with the disease can start a wildfire with this virus. It's extremely transmissible. We saw the same thing earlier in the year where one person in South Korea attending a church wound up igniting an outbreak. What that means is we need to be extremely cautious here in the U.S. We are still seeing between 1,500 and 2,000 new deaths per day, about 22,000 to 25,000 new cases. As states begin to reopen, we are going to have to watch

very, very closely for that one person that has the disease who is in an environment where they are in contact with a number of people. That one person can wind up spreading it to two and a half to three, who then spread it to another two and a half to three. All of a sudden, you've got an escalating outbreak.

There is some good news. There are a number of states at this point in time, 19, where we are seeing the case count decrease. We are seeing 11 states where we continue to see an uptick. In several of those states, it's a very marked uptick in the number of cases. As these states reopen, we have to realize that there's probably going to be somewhere between a week and two weeks between the reopening and the possibility that we will see a rise in the number of cases. It's still a little early to tell what's going to happen with these states reopening.

I am very concerned that as the states reopen, particularly with the messaging coming out, that it's a free-for-all; you can go back to normal life, you can go do what you did prior to the outbreak. That from my perspective is going to cause a significant rise in the number of cases. Tony Fauci and several other people, including Rick Bright, who's going to testify today, are extremely concerned about this second wave. I don't think anyone questions, and I agree with it, we are going to see a second wave. The question that comes to mind at this point, when does that second wave start and just how significant will it be?

The other point with this is does that second wave really start to hit its peak during flu season? Having both influenza and COVID occur at the same time would likely significantly increase the mortality to people. I think this needs to be closely monitored. As I said, there is some good news with the number of states seeing decreases, but we do have to learn from what's going on in South Korea and in Germany where

they're clamping down again. Opening the faucet too rapidly is a dangerous way of trying to reopen states.

KK: What you've highlighted here I think is one of the great quandaries, both on the health side as well as on the economic restart side, which is personal behavior. As you point out, one person can restart or cause a flare up. We also don't know exactly how the consumer is going to behave, even if we reopened workplaces and restart economies.

But just following up on this point about single individuals or small groups of people, obviously the South Koreans are attempting to get a grip on this very quickly by both on the testing front as well as on the contact tracing front. I made that point about the differential in numbers between Chinese testing and U.S. testing capacity right now. Where are we on testing? I know that the NIH is trying to accelerate the program through RADx, but where are we on that as well as contact tracing capability.

JH: Let me start with testing. Testing has been a disaster. The availability of tests, both antibody and antigen, they just haven't been there. There is a disconnect between the federal effort and the states' effort to develop tests. This morning it was reported that the Abbott antigen test is showing between 20% and 50% false negatives. A false negative is a whole lot worse than a false positive. With a false negative for the antigen, I could be a false negative meaning that I test negative, I still have the virus. I go about spreading the disease when I have the sense that I'm negative so I don't have to worry about further shedding the virus and transmitting it to others. This was a heralded test when it was released and now the balloon has popped.

We're running into the same problem with antibody testing. As we saw in the UK, they spent almost \$20 million on an antibody test and it didn't work. There are antibody tests coming out. One of them is the Ortho test, which should be far more sensitive in detecting the antibody. But we have to be very cautious as we look at this testing to ensure that over time that it is validated. Part of the problem with rushing these tests to the market is the time to validate the test. We really need to watch for the information, the data as each tests are rolled out to actually make sure they do what they say they are going to do.

As far as contact tracing, there's a lot of information out there about the number of tracers needed. That's going to be a real challenge for most states and cities to get the number of tracers onboard in a quick period of time. It's extremely important that when we get that one case, just like we saw in South Korea, we put a fence around it. We identify who that person was in contact with. We get them isolated, tested, and then go to the second order, start contact tracing to that person's contact. It becomes a very labor-intensive process. It's going to take a little time to get it up and running.

There is some technology that is being developed. The most prominent one that we've seen in the media is the one between Google and Apple. It's not there yet. We've seen that a lot of public health departments are very skeptical about the use of technology to do contact tracing. Again, that's another technology that we're going to have to watch evolve over the next weeks to several months.

KK: Normally, I would save all of the incoming questions until the end, but I did just get one here that I think is relevant to the conversation right now. We've seen data coming in from Europe this morning out of countries that have been really

devastated by the outbreak, Spain and France particularly and talking about their low infection rates of their overall population. It looked like to the low to mid single digits at most. Going back to your comments about second and third waves coming, I mean, we're not even close to being able to talk about any kind of herd immunity, and that's within a context that we don't even know yet what level of immunity people are developing who've been infected with the virus. No?

JH: Yeah. The general sense of the country right now is that the immunity in the general public is under 10%. Most epidemiologists feel that to develop herd immunity, to have enough people test positive for the antibody or who have been exposed to the virus, needs to be over 50 to 60%. We've got a long way to go before we get to that point. Again, testing will help us get a sense or give us a picture as to where we are with that kind of herd immunity.

KK: I want to bring Pat into the conversation here in a moment, but I did want to ask one last question of you, Jerry, and that is that we have seen in the last couple of weeks some new and disturbing data points on children, both as carriers and spreaders of coronavirus itself, but also that there are increasing numbers of cases of them suffering from some sort of distinct but related illness. What can you tell us about this, number one, and that illness, but also what are the ramifications from a policy and economic restart perspective? I mean, I think you can, you know, we're starting to see the summer camps all starting to get canceled, but what does it mean for school restarts come fall?

JH: Well, Kevin, the problem with the new virus is we really don't know anything about it. We have some assumptions based on SARS back in '03, MERS as well. The problem we're running into is we don't fully understand the physiological impact of this virus. Let me back up. We learned about two weeks ago that

this virus causes coagulopathies or hyper clotting that causes strokes, that's causing these vascular problems in the lower limbs, inflammatory processes. Kawasaki disease, which is what this is, being looked at, is another inflammatory disease.

There seems to be a trigger, whether it's clotting or what's going on with the vascular system with Kawasaki disease or what we're seeing in the lungs where this inflammatory process is causing damage to the blood vessels, to the clotting system, to the lungs. There seems to be a common thread that is evolving, but again, this is a very new phenomenon.

What it's going to do is it's opened our eyes again. We didn't think children were vulnerable to this disease back in March. We are now seeing this devastating disease with children as we learn more, and as this continues, I think it's going to have a significant impact on the willingness of some school systems to open up in the fall, particularly in the absence of the vaccine.

KK: Right. Okay. Well thanks, Jerry. Just a reminder, everyone, if you've got a question, hit the moderator chat button on your screen. Pat, I started the call today by going through the extremely sobering employment data. Actually, just a few minutes ago, the initial jobless claims for this week came out, and they were about 3 million again, taking the total to 36 million. The not shocking but still striking number that also came out with the employment data last week was average hourly earnings spiking 8% year on year, which puts in pretty stark relief who's bearing the brunt of these job losses, hourly wage earners and other low-income people.

As much as people want to and as much as they need to get back to work, as Jerry's just discussed, there's still giant uncertainty out there on employee safety. I say that from the relatively luxurious vantage point of a firm in which all employees can essentially work from home

effectively. We've even seen it from the White House itself in the last week that in a facility where almost everyone is tested regularly, they have had an outbreak themselves. Clearly, this recovery is not going to be smooth and uniform. It's going to be a tough, tough slog. As a business leader, what do you think? On the economic front, what's the appropriate government response here to get us through this, but also to work in concert with the private sector to prepare it for an effective relaunch of the economy?

Patricia Russo (PR): A couple of thoughts. First of all, in listening to Jerry, wow, you walk away just being reminded how much uncertainty, how much is unknown, and the very difficult and challenging time we're all operating in. Having said that, I think the government, the Fed in particular, and the legislature have moved faster and stepped up more boldly than at any time in the past. I think there is a sense that what has so far been done may not be enough because of how long it is, you know you just used the term, Kevin, this is going to be a tough slog.

There are all kinds of issues. In fact, all the CEOs that I work with have started to shift their focus to plans to reopen. My guidance is we need to have plans to reopen, and we need to have scenarios where we may have to close again because of a recurrence. I just think there's a lot of critical navigation that has to go on by the government in terms of continuing to find ways to help shore up the economy. It will be the most costly shoring up that any of us have seen in our lifetimes, but it's necessary.

I think the American people have to take on the individual responsibility. As challenging as it is, look, we're a nation of free people. Freedom and the sense of freedom is in our DNA, and so I think some of what we're seeing as things open up is some people are violating the social distancing guidelines, etc. and that's all, "Listen, these are my rights." There's a fine

balance that I think we have to find here, but getting back to your question, I think the government has stepped up very aggressively. I think they're going to have to continue to assess, depending upon the uncertainty associated with how fast the economy can come back.

My view is, it's going to be a long, tough slog because it's not just you know, we decide to reopen. It's what's consumer behavior going to be? I mean, I can tell you down where I am, restaurants have started to reopen at 25% capacity. There is not a lot going on. I think there is a real fear. There's so many uncertainties. I think companies have learned in this process to just do a lot of scenario planning, have a lot of different paths that they can go down depending upon how this continues to unfold.

KK: I think you're right. The Fed is obviously doing its part. It is providing basically unlimited amounts of liquidity. We've seen that start this week, the buying of corporate debt, including in the high yield market, and they will participate in the primary market on that front in relatively short order. That's allowed certainly investment grade credits to issue of late here. I think you're right also that there's clearly going to have to be more coming out of Congress. One of the tough things we've seen both in the United States and in Europe in all of our recent financial crises is that sometimes it requires market pressure to get Congress and parliaments to act, and the central banks kind of shield them from that market pressure to some degree.

But I guess what I want to focus on a little bit here is given that more is going to be needed out of government, what do you think about the array of policy tools that they have? We've talked about grants versus loans. One of the concerns about this is when these programs end, in a world that

might look very different, are these companies actually going to be able to sell finance on the other side? What about the indemnification demands that some are making of Congress in order to protect the businesses as people go back to work? What's the right balance between focusing on, say, Fortune 500 level companies versus small and medium enterprises who account for so much of the employment base in the country? What's the right policy mix as you look at this?

PR: Look, I think it's a mosaic. Let's just focus on one of the points you make. You can't have an environment where there is unlimited liability for companies who are trying to reopen and applying all the guidelines and standards in a rigid and disciplined way. You just can't have an environment where you have unlimited liability because that creates a whole cottage industry from a legal standpoint and creates a lot of cost in, as I said, in an uncertain environment.

I also think, Kevin, look, some companies are not going to come out of this. There are firms who were not strong going in, and they are not going to come out of this. Somehow, over time, it feels like you can't just keep pouring unlimited funds into enterprises if they don't have a chance of making it through. Now, I recognize that's very hard to manage and you know, we've tended to take sort of a general across-the-board approach with some of these policies simply because of applicability, but it feels to me like we have to; the policies, the things that get put in place, whether they're legislative, whether they're loans or grants, we would be well-served if there was the opportunity to be a bit more surgical and thoughtful as we learn more about how long this is going to take and what these companies' prospects are.

KK: Yeah, and at the moment, there's kind of a 'throw everything at it you possible can' element of this, and it's very, very challenging to be surgical about. To your original point, the government has reacted very, very fast. I mean, the amount of time it took to get that really first big stimulus or survival package passed and on the President's desk versus, say, what it took to get TARP done, as an example, is extraordinary in modern times. I guess the question here is, with interest rates being where they are, with inflation, I mean, look, we had a negative inflation number come out last week.

One could argue that government should, especially when you are the reserve currency country, you should just spend what it takes to get this done in a classic Keynesian manner. But I'm wondering, now we're starting to see, and obviously all of this has to be contextualized in election year politics, but not even really getting into the partisan warfare, but classic deficit hawks and whatnot are starting to get nervous. Should they be, or should we spend what it takes now and worry about the consequences later?

PR: Look, I fall on the side of we have so far demonstrated our willingness to spend what it takes. I think we have to continue to spend what it takes because of the breadth, depth, and impact that this is having. I think the underlying fundamental question is what does it really take? What does it really take? I don't know the answer to that, Kevin, and I don't even know that our legislative and political system has the capability to take this now one level deeper on being more surgical and more thoughtful, and less just sort of broad brush. Because when you look at, I mean, the effect of this is very different within the small business, very small business environment with companies that

are just service companies, compared to the very large companies whose businesses are impacted but not impacted drastically. The difference between a pharmaceutical industry impact, for example, and the airlines industry is significant. And so there's a segmentation, I think, that as we decide to spend what it takes, I would like to see a bit more surgical and thoughtful analysis around, "What does it take?" And then we ought to spend what it takes. I believe that. We'll figure out how to deal with the deficit issues once we get through this.

KK: Now, in order for that to happen requires at least the efficient, you know, the economic architecture of a country essentially works as it is designed to do. So, as you look at this from sort of a 50,000 foot level, obviously as you've pointed out, there are a lot of pressure points out there that are under stress at the moment. But in terms of the business and economic ecosystem if you will, is there anything that really worries you out there right now? As I said, the fed's providing all the liquidity, but the banking system has held up well. It's well capitalized. Obviously, there have been efficiency issues with the distribution of the federal loan program and the like, but as you look out there, is there anything you see that concerns you about an economic crisis somehow morphing into financial crisis? Or are you pretty sanguine on that at the moment?

PR: Well, look, I'll answer that sort of on two dimensions. Number one, I think we all eventually worry about debt and deficit in this country, and what we leave to our kids and our grandkids. Okay. We have not had the political will or the ability to step up to, what was it, 20 plus trillion-dollar deficit. We're just blowing that up exponentially. So I do worry about that over the long-term, but we have got to get through this period and come out the other side with the ability to get the economy growing again.

In terms of the ecosystem, one of the areas that I at least feel the companies that I'm associated with have to really make sure we understand is the supply chain. Not just, what's the health, because of the varying impact of this on different companies in different industries, not just the health of the suppliers. But I believe over the years, and you and I talked about this, Kevin, that there has been a lot of premium on efficiency. When there's a premium on efficiency and you have individual companies taking individual decisions, within industries, across industries, you get a cumulative effect that doesn't come to light until you are in a crisis.

One example is our dependency on generic drugs was at a level that I think was just not understood until it was looked at collectively. So I think the supply chain strategies, the premium on efficiency, adding or shifting a bit to one of resiliency, I think there's going to be fair amount of change. And I think that change is going to happen at the initiation of corporations, within industries, and I think that change is going to be driven through incentives and regulations from the administration. We've not been a country that's been high on, sort of, industrial policy, but I think there's a lot of learnings coming out of this that will cause not just companies, but I think it'll cause our government to do some things from a national security standpoint that companies will have to line up to.

KK: You've just opened up Pandora's box there. Let's unpack a little bit of this. Because, to me, it's striking, to your point, as we've talked to a lot of our clients, there's a very good understanding, usually, of their suppliers. But sometimes the suppliers of those suppliers are much less well understood, and where the pressure points are on that front. And as you say, there's a lot of talk out there about supply chains right now, and you especially seem to hear about a couple of things. One, is moving supply chains out of China. And the second is, to your other point, essentially about self-sufficiency in key products.

You're on the board of two companies, General Motors and Merck that have incredibly sophisticated and labyrinthine supply chains. And so, I wonder, you know you bring up this point of both companies' individual incentives, as well as government getting involved. How quickly do you think that this can happen? I mean, you look at very sophisticated and complex products like cars and pharmaceutical products, and the dense supplier networks in a place like China and its economies of scale means it's not easily replaced, right? So how do you approach this, especially in an environment where a lot of companies aren't going to have the money, maybe even the time, to do this very quickly?

PR: Yeah. Well, I think the first step and this is going to take time by the way. And make no mistake, since the U.S.-China trade issues and tensions have been going on for some period of time, there's already been some movement of the supply chain out of China into other Asian countries with less tensions. So that's been taking place. But I clearly think it's going to take time. Obviously, it will take some investment. But what I think is important as a board member, is to be asking the questions, at least for the companies that I'm associated with, "What have we learned about the supply chain risks, the supply chain performance, the supply chain dependencies, as we're navigating through this pandemic, that causes us to change our strategy?" And, "What is that strategy and how long will it take for us to implement it?"

I think that's a set of corporate strategic questions that will be asked in many companies, if not all. And then, I think there's the, "What do we know about what's going on from a governmental regulatory policy standpoint that is related to our set of strategic decisions?" You've heard, I mean, who knows, but you've heard people in the administration talk about the pharmaceutical supply chain dependencies. We

need to get that fixed. I got to believe, you know we are a free democracy, we're a capitalist system, so that's not going to result in demands, it will, I think, result in incentives and regulatory aspects that companies will have to respond to.

KK: I just want to push you a little bit on the China front because you know going back to my point that they've got extremely dense supplier network, and they've got economies of scale, they've also demonstrated themselves to be amongst the countries that's gotten a greater control of the virus so far. And as an economy, China is providing now a floor, or hopefully it'll provide a floor on global demand. But to a certain degree, they've also therefore demonstrated that they're a comparatively stable supply hub. It's kind of a China plus one type strategy rather than a, "We got to get out of China strategy."

PR: Yeah. By the way, I want to clarify what I said. While there has been some shifting of the supply base, it has not been a, "Let's get out of China." It's been, "Let's provide more balance in our system so we've got alternatives." Look, I think China and the U.S. have got to continue through all the issues. We've got to find ways to work together. We've got to find ways to cooperate. We've got to find ways to make sure everybody's following the appropriate WTO rules, etc. Because China's not going away and we, I believe, as a nation cannot have an isolationist. We just can't have an isolationist mindset with respect to China.

I don't see it as, they're not part of the game going forward, U.S. corporate standpoint. They are, they have to be. In fact, GM has a huge interest in China, in the automotive. It's a huge automotive business. Now, we develop and manufacture and distribute, etc., in China for China. And that's been a good, long standing relationship.

KK: Yeah. I think GM sells more cars in China now than it sells in the United States, right?

PR: Yes. Yes.

KK: So, if companies embark on this. This greater focus on resiliency, let's say, going forward, as opposed to a single-minded focus on efficiencies as you suggested. As well as adding in there, taking measures to address employee safety and the like. It seems to me that that coupled with the overall economic impact and economic demand, profits are going to be tempered in this environment. So how does that impact things like corporate focus on ESG, and these other sort of benchmarks and concepts that became real hallmarks of a protracted bull market and economic expansion? What's going to happen to those ideas as you relate to your institutional investor base?

PR: Yeah. Well, first of all, I would say the S in ESG right now is getting more attention than it's probably gotten when you think about the emphasis that companies have placed on their people. Their safety, their health, their work environment, their pay as we navigate through this. And different HR plans that are being put in place in different industries and different companies. And so I see increased focus certainly on a dimension of that. I think governance, I think the G part of ESG is either unchanged or enhanced as boards add to their set of oversights, the pandemic playbook, what are the scenarios going forward, so I think that's actually been extended.

Look, is it possible that investment companies might have had teed up, that are environmentally-related might get deferred? That's possible. Look, in a corporate environment you're balancing a lot of demands and priorities, and you have companies that are going to need to spend more on protecting their

people. You have demand questions with respect to, "When will demand come back full boat?" At the same time, I think companies are also learning about how they can work more productively. Do they need all the real estate that they have? So I think there's a whole set of factors, Kevin, that are going to come into play as companies sort of zero base their cost structures for these varying scenarios and the next wave here as the economy reopens. But I think it's possible that there is some pressure on some elements of ESG for a period of time.

KK: Yeah. You've been a leader at some iconic companies, I'm thinking specifically of Lucent and Kodak here, that you led during pivotal moments. During the technology revolution and the like. And it seems like so many trends and risks that companies and industries have been facing in the current environment, pre-COVID, all of those risks have gotten accelerated, in a sense, by the coronavirus. As you just mentioned, these work from home, automation, what the workforce looks like, supply chains, relation between U.S. and China. All of these things have become super important in this environment. I have to imagine that as a leader this kind of an environment where there's this onslaught from all sides, not to mention market volatility, taxes basically every bit of experience and vision that you've got as a corporate leader and that you bring to the table. So how do you prioritize in this type of two-way generous crisis that really permeates every element of your organization? And I guess when you think about it through your experience lens, and you look out there at corporate America, how do you think America's CEOs are doing? What's the scorecard here?

PR: Yeah. Let me answer the second part of that first, because I actually think, and again, I don't know all of America's CEOs. I know a number of them

and certainly know the ones that I work with. I think CEOs have stepped up incredibly well, not just for the actions that they're taking within their companies, but the collaboration that is going on in the industry. Take the pharmaceutical industry, for example. The collaboration, the willingness to step up and do your part. GM making ventilators and masks, Merck participating with other companies and looking at vaccine candidates and therapeutics, etc. The level of collaboration and the willingness to step up I think is incredibly high. At the same time that these folks are playing defense, where it's, "I got to make sure we survive. I got to make sure my people are safe. I got to make sure we're serving our customers and I got to make sure I got enough liquidity." And that whole set of requirements is a plateful. So, I think CEOs are stepping up pretty well. And look, I went through a near bankruptcy experience. What I have found in my career, you have to be able to distinguish between managing and management actions in leading, and in the case of the kinds of situations we're in now, these crises, management actions, perfect is the enemy of the good. You got to decide what actions do we need to take. You got to implement them. You got to figure out how to get your cost structure down so you can survive.

So there's a whole set of things from a priority standpoint that have to be done fast, urgently, decisively, because time is of the essence. At the same time, from a leadership attribute standpoint, you have to be over communicating, you have to be transparent, you have to be present frequently. A lot of CEOs I know are doing calls with their leadership teams almost weekly. You have to demonstrate empathy and you have to really be clear about how you're going to order your priorities. And in the cases that I'm familiar with, it's been people first. Our people, their health, their safety. It's customers and serving the business needs and it's, at the same time, making

sure we have enough liquidity to get through this. So look, these are really challenging times. These are times when leader's true capabilities show up. These are times when companies' reputations are enhanced or damaged. And so there's a lot at stake.

KK: Yeah. I want to get onto our audience's questions and we've got a few lining up here. But I want to just ask, go back to China for one quick question here. As I mentioned, you ran Lucent and much of Lucent now is essentially part of Nokia and they are one of the key competitors, along with Erickson, against Huawei. And Huawei is clearly focused on 5G ubiquity. Both as a tool of Chinese diplomacy, Chinese debt relations, Chinese economic policy, but really also Huawei's own innovation initiatives as well. We just mentioned that GM sells more cars in China than the U.S. now. But it's very clear that this relationship is growing more hostile between the U.S. and China. And this is not simply a matter of U.S. presidential rhetoric or anything like that.

This is a bipartisan issue. And in fact, I think both sides, both campaigns, are going to try to make the other look a little too soft on China, frankly. But to your point earlier, where China and the United States are on the cooperation versus conflict spectrum, or continuum, is going to have a material impact on how powerful a recovery ultimately is globally. So, how do you look? What's your view right now of U.S.-China relations and the role that corporate America can play to keeping them on track?

PR: Yeah. Look, I think U.S.-China relations are rather tense. Exacerbated by what's going on with COVID-19. I think the U.S. position on getting China to comply with rules and law associated with things like intellectual property is absolutely essential. It

went undealt with for way too long as someone who ran a company that was absolutely impacted by that. I frankly have some pretty strong feelings. Now having said that, what's changed over the last couple of decades is China's capabilities have increased dramatically. China's ability through, you know take Huawei, and a lot of that has been driven by the fact that China has been very clear about what their industrial policy is. They made a determination decades ago that they wanted to be a leader in communications technology, and Huawei is their instantiation to that, along with some other companies, but predominantly Huawei. I would argue part of the reason that we don't here in the U.S. have a real 5G national player is because that was not a determination that was made, notwithstanding my arguing for it.

And so, we are where we are, but I think we have to recognize you have two very strong, very capable countries. I think we have to be smart about how we work together and I don't want to say shrewd, but just go into how we interact with eyes wide open. The Chinese market is a critical market for the global economy as you said, Kevin. Chinese capabilities are critical to come into the United States. We just have to make sure that we're operating in an environment where everybody's abiding by the rules, particularly China.

KK: You have brought up on this call a couple of times now the phrase industrial policy. But you've also made the very important point about the nature of the U.S. economy, its entrepreneurial elements, its system of incentives and so on and so forth. But in this moment of extraordinary change and stress, and in this moment as China is looking over the course of this next couple of decades to overtake the United States as the largest economy in the world, and in this environment, government has already gotten

substantially bigger than it has been in recent decades. Is this time to think about more of an industrial policy in the classic sense in the United States?

PR: One person's opinion, I think as a nation we would be well-served to have a more explicit sense of what is absolutely critical for us to own and lead in around the world. I don't believe that necessarily requires bigger government. It just requires smart thinking and a set of policies and practices and whatever incentives and legislation, whatever the toolkit is to try to put that into place and be executed against. That's just one person's opinion. I'm not for government control. I'm not for any of that. I'm for a free, open, democratic and capitalistic, appropriately balanced, of course, across all stakeholders. I'm all for that. I think it would be to our advantage if there was more clarity and priority around what is absolutely critical for this country not to depend on any other for.

KK: So much easier said than done, but absolutely.

PR: Oh yeah, right.

KK: We're pushing up against the bottom of the hour here, and I just want to get in a couple of questions here from the audience, if I could. And the first one actually is for you, Jerry. And it goes back to the China question and the questioner is asking, regarding reports out there that China is spying. It's always a shock to me that people are surprised that spy agencies are spying, but that China is trying to spy on the vaccine developments and other therapeutic developments in the U.S. I don't think that could be any surprise. I suspect we're probably doing the same thing. Sabotaging those efforts would be something else entirely, but I don't think that's what's being hinted at here. What are you hearing on that front?

JH: No, I don't think, Kevin, that this is any different than any other spying that they do on trying to obtain proprietary secrets. Certainly, their ability to accelerate a vaccine development by capturing our technology is troubling but certainly not surprising. As you just mentioned, I'd be far more concerned if they were trying to interrupt the development of our vaccine, but trying to get proprietary information out of our vaccine programs is no surprise.

KK: Yeah. And finally, and Pat I think this question probably is related to your board membership at KKR. The question here, you made the point that not all companies are going to survive out there. But quality companies, well led companies, companies that should be able to go forward, are under incredible amount of stress. The private equity industry and other financial players are in a position to help both financially and managerially and so on and so forth.

We've seen a lot of the industry building up substantial war chests and are ready to deploy and ready to help. Without getting to the specifics of KKR certainly. But from an industry perspective, any thoughts on that front?

PR: No, I would just agree with you. Companies that are in alternative assets and obviously have portfolio companies that they are very focused on working with and helping, and that's obviously going on. At the same time, as you said, these kinds of situations create opportunities for those institutions that go after distressed assets to try to help and save them and allow them to recover, etc., which I think is both a good investment opportunity and I think it's an economic good for society, right?

The more companies that we can save and help, the better. So I think companies like KKR and others like them, and I've used this term before, both playing defense, right? What do we need to do to navigate our way through this ourselves and help our portfolio companies? But offense is what opportunities does this present for our business model that represent both good investment opportunities and an ability to help others. So, I think that's all good.

KK: Right. Thanks very much for that. And it is the bottom of the hour. So we're going to wrap up the call and want to thank everybody for joining us today. We'll be back again next week. But I want to express my profound thanks to Pat Russo and to Jerry Hauer for your insights today. Very interesting, very helpful. So thank you very much everybody for joining us and have a great day. Thank you.



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