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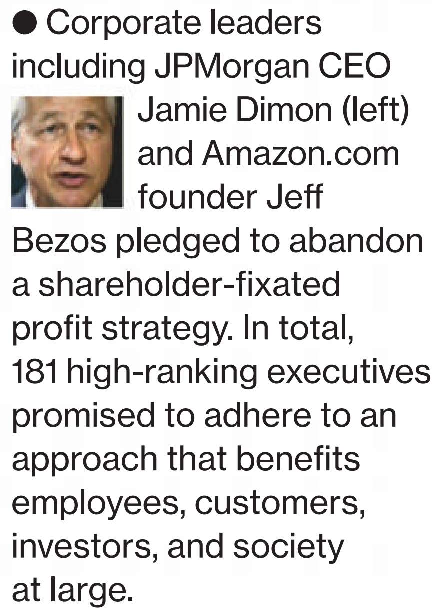
IN BRIEF

By Benedikt Kammel

● Germany risks recession in the third quarter amid weak corporate earnings and lackluster industrial output, the country's central bank warned. The government is studying stimulus measures to boost the economy in case of a downturn, people familiar with the plan said. ▷ 29

● Corporate leaders including JPMorgan CEO Jamie Dimon (left) and Amazon.com founder Jeff Bezos pledged to abandon a shareholder-fixated profit strategy. In total, 181 high-ranking executives promised to adhere to an approach that benefits employees, customers, investors, and society at large.



● Iceland held a symbolic funeral for the Okjökull glacier, laying down a commemorative plaque to mourn the vast ice field as a victim of global warming.

● The Iranian oil tanker *Grace 1*, which had been held off Gibraltar since early July, headed into the Mediterranean on Aug. 18 after being renamed *Adrian Darya 1* and reflagged. The U.S. has warned that ports, banks, and anyone else who does business with the vessel or its crew might be subject to sanctions.

● Bayer will sell its animal health business to Elanco for

$7.6b

The sale helps raise funds the German company might need to settle thousands of claims that its Roundup weedkiller causes cancer.

● Madison Square Garden shares fell almost 10% on Aug. 20, the most ever, after the live entertainment company revealed that a new outpost in Las Vegas has hit major cost overruns. The so-called Las Vegas Sphere, due to open in 2021, was set to cost $1.2 billion, but the contractor now estimates the expense at $1.7 billion.

● Just two days before committing suicide, financier Jeffrey Epstein wrote a will stating he had assets of about

$578m

which he had placed in a trust. The move may make it harder for women who accused him of sexually abusing them while they were underage to collect damages.

● Hong Kong conglomerate CK Asset Holdings agreed to pay £2.7 billion ($3.3 billion) for Greene King, which operates more than 2,700 British bars, restaurants, and hotels.

● Huawei won a 90-day extension on a limited set of exemptions that shield rural networks and other U.S. customers from a ban on doing business with the Chinese company. Founder Ren Zhengfei said Huawei is at a "live or die moment" and urged employees to form "commando squads" and find growth opportunities.

● **"I believe in capitalism, but capitalism is not working for most people."**

California Senator Kamala Harris courted donors in New York's affluent East Hampton as she continues her bid for the Democratic presidential nomination, a crowded field currently led by former Vice President Joe Biden.

● The world's first 30-year bond paying zero interest flopped. Germany sold only 41% of its targeted amount.

● China detained a U.K. Consulate employee in Hong Kong, fueling concern about the safety of diplomatic staff in China.

● A bomb attack on a wedding in Kabul, Afghanistan, left 63 dead. An affiliate of Islamic State claimed responsibility.

● Apple plans to introduce a movie and TV subscription service this fall, starting with a small selection and free trials.

DIMON: GIULIA MARCHI/BLOOMBERG. ICELAND: FELIPE DANA/AP PHOTO. GRACE 1: JORGE GUERRERO/AFP/GETTY IMAGES. HARRIS: DANIEL ACKER/BLOOMBERG

▶ Trump on a Delicate European Tour

To commemorate the outbreak of World War II, the president heads to Poland on Aug. 31 for his second visit to a country that's become his staunch ally. Trump canceled another leg of his trip—a stop in Denmark—after the country refused to consider selling Greenland to the U.S.

▶ The U.S. reveals jobs data on Sept. 6, with economists forecasting a drop in the unemployment rate to 3.6%. But signs of an economic slowdown are mounting.

▶ Germany holds elections in two formerly communist eastern states on Sept. 1. There's a good chance the far-right AfD will make gains in their legislative bodies.

▶ The EPA's scientific advisers meet on Aug. 27 to discuss a pending rule limiting the kind of science the agency can use to craft regulations.

▶ Sweden's Riksbank sets its interest rate on Sept. 5. The world's oldest central bank has said it wants to lift borrowing costs later this year or early in 2020.

▶ At the IFA consumer-goods exhibition in Berlin from Sept. 6 to 11, LG is likely to unveil a dual-screen smartphone to rival Samsung's Galaxy Fold.

▶ London's Notting Hill Carnival takes place on Aug. 25-26. Labeled the biggest street party in Europe, it's set to draw more than 2 million visitors.

■ BLOOMBERG OPINION

Avoiding an Italy Crisis

● The country's problems can mostly be blamed on its politicians—but the EU can make things worse

Italy's renewed political upheaval comes at a bad time for the European Union. The latest turmoil could all too easily become a full-blown economic crisis–one that might not be confined to Italy. There's no quick way to fix the country's politics. But the EU can, at least, avoid making matters worse.

The latest alarm follows Deputy Prime Minister Matteo Salvini's decision to end the coalition his League formed with the Five Star Movement, whose poll ratings have plummeted. Salvini gambled that he could trigger a vote of no confidence in the government of Giuseppe Conte, an independent, and force early elections that would give his populist League, now polling near 40%, what he calls "full powers."

The gamble may fail. Conte resigned on Aug. 20, leaving President Sergio Mattarella to decide what comes next. Italy faces budget talks with the EU to avoid sanctions for breaking the rules on deficits and public debt. Mattarella will want to avoid an election during that process. A new coalition is possible, as is a new caretaker government. None of this offers the clarity that Italy–and financial markets–would like.

How is the EU to respond? Europe isn't to blame for Italy's economic problems, but the bloc's one-size-fits-all approach has helped the populists shift the blame for Italy's stagnating living standards and other problems to outsiders. As part of last year's agreement, Italy had expected to increase its value-added tax, which could raise €23 billion ($25.5 billion) in 2020, or find other means if it missed budgetary targets. Higher taxes for an underperforming economy with one of the highest tax-to-gross-domestic-product ratios doesn't make much sense–and wouldn't endear Brussels to Italian voters.

That's the problem with the EU's entire approach to fiscal discipline: Its instruments are blunt. Again and again, the union's policies court unintended consequences. Plenty of countries, including France, Belgium, and Spain, have fallen afoul of the EU's Stability and Growth Pact, which was meant to convince fiscally conservative Germany that high spenders won't get a free ride in Europe's monetary union. Even if consistently applied, its penalties would often only make things worse. And the rules don't sufficiently differentiate between good and bad spending. The best way to defeat Salvini's larger argument is to admit he sometimes has a point.

The EU ought to accept Salvini's argument for infrastructure spending, so long as the money is well-spent. (In the past, it hasn't been.) Europe should also ensure Italy isn't left to shoulder an unfair share of the burden of aiding refugees, while resisting Salvini's effort to undermine the wider commitment to that goal.

Italy isn't Britain–not yet, anyway. Italians feel integral to the European project and know they have benefited from it. The EU would be wise to avoid risking that and to remember there's more to solidarity than ticking budget boxes. Ⓑ

Written by the Bloomberg Opinion editorial board

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Now, About That Yield Curve

● A usually reliable indicator of recessions may not really be predicting one

● By Peter Coy

The chance of a recession in 2020 has Democratic campaign strategists feverish with anticipation—while trying not to show it—and President Trump even more amped up than usual. While Trump says he's confident of the strength of the U.S. economy, his actions indicate otherwise. He's demanding that the Federal Reserve cut its key rate target by at least a full percentage point, which would be extraneous at best and outright inflationary at worst if the economy really is running strong. He recently delayed some tariffs from September until just before Christmas to leave more money in consumers' pockets. He's also mulled tax cuts, although he told reporters on Aug. 21 that they're off the table for now. Surely Trump is mindful that the reelection bids of both Jimmy Carter and George H.W. Bush were derailed by recessions.

Well, guess what, folks? It's still rainbows and pots of gold out there. Contrary to what seems to have become the overnight conventional wisdom in politics, a recession before Election Day 2020 remains a less than 50-50 proposition. In a Bloomberg survey of economists, the median estimate of the probability of a U.S. recession within the next year is 35%. Back in February, 52% of economists surveyed by the National Association for Business Economics expected a recession by the end of 2020. In the latest edition, released on Aug. 19, that figure was down to 40%.

Far from a downturn, the median forecast for 2020 in Bloomberg's survey of economists is for growth of 1.8%, which is smack within the range that the Fed estimates the economy can sustain without an acceleration of inflation. If recession isn't so likely after all, it means the White House probably should ease off on emergency measures to boost growth. And it means the Democrats running for president need to calibrate their messages for a world in which the economy remains strong right up to Election Day 2020.

But what about the inversion of the yield curve that your annoying brother-in-law keeps yammering about? The notion that the U.S. economic expansion will continue, extending what's already the longest growth streak on record, going back to 1854, seems to fight the news that the famous yield curve has inverted, with long-term interest rates sinking below short-term ones. (The reverse of the usual relationship.) Such inversions have been strong indicators of recessions in the past.

The first thing to say is that the famous inversion between 2-year and 10-year Treasuries is over, at least for now, having lasted all of 2 hours and 15 minutes in the early morning of Aug. 14, according to Bloomberg data. A very brief inversion is less of a recession omen than a long one would be. True, the inversion between 3-month Treasury bills and 10-year notes has been in place most of the time since May, but that's not as strong an indicator.

The second thing is that any inversion of the yield curve is a less reliable signal of recession now than it was in the past. A few words of background on the yield curve in case you've been tuning out your brother-in-law. It's simply a graph of interest rates. On the left are short-term rates and on the right are long-term rates. The graph slopes up to the right when long-term rates are higher than short-term ones, as they usually are. The extra interest on, say, a 30-year bond compensates investors for the risk that something unpredictable will happen in the next 30 years that damages the bond's value, such as a burst of inflation.

But the yield curve has gotten flatter over the past few decades. So it's pretty close to sloping downward—i.e., inverting—even on ordinary days when nothing special is happening. It will invert more often "even if the risk of recession has not increased at all," said an economic note published by the Federal Reserve Bank of Richmond in December.

The upward slope of the yield curve is an artifact of times past, when the rate of inflation was higher and—importantly—less predictable than now. Long-term bonds had to offer high yields to attract investors to compensate for the fact that they were a poor hedge against the biggest worry of the day, namely an unexpected spike in inflation. These days, though, the biggest worry is not inflation but deflation. Bonds happen to be an excellent hedge against deflation because they gain in value when interest rates fall.

This is a roundabout way of explaining why the inversion of the yield curve—so famous that even Trump tweets about it—isn't as worrisome as it once was. Long-term bonds have become more useful in reducing the risk in an investor's portfolio than they were 40 years ago, so they don't have to offer such high yields to attract buyers. As a result, the famous upward slope of the yield curve has mostly disappeared, and an inversion "is less likely to be a predictor of recession than it used to be," says Alexander Wolman, an economist and vice president at the Richmond Fed who was the lead author of the bank's paper on the shape of the yield curve.

There's plenty of evidence of U.S. economic strength outside the bond market as well. At just 3.7% in July, the unemployment rate is down to levels not seen since the 1960s. That's good not only for newly employed workers, who have been pulled off the sidelines, but also for the businesses that sell things to them. Consumer spending, the biggest part of the economy, expanded at an annual rate of 4.3% in the second quarter. (It would be even stronger if rich retirees overcame their fear of spending some of their ample savings, page 20.) In times past, ultralow unemployment would have stirred fears of excessive inflation. But the inflation measure that the Fed pays attention to, the price index for personal ▶

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◀ consumption expenditures, rose just 1.4% over the past year. That's below the Fed's 2% target.

Another big plus for U.S. growth is fiscal policy, which is amplifying the demand for goods and services. The federal deficit as a share of gross domestic product got as small as 2.2% near the end of President Obama's time in office in 2016, but has since grown to 4.5% because of tax cuts and spending increases. Critics argue that this isn't the right time in the business cycle for highly expansionary fiscal policy, but the fact remains that it's keeping a fire under the economy, says Jim Paulsen, chief investment strategist of Leuthold Group LLC in Minneapolis.

Interest rates are becoming more supportive of growth, too. Earlier this year the Fed stopped raising rates after nine quarter-point increases. In July it cut by a quarter point, and the market anticipates two or three more reductions this year—with or without Trump's exhortations. Unlike most of the industrialized world's central banks, the Federal Reserve still has plenty of room to cut rates before getting down to zero.

Better yet, interest rates in the U.S. at the long end of the yield curve are down sharply. The yield on the 10-year Treasury note is down by half since November to under 1.6%. (That's the inversion story again.) While the decline in long rates tends to be viewed as a sign investors expect slower economic growth, the low rate itself boosts growth by encouraging more borrowing by consumers and businesses. Meanwhile in stocks, the S&P 500 is still up almost 17% this year despite recent jitters.

American banks were weak heading into the last recession. Now they have healthier cushions of capital and ample liquidity, meaning they can easily meet demands on their money, Lena Komileva, chief economist of G+ Economics in London, wrote in a note to clients on Aug. 16.

True, the rest of the world is weaker than the U.S., but that doesn't mean the U.S. is certain to be dragged down by recessions or slumps elsewhere. Other countries could rebound. "There is room for fiscal support from the likes of Germany and South Korea," and "China still has powerful tools to support credit growth and manage its deceleration," Christopher Smart, chief global strategist and head of the Barings Investment Institute, wrote in an Aug. 19 note to clients.

More important, the U.S. remains relatively insulated from troubles abroad. Because its domestic market is the world's biggest, companies don't depend heavily on exports for growth. Only in Sudan, Burundi, Cuba, and Nigeria is trade a smaller share of GDP, according to World Bank data.

America's inwardness is also why Trump's trade war with China hasn't done more damage. U.S. exports to China are just over $150 billion a year. Even if they fall by a quarter, that would cut U.S. GDP by only 0.2%.

All that said, the risk of a recession can't simply be dismissed. Fear of a worsening trade war, for example, could trigger a generalized pullback in U.S. business investment. "Our analysis suggests the tweet is mightier than the tariff, with a bigger negative impact from uncertainty than the protectionist measures themselves," economists from Bloomberg Economics wrote on Aug. 19. They estimate that uncertainty generated by the trade war could cut 0.6% from U.S. output by 2021 vs. a no-trade-war scenario, while the direct impact of current and scheduled tariffs will cut just 0.3%. The impact of the tensions is already being felt worldwide: Since trade tensions began rising in early 2018, the JPMorgan Chase & Co. purchasing managers' index for global manufacturing has fallen from 54.4 (robust expansion) to 49.3 (mild contraction), the Bloomberg Economics team pointed out.

The biggest risk is that business will perceive that the trade war presages an end to globalization, which Komileva of G+ Economics wrote "will turn some economic activity unproductive and cut off businesses from credit, at any level of central bank rates, especially where global economic links run deepest."

Consumer confidence is another potential trouble spot. The University of Michigan's consumer sentiment index fell in August to a seven-month low. Bank of America Corp. Chief Executive Officer Brian Moynihan echoed President Franklin Roosevelt in a Bloomberg Television interview on Aug. 16, saying, "We have nothing to fear about a recession right now except for the fear of recession."

The Federal Reserve could put a smile back on investors' faces by whacking half a point off the federal funds rate at its September meeting, instead of making the expected quarter-point cut, says Leuthold Group's Paulsen. Investors could use the reassurance of a big cut even if the economic fundamentals don't justify it, he says. "The risk we have is the economy may be great, but if you scare the private sector enough, they'll stop doing everything and we'll free-fall," says Paulsen. A recession that struck now would be hard to fight because fiscal and monetary policy are already stimulative.

Which leads us back to Trump, who's made his stewardship of the U.S. economy his No. 1 issue. "The strong economy is Trump's best message and it is the one that has the broadest appeal and offers the best chance to increase his support base," says Republican strategist Matt Mackowiak. To put it differently, a recession would doom the reelection bid of a president who, even with today's robust economy, can't get his approval numbers much above 40%.

That helps explain his all-out campaign to keep the economy moving, including his Aug. 19 tweet that the Fed under Chair Jerome Powell should cut the federal funds rate by at least a full percentage point "over a fairly short period of time."

Trump knows he's divisive, but he's banking on voters to reward him for presiding over the latter stage of what's become the longest economic expansion in U.S. history. "You have no choice," he told voters at a rally in New Hampshire on Aug. 16. "Whether you love me or hate me, you gotta vote for me." If economic conditions continue to be favorable, he just might get what he wants. Ⓑ
—*With Jordan Fabian*

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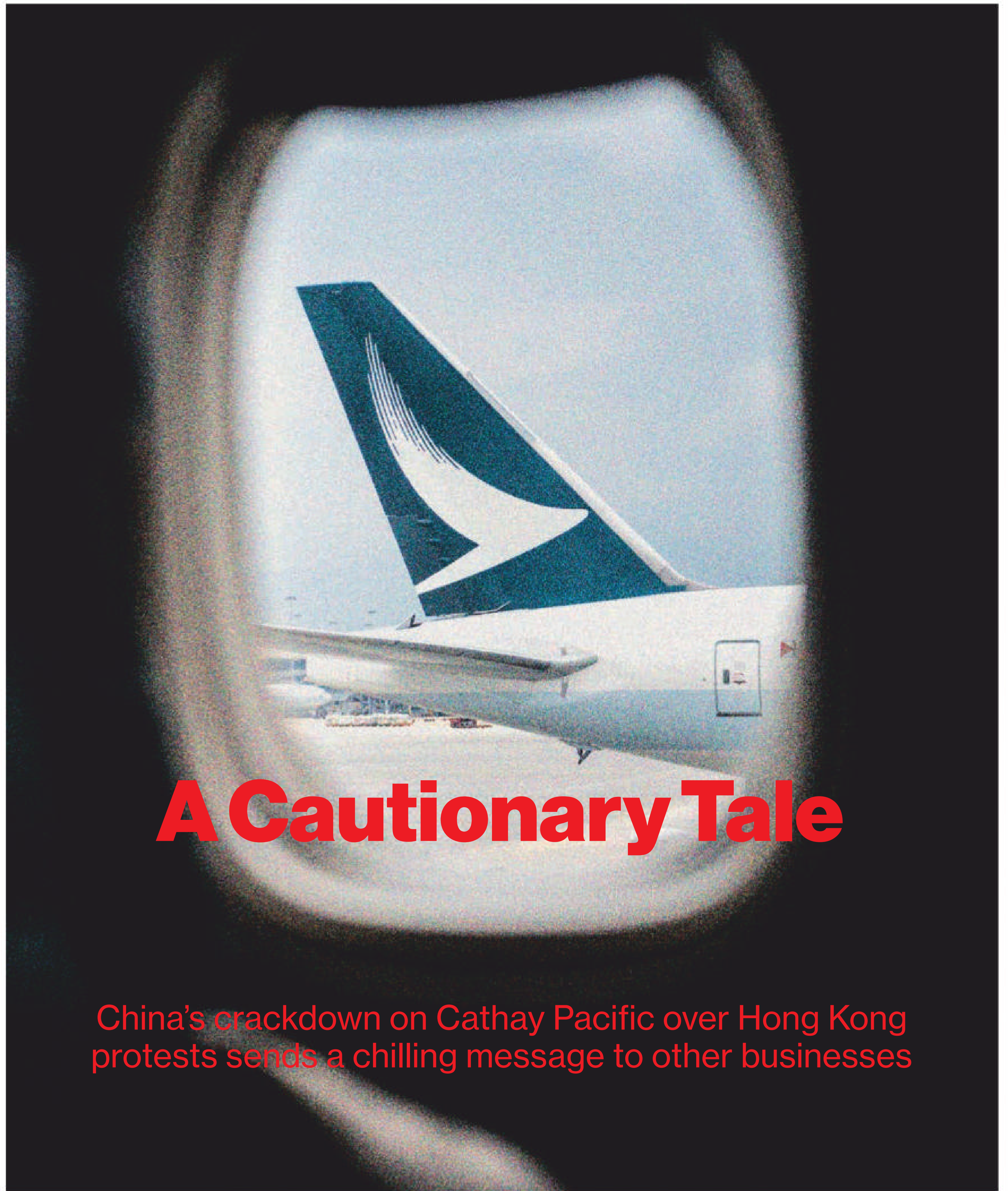


A Cautionary Tale

China's crackdown on Cathay Pacific over Hong Kong protests sends a chilling message to other businesses

In the 1990s, as Britain was preparing to hand over Hong Kong to China, Adrian Swire was worried. The chairman of the Swire business empire based in the longtime British colony was concerned that its Cathay Pacific Airways Ltd. could lose traffic rights once China took charge in 1997. He decided to make a deal: allow Chinese-owned enterprises to increase a stake in Cathay to ensure friendly ties with Beijing, according to his since-declassified correspondence with John Major, U.K. prime minister at the time, and his government. State-owned Air China Ltd. is currently the carrier's second-biggest shareholder after Swire.

Today, after months of protests that have widened the divide between the semiautonomous region's residents and the central government in Beijing, Swire's 45-year-old son, Merlin, now chairman of the group's publicly traded Swire Pacific Ltd., finds himself in a similar quandary. After some of the carrier's more than 32,000 employees joined the protests, China's aviation authority made clear government officials' displeasure with what they saw as a possible threat to aviation safety. Chinese officials called for some Cathay workers who had

Edited by
James E. Ellis

publicly supported pro-democracy protesters to be banned from flying into and over China and asked for the names of all Cathay workers whose jobs take them through Chinese airspace. China also demanded that Cathay draw up a new plan to improve flight safety and security measures. And, in case that pressure wasn't intense enough, some big state-owned businesses including China Citic Bank International Ltd. and China Huarong International Holdings Ltd. advised employees not to book Cathay flights.

Merlin Swire flew to meetings with officials in Beijing. The airline quickly acceded to China's demands and on Aug. 16—following massive protests at Hong Kong International Airport—announced the resignation of its British-born chief executive officer, Rupert Hogg, as well as one of his deputies. A spokeswoman for Swire declined to comment.

"This is the most appalling kowtow to Peking," David Webb, a Hong Kong activist investor, wrote on his blog just hours after Chinese state broadcaster, CCTV, broke the news of Hogg's departure on Aug. 16. "Every substantial employer in Hong Kong, in both the public and private sectors, has employees who have participated in marches that have frequently gone beyond their approved spatial or time limits. Should all the CEOs resign?"

While Merlin Swire appears to be sticking to the strategy employed by his father—working to keep peace with Beijing while focusing the business on Hong Kong—his predicament has become a cautionary tale of modern-day China, with the country increasingly willing to call out companies that want access to its lucrative consumer market but fail to toe the party line.

Cathay isn't the only global company that's become enmeshed with the anti-Beijing protests. Within days of the airline being castigated by the Civil Aviation Administration of China and boycotted by state-backed companies, luxury brands Versace, Coach, and Givenchy apologized for selling T-shirts that implied Hong Kong wasn't part of China. PricewaterhouseCoopers (PwC) was accused on Chinese social media—where nationalistic posters are increasingly pushing the country's causes—of not condemning the demonstrations enough after a purported company-linked online post appeared to support the protests. PwC said the post was a fraud. Banking giant HSBC Holdings Plc came under fire from some protest leaders after its CEO's public praise of China's socialist government; China and Hong Kong together account for more than a third of the value of all HSBC's customer accounts globally.

Few companies have more at stake than Cathay, which is 45%-owned by Swire Pacific, with Air China holding almost 30%. Most of the airline's workers are based in Hong Kong and its hub is the airport that had become a key site for the protesters. China, along with Hong Kong, accounts for about half of Cathay's revenue.

Cathay was in many ways an icon of the freedoms born of Hong Kong's British past, with one pilot even offering favorable words about the protests over his plane's intercom. In the days leading up to Beijing's crackdown, Cathay Chairman John Slosar told reporters the company "wouldn't dream" of telling employees how to think. Now, with its abrupt about-face, the airline risks becoming a symbol of acquiescence to the central government.

"At the moment, I think most Hong Kongers are likely to side with" Cathay, says Lo Kin-hei, vice chairman of Hong Kong's Democratic Party and a district councilor. Yet if Cathay "keeps on compromising," he says, local residents might become less loyal and turn to Air China or other Chinese carriers when planning their flying.

The *Global Times*, a newspaper published by China's Communist Party, said Hogg's departure may not be enough to atone for Cathay's "lukewarm attitude" in dealing with its "radical" employees. "Cathay Pacific's latest gesture was viewed by many as too little to restore its scarred reputation and the loss of customers," the newspaper said.

Repairing that relationship is important not only for Cathay, but also for its parent's other businesses. A third of Swire's extensive real estate portfolio, a third of its 93,000 employees, and half of its global beverage sales (it bottles Coca-Cola products in 11 Chinese provinces and Shanghai) are on the mainland.

Cathay workers know they're under the microscope as well. In a recent Facebook post, the flight attendants' union asked members not to talk about political topics while flying and to be careful on social media and outside of work hours discussing issues that could "cause significant effect on everyone of us now."

Webb, the activist investor, worries that the circumstances that led to CEO Hogg's resignation could hurt Hong Kong by scaring away talent from the territory. "The mere fact this has been happening is enough to start the pressure on a brain drain," he said in an interview. "So the longer-term effects could be quite negative. People don't want to work in a place where they might get fired for their own views."

Another risk, says Ivan Choy, a political scientist at the Chinese University of Hong Kong, is that ▶

PHOTO ILLUSTRATION BY 731; PHOTO: GETTY IMAGES. DATA: COMPANY REPORTS. CHINA INCLUDES HONG KONG AND MACAU; DATA COMPILED FOR THE SIX MONTHS ENDED JUNE 2019

◀ Cathay's compromise could encourage Beijing to further suppress free speech and expression among Cathay staff—and possibly among workers at other big Hong Kong companies. "This can be really dangerous," Choy says. "It can lead to even stronger anti-Beijing sentiment in society and more social unrest."

Still, the public drubbing of Cathay was an intentional show of government might. "The message China wanted to send was that they have the power and the will to do what they want to do," says Shukor Yusof, founder of aviation consultant Endau Analytics. "Cathay is caught between a devil and the deep blue sea. Like many others in Hong Kong, the future of the airline is in China." —*Blake Schmidt, Shirley Zhao, and Kit Chellel*

THE BOTTOM LINE Cathay Pacific, which gets half its revenue from Greater China, has become ensnared in the politics of Hong Kong's protests. That could make the airline a target for both sides.

How to Save A Network

● A live reality-TV cop show gives cable channel A&E a weapon to combat its streaming rivals

On a Saturday night in July in Salinas, Calif., officer Cameron Mitchell began pursuing a suspected stolen car. As a couple million TV viewers watched at home, Mitchell chased the vehicle over curbs and through crowded intersections. He attempted what's known as a PIT maneuver, nosing his car into the side of the fleeing vehicle to get the driver to spin to a stop. But Mitchell instead lost control and his squad car skidded frighteningly to a halt on a median. In the end, the officer was fine and the suspect gave himself up a few blocks later after other Salinas police vehicles surrounded him.

It's all in a typical night on *Live PD*, the hit show that's helped lift the fortunes of A&E Networks Group and is showing at least one way TV companies can survive competition from streaming services like Netflix. Continually switching between cameras recording the real-time exploits of officers in eight locations around the U.S., *Live PD* combines a classic TV staple—the police show—with live elements that many viewers find irresistible.

"Crime is hot," says Scott Robson, an analyst who follows television for S&P Global Market Intelligence, citing everything from crime-focused networks, such as Investigation Discovery, to the surge in serialized crime podcasts. *Live PD* added a new twist: unpredictability. "With the live format," Robson says, "you never know what's going to happen next."

The show, now in its third season, is often the No. 1 program on American cable TV on Friday and Saturday nights. A&E is one of only two cable channels to show growth in 18-to-49-year-old viewers since September 2018, along with TLC.

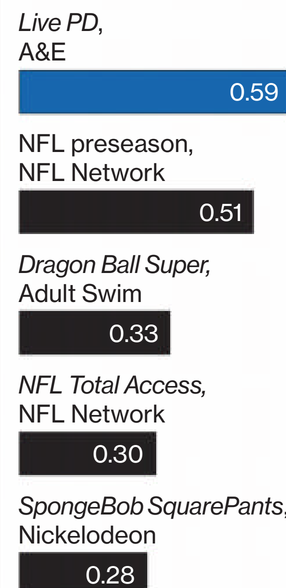
A&E, jointly owned by Walt Disney Co. and Hearst Corp., runs six hours of new *Live PD* episodes a week. There are hours more of reruns and seven spinoffs, including *Live PD Presents: Women on Patrol* and *Live Rescue*, which focuses on firefighters and other first responders. *Top Dog*, which features police dogs competing on an obstacle course, is set to make its debut in the fall.

In a way *Live PD* is a return to the network's heyday six years ago when it thrived on red-state reality shows such as *Duck Dynasty* and *Dog the Bounty Hunter*. Programming at A&E—which had started out showcasing fine arts such as opera and classical dance in the 1980s—drifted after those reality hits ended, and the channel even toyed with scripted dramas. In 2017, less than a year after *Live PD*'s debut, A&E canceled all its scripted shows and went all-in on reality. Says A&E President Paul Buccieri: "We think we've struck a real opportunity with live unscripted storytelling."

Live PD has flown largely under the radar of national media. That's partly because police departments in New York, Los Angeles, and Chicago haven't been interested in participating. "I think that more people in other parts of the country are probably touched by law enforcement," says the show's host, longtime network TV legal commentator Dan Abrams. "They have friends, relatives that are in some ways connected to it."

Live PD is the creation of Big Fish Entertainment, a production company acquired last year by Metro-Goldwyn-Mayer Inc. Prior to *Live PD*, Big Fish was best known for shows such as VH-1's tattoo parlor reality show *Black Ink Crew*. Company founder Dan Cesareo says his team got the idea for *Live PD* after reading an article about how police were streaming arrests on Twitter. The nation had been roiled by protests over police killings of unarmed suspects such as Michael Brown in Ferguson, Mo. Cesareo pitched the program to police chiefs as a way for the general public to see the whole story, not just clips that end up on the evening news. He's still

● Ratings of the top five cable shows on Aug. 10 among viewers age 18-49



◀ Abrams and Buccieri

surprised so many said yes. "We were asking them to sign up for what could be their worst nightmare," Cesareo says. "Let's broadcast your worst day at work live on television."

A typical *Live PD* episode follows two officers each in eight cities or counties. A camera person rides in the cars, which are also equipped with cameras. Abrams hosts the show from A&E's Manhattan headquarters, switching between live feeds to highlight whichever story seems most compelling. (An occasional segment is identified as having taken place "earlier," which could mean hours or days.) Current and former police officers provide in-house analysis, while Abrams offers a steady stream of deadpan quips. "She wanted the UberX version of that car," Abrams said one Friday night in August after a woman stopped for walking in the middle of a busy road in East Providence declined a ride in the back of a squad car. The officers put her in an ambulance instead.

Live PD offers a mix of the mundane and the terrifying. In the first season, viewers watched a fleeing suspect flip his car and try to run holding his two-year-old daughter as a human shield. As the camera rolled and a crowd gathered with cellphones out, Richland County, S.C., sheriff's deputy Chris Mastrianni wrestled the man for more than two minutes until backup arrived. At one point, the suspect reached into his pocket for what might have been a weapon.

Richland County Sheriff Leon Lott was among the first to sign on to the show and he says he has no regrets. The department gets fan mail and job inquiries from across the country, he says. Some 5,000 fans came to Columbia, the county's largest city, for a celebration of the 200th episode in April. "I think *Live PD* is the future of law enforcement," says Lott. "Five to 10 years from now, everything that law enforcement does is going to be livestreamed somewhere. I saw this as an opportunity to get on the front end of something everybody's going to be doing."

"Let's broadcast your worst day at work live on television"

Some departments, including Bridgeport, Conn.'s, have stopped working with the show. And last year, the Spokane City Council passed an ordinance making it difficult for police shows to film there after some residents objected to how the city was portrayed.

Dan Taberski, host of the *Running from Cops* podcast, which dissects the long-running syndicated show *Cops*, devoted a couple of episodes to *Live PD* earlier this year. Taberski's team interviewed residents of Spokane and Tulsa who appeared on the show. They complained that police targeted them for minor infractions because they knew they'd make for good television and that the show never asked permission to feature them. "A show that presents itself as being transparent asks no hard questions of police," Taberski says.

Live PD producers say that if some of those being filmed object, their faces are blurred out. But mostly Cesareo says the show doesn't need to get the subjects to sign releases to include them because the events are playing out in public, live.

That immediacy keeps viewers engaged, as during an incident in June in Williamson County, Texas, where a man pulled over for a missing license plate and suspected of being intoxicated tried to run after officers asked him to get out of the car. It took four deputies, using their fists, a chokehold, and a taser to subdue him. Half the people watching probably thought the officers used too much force; half probably felt that it was justified, Cesareo says. "That's the perfect moment for the show," he says. "You want those discussions." —*Christopher Palmeri*

THE BOTTOM LINE A&E's *Live PD* is the most-viewed show on cable on many weekend nights, thanks to its mixture of mundane and frightening episodes at eight police departments.

PHOTOGRAPH BY DOLLY FAIBYSHEV FOR BLOOMBERG BUSINESSWEEK. DATA: SHOWBUZZDAILY.COM

2

TECH

When Your Kid's Cure Costs $2.1 Million

Zolgensma, a one-shot gene therapy, is the world's most expensive medicine. What if you're not covered?

Edited by
Jeff Muskus

Gene therapy is bringing out the best–and worst–in America's health-care system. Zolgensma, the first systemic gene therapy of its kind that the U.S. Food and Drug Administration has approved, appears to cure in one shot a rare muscle-destroying disease that can kill infants and toddlers. (The kids still carry the gene mutation; they just don't exhibit the eventually fatal symptoms.) It's also the world's priciest medication. Novartis AG set the cost at $2.1 million after the FDA approval came down on May 24, and some families have been left scrambling for ways to get the drug in its first several months on the market.

The medical system always faces a learning curve with a new treatment, particularly one this revolutionary, but the stakes for patients who could benefit from Zolgensma have made things that much tougher. Only 400 American babies a year are born with spinal muscular atrophy (SMA), but left untreated, it kills them before they turn 2 years old.

"It's a challenge anytime you introduce a new therapy into the marketplace to gain understanding from the insurers," says Dave Lennon, president of the Novartis division that developed Zolgensma. All major insurance companies cover the treatment, he says, but one-third of them have criteria more restrictive than the FDA's, which says any patient under 2 can have it. "It's still very much an evolving marketplace," he says. "We want to make sure the insurance companies and the community understand the gaps in coverage and help us address that."

Novartis has been less forward about potential problems in its Zolgensma trials. While the FDA was reviewing the drug, the company investigated potential manipulation of data in early animal trials and placed two top scientists involved in Zolgensma's development on leave. (They've since left the company.) Novartis told the FDA about its probe in June, weeks after the drug hit the market. The matter has drawn fire from lawmakers, and the FDA has said civil and criminal penalties are possible. Novartis says it's preparing a response to lawmaker inquiries.

Some insurers, including UnitedHealthcare, the nation's largest, have changed their initial policies and now cover patients according to the FDA's approval. Others, including Anthem Blue Cross Blue Shield, continue to limit access only to those who show symptoms before they reach 6 months of age.

Here are six SMA patients whose parents have tried different approaches to make sure they thrive in preschool and beyond. (These patients' insurers say they carefully consider coverage decisions.) Their experiences offer lessons for the many people who stand to benefit from the gene therapies on the horizon: treatments for Parkinson's disease, sickle cell anemia, and other more common conditions.

BATTLING THE INSURER

Newborn screening gave Sarah and Logan Stanger, public school teachers in Monroe, Ohio, a heads-up that their son, Duke, had SMA in the spring of 2019. He was 3 weeks old and showed no signs of the disease that's typically diagnosed after a desperate search for why a baby has stopped moving.

The Stangers and their doctors held off on giving him Biogen Inc.'s Spinraza, the only other treatment option, in hopes Duke could get the one-time gene therapy instead. Spinraza costs $750,000 for the first year of treatment and must be given every few months for life, adding up to $375,000 in annual drug costs in subsequent years. Duke wasn't able to get into any of the early studies of Zolgensma, but his parents cried tears of joy when the FDA approved the gene therapy, assuming their wait was over.

The family has health insurance through the Butler Health Plan, which covers public school teachers and librarians in their county and is run by Anthem Blue Cross Blue Shield. They didn't know that the plan specifically excluded coverage for any type of gene therapy, regardless of disease, the patient's age, or condition. The Stangers fought to overturn the plan's gene therapy exclusion rule. But they didn't know when or how their plea would be heard and were told they couldn't attend the meeting where Duke's case would be considered.

"It's a tortuous thing to be told your child has this terrible genetic disorder and there's this treatment out there, but we're not going to cover it," Sarah says. "It's mind-blowing."

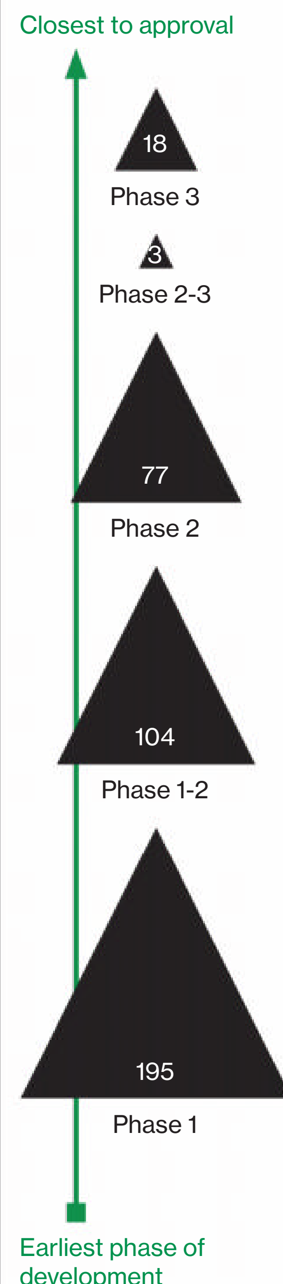
The Stangers have reached out to the state health department and lawmakers. They've also had colleagues covered by the same insurance program write letters to the insurer. Friends suggested that the Stangers divorce and quit their jobs so their household incomes would drop enough for them to apply for Medicaid for Duke. Instead, they kept fighting, and the plan changed its policy earlier this month, to allow coverage for gene therapy. The family is still waiting to see if it will now cover Duke, who's 5 months old and hasn't yet shown any symptoms. "We work hard, we pay for our premiums, and we believe our insurance should pay for the treatment our child requires," Sarah says.

CROWDFUNDING

Eliana was 8 months old when her parents, Shani Levi Cohen and Ariel Cohen, first realized there was a problem. "All the other kids were standing up in their cribs already and making their first steps, standing on the couch and falling, and my daughter was almost hardly crawling," says Shani, a stay-at-home mom. Eliana's doctor told her the ▶

◀ Patgiri and Usova with Tora

● Number of gene and cell therapy products in development



PHOTOGRAPH BY ROSS MANTLE FOR BLOOMBERG BUSINESSWEEK. DATA: AMERICAN SOCIETY OF GENE AND CELL THERAPY

◀ milestones would come with time. They didn't.

After a misdiagnosis, months of therapy, and scores of tests and procedures, the family was told Eliana had SMA in June. What she didn't have was time. Zolgensma is a potential cure, but it's approved only for children under age 2, before irreversible harm is done. Eliana's second birthday was five weeks away. After insurance refused to cover the treatment, Shani and Ariel, a rabbi, turned to the Chesed Fund, a crowdfunding organization for the Orthodox Jewish community.

"As a mother, I have to do everything possible to help my daughter," Shani said in a video that accompanied the family's fundraising plea. "Everything, even if it makes me uncomfortable."

So they reached out to strangers, and it worked. More than 23,000 people from the U.S., U.K., and Israel donated for Eliana's treatment, mainly small amounts ranging from $5 to $180. One anonymous donor pledged $285,000 to bring the campaign over the $2.2 million target. It only took five days.

"I don't know what the future will bring for her," Shani says in the video. "I don't know what machines, what tubes, what anything. All I know is that I want my daughter to have an opportunity to have a normal life, just like every other kid."

Eliana received Zolgensma on July 19, the day after her second birthday.

IMMIGRATING

Portfolio manager Rajdeep Patgiri has been on a crusade for his daughter, Tora. She was born in the U.K. in September 2018. By January he and his wife, Taisiya Usova, a stay-at-home mother, noticed that she didn't have much movement. He searched "baby doesn't move her leg" on the internet and the first few answers pointed to SMA. He took Tora to the emergency room, but the doctor said it was likely a developmental delay and sent them home.

Patgiri kept pursuing it, and two months later a neurologist gave him the dreaded SMA confirmation. There were no approved treatments for the condition in the U.K., so he asked his employer if he could move his family to the U.S. to get Tora into a Zolgensma study. Five weeks later, he relocated to his company's New York office, though he's been working remotely while the family has focused on getting Tora treatment in Columbus, Ohio.

Battling insurance wasn't his initial plan. Patgiri tried to get Zolgensma through Novartis's compassionate-access program, which makes experimental drugs available for free while they're awaiting regulatory approval. But that was closed to them because he wasn't a U.S. citizen or green-card holder. He applied for Zolgensma in June through his UnitedHealthcare insurance plan and was denied within days, because the insurer covered the drug only for children younger than 6 months.

There was a wrinkle. On June 25, the day UnitedHealthcare sent Patgiri the denial, it also published new guidelines expanding use of the drug to children up to 2 years old. "I actually saw the new guidelines first, and two hours later I saw the denial, which didn't make sense," he says. The insurer told him Tora's case reviewer didn't have the authority to approve her treatment. So he shared their story with the *Washington Post* and other media while continuing the appeals process. A week after the story's publication in newspapers, Tora was approved. The family plans to move to New York in January.

COMPASSIONATE ACCESS

Sara Harlan has survivor's guilt. The social worker is in the SMA Facebook groups, follows the news, and knows how much trouble some parents have had getting Zolgensma. For her daughter, Lucy, things weren't quite so complicated, and she says that weighs on her. "I have a really, really hard time knowing how easy it was to get this stuff," she says.

Lucy didn't move much when she was born in Louisville in April 2018. She was diagnosed with SMA when she was 10 weeks old. She started on Spinraza within days and almost immediately started kicking her legs. "That was like hitting the lottery," Harlan recalls. "We just screamed." But the doctor had told her about Zolgensma, and she and her husband, Danny, an accountant for health insurer Humana, set their minds on gene therapy. The clinical trials

◀ Moore with Margaux

were full. Around Thanksgiving, Harlan was scrolling through the posts in a Facebook group when she saw one from a father who'd been able to get the drug through Novartis's compassionate-access program, the one for which Tora Patgiri didn't qualify. Children in the program had to show symptoms or be diagnosed with Type 1 SMA, the most severe form of the condition, before they were 6 months old. Harlan immediately contacted her neurologist to secure approval, getting the final nod from the drugmaker on Jan. 2. Lucy received the therapy soon after.

Because she got Zolgensma through the drug company program, Lucy continues to take Spinraza, putting her in a new category of children getting combination therapy. Earlier this summer she did her first full roll, and she's starting to lift herself into the crawling position. "We're starting to see pretty remarkable changes," Harlan says.

MEDICAID

Maggie Moore's experience getting gene therapy for her daughter, Margaux, has been one of the most straightforward: The U.S. government's health-care system covered it.

Moore, a stay-at-home mom in Birmingham, Ala., and her husband, Alex, a restaurant sous-chef, saw an abrupt decline in Margaux's movement about a month after her birth in August 2017. They figured a quick call to the pediatrician would reassure them, but the doctor sent Margaux to the emergency room, where a neurologist said, before any formal testing, that she had all the symptoms of SMA.

It took about a month to confirm the diagnosis with genetic testing. Although Maggie wanted to enroll her daughter in a study of Zolgensma, there were no open trials available, so at 4 months old, Margaux started Spinraza, covered by the federally subsidized state children's health insurance program. There were signs the treatment was working: She could sit for brief periods alone and stand with support, though she still had trouble swallowing and needed help breathing at night.

The day Zolgensma was approved, Moore was on the phone with her doctor at Children's Hospital in Birmingham asking for access to the treatment. They immediately applied for coverage from Alabama's Medicaid program, which covers Margaux because SMA is considered a disability. In July, a month before Margaux turned 2, they got approval for her treatment. There were no hurdles to jump, only paperwork to complete.

"I had a perception that government insurance was less proactive," Moore says. "They have been, from the beginning, amazing."

▲ Cannady and Hopkins with LyRick

WRESTLING WITH THE CHOICE

In Vinton, Iowa, Rani Hopkins struggled with the decision to get Zolgensma for her son LyRick, despite its being hailed as a miracle and a cure. He was born in November 2017, and she saw problems with how he was holding his hand by January. She took him to the doctor, who said LyRick had an elevated heart rate. He ended up in the hospital and later with a neurologist who told Rani and her husband, L.C. Cannady, that their son had "perfect muscle tone" and there was nothing wrong with him. But doctors don't always figure it all out on the first visit. Two weeks later, LyRick's condition was undeniable. "My son went from being what neurologists called a perfectly normal child to a limp baby," Hopkins says. LyRick was diagnosed with SMA and given Spinraza through Medicaid a few days later.

He's done so well on Spinraza that Hopkins is reluctant to change his regimen, even though it requires a lifetime of expensive treatments, not just one shot. Now a few months shy of 2 years old, LyRick rolls faster than most people walk, he talks, and he sits up unassisted. "I'm fighting with myself over this decision," Hopkins says. "What if it doesn't work? And we can't get Spinraza? And he dies?"

She has little time for debate. Once LyRick is 2, Medicaid, like other insurers, is unlikely to cover gene therapy. *—Cynthia Koons and Michelle Cortez*

THE BOTTOM LINE Gene therapies such as Zolgensma carry unprecedented potential—and costs. Patients, families, and the medical industry are adjusting in fits and starts.

MARGAUX: PHOTOGRAPH BY MELISSA GOLDEN FOR BLOOMBERG BUSINESSWEEK. LYRICK: PHOTOGRAPH BY ANNICK SJOBAKKEN FOR BLOOMBERG BUSINESSWEEK

FINANCE

Edited by
Eric Gelman

Too Scared To Spend

Even wealthy American retirees are often reluctant to enjoy their money

The U.S. economic recovery, the longest in recorded history, has increased Americans' wealth by $52 trillion, according to the Federal Reserve. Wall Street is bursting with new money. U.S. stocks trade near record highs. Private equity firms search high and low for places to deploy more than $1 trillion of investor cash. Banks, enjoying a glut of deposits, pay savers interest rates that are minuscule from an historic perspective.

All these riches should generate lots of economic activity. The well-off could be buying themselves little luxuries or doing something more productive, like starting new businesses or expanding old ones. Or they could donate more to charity. At the very least, the extra financial cushion should make Americans feel more secure.

If only. Many of the recovery's biggest beneficiaries feel anxious. And financial advisers say even very rich clients often have a crippling reluctance to fully enjoy their money. "I am surprised how often I sit with a retired couple and have to encourage them to spend more," says Liz Miller, president of Summit Place Financial Advisors, a New Jersey-based firm specializing in high-net-worth clients.

If well-off retirees are more frugal than necessary, they end up denying themselves the fruits of a lifetime of hard work. Their heirs eventually benefit, but the vitality of the American economy suffers. "Wealth is getting more and more concentrated among households that are averse to spending it," says Matt Fellowes, a former Brookings Institution fellow who's founder and chief executive officer of United Income, a retirement planning startup. "It's trillions and trillions of wealth that is not benefiting anyone except asset managers."

Americans' combined net worth is $109 trillion, according to the balance sheet for all individuals and charities tallied by the Fed each quarter. That's up from less than $57 trillion during the worst of the Great Recession 10 years ago. The money disproportionately flowed to the rich. Of course, some of these people have no problem spending their fortunes on luxury real estate, private jets, or generous philanthropy. Your more typical millionaire, though, is often tightfisted. Retirement experts and financial advisers disagree on exactly why.

Some caution with money is rational when there's so much uncertainty about investment returns, medical costs, and longevity. "The reason they don't spend in retirement is because they worry about running out of money," says David Lau, founder and CEO of DPL Financial Partners. "You don't know when someone is going to die, you don't know when someone is going to get sick."

Yet Miller says that even truly wealthy retirees, who have more than enough assets to cover any eventuality, often ignore her advice on what's safe to spend. That's even though she assures them her calculations are done with sophisticated planning software that can game out various scenarios, including living to 100 and severe market downturns such as the one in 2008. "They keep denying themselves today for fear of what could happen tomorrow," she says.

Many clients think they're doing something wrong if they spend money in a way that causes portfolio balances to drop. "Never touch the principal" is classic advice that's a relic of an era of double-digit interest rates, when even conservative investments could produce substantial income. Despite ultralow interest rates, advisers say it can be difficult to persuade retirees to tap savings rather than just live on their tiny bond coupons and dividend checks. "Wealth is really a source of identity for people," Fellowes says. "By spending their wealth, they're losing some of their identity. There's an aversion to seeing their balances go down, even if it's excess wealth" that they'll never need.

Age is a crucial factor. The older people are, studies have found, the less risk they'll take. And today's wealth holders are older than the affluent of previous decades. The Fed's most recent ▶

● Change in average annual spending of Americans since '97-'98

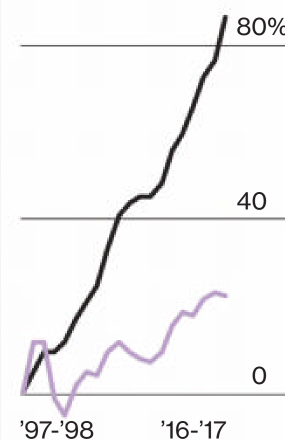


ILLUSTRATION BY JOE MELHUISH. DATA: BUREAU OF LABOR STATISTICS

◀ Survey of Consumer Finances, its comprehensive study of household wealth completed every three years, shows the typical U.S. household was poorer in 2016 than in 2007, adjusted for inflation. Only one age group saw its median net worth completely recover from the Great Recession in that time: families headed by someone 75 or older.

Even as some workers and retirees enjoy healthier nest eggs, millions of other Americans are struggling. "Affluent folks who are adequately prepared" often need to be encouraged to enjoy their retirement, says Marguerita Cheng, a financial planner at Blue Ocean Global Wealth in Gaithersburg, Md. Meanwhile, she adds, "there are people who are woefully ill-prepared for retirement. Perhaps they didn't save enough, but job loss, illness, divorce, and family situations compounded an already precarious situation."

While many current retirees can rely on defined-benefit pensions to produce income that supplements Social Security and protects against longevity risks, most future retirees won't be so lucky. They'll end their careers with just a 401(k) or other retirement account, a pot of money they need to make last. "Collectively as a country we're still saving not enough to accomplish retirement," says David Blanchett, head of retirement research for Morningstar Inc.'s Investment Management Group. "The question now is what comes next."

Meanwhile, trillions of dollars sit in bank accounts and conservative investments that struggle to keep up with inflation. Corporations hold almost $2 trillion in cash and buy back their own stock instead of making large capital investments. The rate of new business creation in the U.S. is stagnant. Individual giving as a percentage of disposable income has been roughly flat for more than a decade, according to the Giving USA Foundation, and it actually dropped 3.4% last year in terms of inflation-adjusted dollars.

The biggest beneficiaries of the wealth generated over the past 10 years may be the children of the rich. The more conservatively their parents spend, the more they'll inherit. There's one complication, though: The gap in life expectancy between the average American and the wealthy and well-educated is growing. While longevity is flat and even falling for many in the U.S., the well-off can expect to live well into their 80s and 90s. In other words, if the next generation is waiting for an inheritance check, it could take quite a while to arrive. —*Ben Steverman*

THE BOTTOM LINE Wealthy retirees' reluctance to draw down their savings is trapping millions of dollars that could be stimulating the economy.

"Collectively as a country we're still saving not enough to accomplish retirement"

The $115 Billion Bond Contrarian

● Michael Hasenstab has amassed a big bet against Treasuries

Few prominent investors have been punished harder for being on the wrong side of plummeting bond yields than Franklin Templeton's Michael Hasenstab, who manages funds with total assets of about $115 billion, including the Templeton Global Bond Fund.

The flip side of falling yields and interest rates has been a rally in the bond markets. As yields drop, bond prices rise, and in recent months, owning U.S. Treasuries has been an easy way to make money. So it's been a tough time to hold the view that the long era of low rates—which began with the financial crisis more than a decade ago—is about to reverse.

Hasenstab's not only less bullish than most bond managers, he's actively shorting Treasuries—betting that rates will rise and bond prices will fall. This puts him at the epicenter of a debate that's split global markets.

If he's right, the world economy is turning a corner, central banks will finally be able to raise interest rates back to their precrisis levels, and global bond yields will stop grinding ever lower. If he's wrong, it may be because the global economy is too weak for central banks to stop trying to pump it up. So far, the scoreboard doesn't look good, either for the economy or for Hasenstab: After increasing rates for the first time in almost a decade in 2015, the U.S. Federal Reserve is back to cutting, and the Templeton Global Bond Fund has lost 4.8% in the past month. The damage

was partly offset by holdings in emerging-market currencies, until some of those—most notably Argentina's—also started to sour this month.

Although it started out small, Hasenstab's position has been growing steadily over the past two years, quietly becoming the biggest bet against Treasuries of any major global bond fund. He shorts Treasuries by buying interest-rate swaps, a contract investors use to speculate on the level of interest rates in years ahead.

Hasenstab's unwavering argument has been that economic strength in the U.S. will make today's low-yielding bonds less attractive, especially if consumer prices start to rise. The short position "hedges the risk that rising inflation, a high reliance on foreign investors to fund increasing budget deficits, and highly stimulative monetary policy at a time of solid growth and record employment, could push longer term interest rates higher even while shorter term rates remain low and anchored," he wrote in an email.

The economics that Hasenstab studied to earn his Ph.D. might suggest that's a pretty straightforward view to take, but textbook economics isn't necessarily the best way to navigate the current market. Take the past month, when the Federal Reserve cut the key rate, despite still-solid growth in the U.S. economy. And then there's the curious phenomenon of negative interest rates in Europe and Japan, where investors are willing to sacrifice a small portion of money to keep their investment safe. That's also tended to pull U.S. bond yields lower; when it actually costs money to lend to the German government, many global investors are happy to be paid even the yield of less than 1.6% that 10-year Treasuries offer.

Other prominent investors, such as Guggenheim Partners' Scott Minerd, have also questioned the logic of Fed rate cuts at a time of economic strength. "By almost every measure policy makers should be considering another rate hike in anticipation of potential economic overheating," he wrote in a commentary on the $270 billion asset manager's website in July. On Aug. 13, however, Minerd told Bloomberg Television that the Fed should cut rates again to calm recently anxious markets and "send a clear signal" that it won't allow a recession.

Trying to predict where rates are headed in the current environment is a "fool's game," according to Gershon Distenfeld, co-head of fixed income at AllianceBernstein in New York. Even if it becomes clear that rates are going to rise, yields won't necessarily go up in a straight line, he argues. "Who the heck knows what will happen with bond yields?" Distenfeld asks. "No one thought yields would go this low. Six months ago, we were talking about how much they were going to go up."

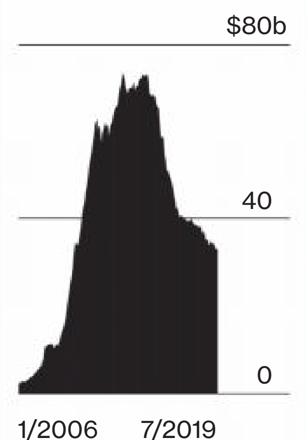
▲ Hasenstab

MATTHEW SCOTT

Hasenstab is no stranger to taking risks, though, and some of his past wagers on government bonds in such countries as Ireland and Hungary have delivered spectacular returns. And when bond yields have shot up in recent years, such as in the aftermath of the 2016 U.S. presidential election, the fund has handily outperformed its peers.

"It's a very aggressive, high-return strategy that investors need to be patient with," says Karin Anderson, director of manager research at Morningstar Inc., which gives its top analyst rating of gold to the Templeton Global Bond Fund. "They have really dug into this position, and I don't know that they're going to walk away from it anytime soon, because they don't agree with the Fed's approach of being so concerned about external factors rather than actual U.S. growth." Still, Anderson says, if the Treasury short continues to grow and Treasuries continue to rally, Morningstar might consider putting the fund under review. —*Natasha Doff, with Cecile Gutscher*

● Templeton Global Bond Fund assets



THE BOTTOM LINE Hasenstab thinks the Fed's rate cuts are courting an increase in inflation. At the moment, the Fed seems more worried about flagging growth.

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The Anger of Hong Kong's Youth...

● For young people in the city, an era of opportunity gives way to an era of rage

Billy Tung, a 28-year-old accountant, lives on Hong Kong Island in a tiny room in an apartment that's been partitioned to accommodate six renters. His bosses expect him to work most Saturdays and Sundays, but recently he's had another weekend activity: taking to the streets to join thousands of other Hong Kongers in protests. The demonstrations were triggered by a government proposal that would allow China to extradite those accused of crimes but have since morphed to include a broader set of demands, including the right for universal suffrage.

The protests have swamped the streets of this former British colony since June, intensifying as the long, hot summer drags on, with police frequently using tear gas and rubber bullets to clear demonstrators who've turned to violence at times to demand that Chief Executive Carrie Lam formally withdraw the legislation. "Citizens are willing to sacrifice the economy to fight," says Tung, who represents a generation for whom homeownership is increasingly out of reach. Hong Kong has had the world's least affordable real estate for nine years in a row. Property developers wield enormous market power, controlling everything from electricity suppliers to mobile phone carriers.

Like many Hong Kongers of his generation, Tung finds it hard to save even while he carefully watches his spending, which is why he's been toying with the idea of moving to Taiwan. "I don't want to spend the next 10 years working just to give it all away to Hong Kong real estate developers," he says.

This has long been a land of contrasts in which glittering skyscrapers and chauffeur-driven Rolls-Royces are juxtaposed with decrepit apartment ▶

◀ Tung at home and at a protest

PHOTOGRAPHS: CHAN LONG HEI/BLOOMBERG

Edited by Cristina Lindblad

◀ blocks and "cardboard grannies" picking through rubbish in search of recyclables. An aspiration for a share of those riches has been replaced by a growing sense of hopelessness.

Ho-Fung Hung, a professor at Johns Hopkins University who's a China expert, says the economic malaise, combined with a perceived loss of cultural identity and frustration at a lack of political voice, is driving young people into the streets. "Participants come from all economic backgrounds," he says. "What binds them together is a shared sense that there is no future for them in Hong Kong. Compared with their parents, they will live a lower quality of life."

The numbers bear that out. Median home prices climbed to 20.9 times median household income in 2018, according to Demographia, an urban planning consulting firm. That compares with 12.6 times for Vancouver and 11.7 times for Sydney—two other cities often cited as among the world's priciest. Huge demand, coupled with constrained supply in a market dominated by a handful of developers and cashed-up buyers from the mainland, has acted as a powerful cocktail to drive up prices.

That's as incomes, which used to far outstrip those on the mainland, have stagnated in recent years. Wage growth for those employed in the private sector in Chinese cities and towns was 8.3% in 2017-2018, according to the National Bureau of Statistics, while Hong Kong's was 3.9% from March 2018 to March 2019, data from the city's Census and Statistics Department show.

Locals often find themselves outspent in the city's marble-clad malls by weekend tourists from Beijing, Shanghai, or Shenzhen, though in recent weeks the number of mainland tourists has fallen sharply in response to the protests. Almost 1 in 5 residents lives below the poverty level, according to a government report from 2017. It's unlikely things have gotten much better since then, despite government measures authorizing a modest increase in support for the poor.

It's not that young Hong Kongers can't find a job. It's more that the pay from available work falls short of providing the living standards needed for a stable future. Unemployment for those age 15-24 was 8% at the end of 2018, according to the World Bank. In mainland China, it was 10.6%.

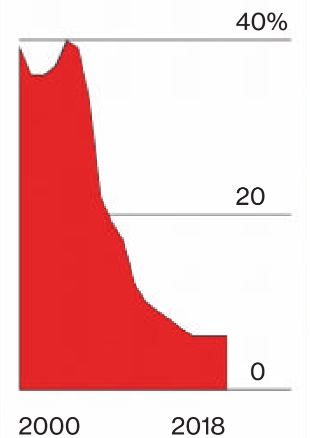
Sze Chan, a 20-year-old who designs menus for restaurants on a freelance basis, has been on the front lines of the protests in recent weeks. "Young people in Hong Kong are very confused about the future," she says. "Unless you get support from your family, it's impossible for one to live. And with so little left every month, you can't even have a decent wedding banquet when you marry, let alone buy a home."

Chan at least has the option of still living at home, without which things would be much tougher. "The young people go on the streets not just because of the political situation—the government's inability to address social issues plays a role, too. If it's just about the extradition bill, there wouldn't be so many people out protesting," she says.

A survey by Radio Television Hong Kong, the Institute of Asia-Pacific Studies, and the Chinese University of Hong Kong conducted on June 11-18 found an increase from the previous year in the levels of dissatisfaction across all areas of public policy, including social welfare and education. That's apparent even to some of the city's "haves," because "people see no hope, they look for blame," says Allan Zeman, whose Lan Kwai Fong Group owns restaurants and property valued at more than HK$4 billion ($510 million). "The first one you look to blame, of course, is the government, which is not helping you, and China."

The sense of diminished opportunity is amplified by Hong Kong's declining significance to the mainland, whose own economy has become more open as a result of market reforms. Analysis by Bloomberg Economics found that in 1992, 45% of China's total exports went to Hong Kong, while 12% went there in 2018. In 2000, Hong Kong's financial sector output was 39% of that on the mainland, whereas it's 6% today. While neighboring Shenzhen transformed itself from a fishing village into a global tech hub over a 40-year period, Hong Kong had an

● Hong Kong's financial-sector GDP as a share of mainland China's financial-sector GDP

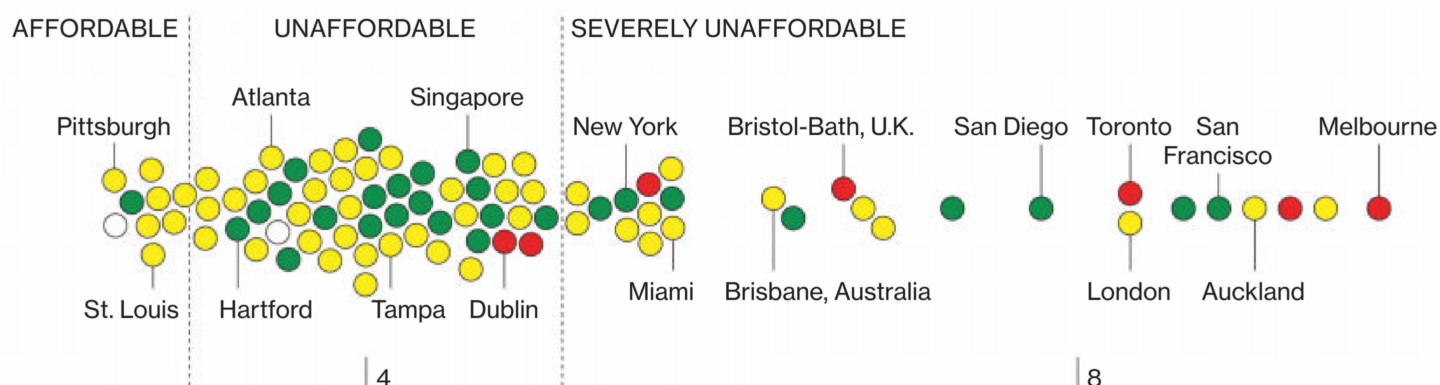


Priced Out

Ratio of median house price to median household income in selected markets* for Q3 2018

Change since Q3 2013:

- Decline (housing more affordable)
- Increase of 0.1 to 1
- Increase of more than 1
- No change



economy that remained overwhelmingly dependent on revenue from banking and property, and its port now has to compete with mainland rivals.

While Lam has spoken of the economic dislocation, she has yet to come up with a plan for dealing with it, and she hasn't shown much empathy. "They have no stake in the society which so many people have helped to build," she said at an Aug. 9 press conference, "and that's why they resort to all this violence and obstructions causing huge damage to the economy and to the daily life of the people."

On Aug. 20, Lam offered an olive branch to protesters, pledging to immediately engage in dialogue and investigate complaints against the police. Protesters rejected her offer because it fell short of their demands, raising questions about whether the two sides can reach a compromise even as they seek to reduce tensions. Analysts say the next six weeks before the 70th anniversary celebration of the founding of the People's Republic of China will be particularly sensitive. *—Kari Lindberg, Shawna Kwan, and Enda Curran*

THE BOTTOM LINE While politics sparked the protests, sky-high living costs and diminishing career opportunities have fired up young Hong Kongers.

...Could Put Billionaires In a Bind

● Policies to curb the power of the big conglomerates may help appease protesters

Hong Kong's richest man broke his silence on Aug. 16. Li Ka-shing, the nonagenarian founder of CK Hutchison Holdings Ltd., the city's most important conglomerate, published statements in Chinese- and English-language newspapers urging a halt to the unrest wracking the territory.

Li was the most prominent of a group of local property tycoons throwing their weight behind Hong Kong Chief Executive Carrie Lam's calls for calm. Among those also making statements were Peter Woo, retired chairman of Wheelock & Co., one of the city's largest landlords, and Henry Cheng, head of a property-to-jewelry empire that's building a HK$20 billion ($2.6 billion) shopping-and-entertainment complex at the city's airport. Meanwhile, Adam Kwok, executive director of Sun Hung Kai Properties Ltd., the city's largest developer, joined a pro-government rally on Aug. 17.

Hong Kong's billionaires have good reason to discourage the demonstrators. The tumult is hitting many of their businesses as tourists cancel their trips and stores along protest routes shut their doors. The economy will contract 0.3% this year, and property prices could decline up to 10% in the next 9-12 months, according to a Morgan Stanley forecast. There's also the possibility that, once the unrest subsides, the government will take aim at policies that have helped property developers accumulate huge fortunes in a city where homeownership is out of reach for millions of ordinary people.

Besides demanding universal suffrage and other political reforms, many of the protesters are frustrated with Lam's inability to make the city more affordable. Addressing those concerns means challenging the property barons, according to Regina Ip, a pro-Beijing lawmaker who calls the current crisis "a turning point for Hong Kong."

The outsize role of a few family-owned conglomerates is a legacy of colonial rule. Under the British, land couldn't be bought outright but had to be ▶

Sydney Vancouver Hong Kong

12 16 20

*CITIES WITH AT LEAST 1 MILLION PEOPLE IN AUSTRALIA, CANADA, IRELAND, NEW ZEALAND, SINGAPORE, U.K., AND THE U.S., AS WELL AS HONG KONG; DATA: DEMOGRAPHIA. HONG KONG GDP DATA: BLOOMBERG ECONOMICS

◀ leased from the government, an arrangement that guaranteed a steady flow of revenue into state coffers. The system, which endured after the handover to China in 1997, constrained the supply of residential and commercial real estate, enriching a few well-connected local families such as the Lis.

Hong Kong's tycoons leveraged their money and connections to expand into such sectors as telecommunications, hotels, logistics, and retailing. They invested in projects across the border, winning the trust of leaders in Beijing and gaining perks such as seats on government bodies including the 1,194-member election committee that selected Lam to lead the Hong Kong government in 2017.

Consensus is building across the political spectrum that the cozy relationship between property developers and Hong Kong's rulers constitutes a threat to stability. Ever-rising real estate prices have widened the divide between the haves and have-nots, supplying additional fuel for the unrest, says David Dodwell, executive director of the Hong Kong-APEC Trade Policy Study Group, a local think tank. "The pressure is on the property barons," he says. "Because housing is such a critical social issue now and emotionally distills the crisis, they are going to be in the firing line in a way that other sectors are not."

For Lam, shifting attention from her failed extradition bill toward economic reforms is an attractive option, according to one of her advisers. Her administration is working on proposals to address basic problems that previous governments have long neglected, says the adviser, who asked to remain anonymous because the discussions are confidential.

Some developers have amassed large property holdings that they've yet to develop, exacerbating the housing crunch. Henderson Land Development Co. controls more than 45 million square feet of agricultural land, an area slightly larger than New York City's Central Park, while Sun Hung Kai has an additional 31 million square feet. All this acreage could support tens of thousands of new homes, helping to bring down prices across much of the city.

To spur construction of apartments, politicians say Lam should resort to a rarely used resumption law (akin to eminent domain) that allows the government to take back land and put it to public use. "The government has to explore every means to increase land supply," says Starry Lee, chairwoman of the Democratic Alliance for the Betterment and Progress of Hong Kong, the city's largest pro-Beijing party. "If they cannot engage in a healthy dialogue with the tycoons, then the government should resume the land."

Local property developers aren't the only companies that could be affected. Hong Kong Disneyland, a venture between Walt Disney Co. and the local government, has an option for an additional 6.5 million square feet near the theme park, whose attendance projections have fallen short since doors opened in 2005. The lot set aside for an expansion of the park has been sitting vacant for years. It's time for the government to take it back and develop it for public housing, Lee says.

Many of Hong Kong's conglomerates are better positioned than in the past to withstand challenges at home. CK Hutchison last year got 15% of its revenue and just 2% of its net income from Hong Kong, down from 21% of revenue and about 5% of profit in 2015. More than half of the group's revenue and earnings comes from Europe, where its business units operate trains, telecommunications networks, and utilities. On Aug. 19, CK Asset Holdings agreed to pay £2.7 billion ($3.3 billion) for British pub, restaurant, and hotel operator Greene King Plc.

Hong Kong's superwealthy also have practice navigating policy turbulence. After years of debate, the city finally enacted a competition law in 2015, but opposition from business led lawmakers to water down the legislation before approving it, says Sandra Marco Colino, an associate professor at the law school of the Chinese University of Hong Kong. In the almost four years the statute has been in effect, the government has initiated only four cases.

The scope for meaningful change may be limited by the political reality that Lam can't afford to alienate a powerful constituency when millions of Hong Kong residents are calling for her resignation. "I still think the government is pretty conservative when it comes to policymaking," says Tommy Wu, a senior economist in Hong Kong with Oxford Economics, who discounts the likelihood of major reform from Lam's administration. "To me, it looks like they are tinkering on the margins."

On the other hand, Lam's taking on the tycoons may ensure that she retains the support of China's top leadership, which views rising income inequality as potentially destabilizing not only to Hong Kong but also to the mainland. "President Xi Jinping has said houses are for living in, not for speculation," says Andrew Wan, a member of the legislature from the Democratic Party, which has called on Lam to step down. "Tackling Hong Kong developers would be in line with his views." *—Bruce Einhorn, Shawna Kwan, and Shirley Zhao*

THE BOTTOM LINE To ease Hong Kong's housing crunch, the government could take back land from property tycoons to build more apartments, but it risks alienating a loyal constituency.

● Li, net worth:
$28.2b

● Woo, net worth:
$23.8b

PHOTOGRAPHS: TGP/GETTY IMAGES, JUSTIN CHIN/BLOOMBERG; DATA: GERMAN FEDERAL STATISTICS OFFICE, EUROSTAT

Can Germany Learn to Love Stimulus?

● The country is taking tentative steps toward a program to revive its flagging economy

"Economic stimulus" is something of a dirty phrase in German policy circles. Since a splurge when the country reunified in 1990, the government has only once deliberately ramped up spending to revive growth. That was in the aftermath of the 2008 financial crisis, when Berlin unleashed a €50 billion ($56 billion) package that included subsidies for car buyers and support for companies struggling to make payroll.

Now pressure is building both at home and abroad for the famously frugal Germans to open the purse strings once more. After a drop in orders for cars and industrial equipment this summer, as well as a string of disappointing corporate earnings reports, the Bundesbank issued a warning on Aug. 19 that Europe's largest economy could be about to tip into a technical recession (two consecutive quarters of negative growth).

Chancellor Angela Merkel's coalition government is increasingly unpopular, which could make it difficult to muster political support for ending an almost eight-year run of balanced budgets. Along with giving Germany the moral high ground from which to lecture more profligate peers in the European Union, the country's commitment to fiscal rectitude has allowed it to pare public debt to 60% of gross domestic product—the lowest of any major European economy—from 83% in 2010.

Speaking at a town hall event in the northern city of Stralsund on Aug. 13, Merkel acknowledged that the economy is sputtering, saying "we're heading into a difficult phase," and added that her administration will react "depending on the situation." Finance Minister Olaf Scholz has said publicly that the government can muster a €50 billion stimulus again if needed. Discussions are already underway on what such a program might include, according to two people who asked not to be identified because the conversations are private.

"Considering that industrial weakness has now persisted for one and a half years, it is remarkable how slowly the debate has moved so far," wrote Greg Fuzesi, an economist at JPMorgan Chase & Co., in a recent note to clients. Indeed, German officials have stuck with their 2019 growth forecast of 0.5% so far, even as economists at investment banks have been paring theirs.

The hurdles for getting a stimulus program approved are high. Under the constitution, the lower house of parliament must first declare a crisis if the government is to issue debt beyond the normal guidelines. Without a widespread sense of malaise, such a move could be difficult to justify.

Policymakers are reviewing the 2009 playbook to figure out which policies might be worth revisiting. It's partly an issue of timing: Applying stimulus too soon could fuel imports and savings rather than bolster industrial output and protect jobs. Here's a quick run-down of what's possible, based on interviews with seasoned Germany watchers.

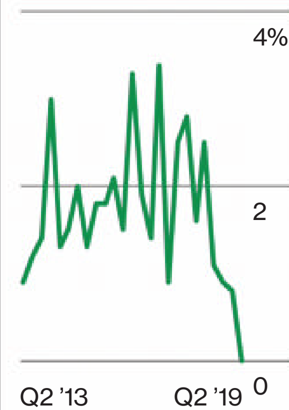
The country ranks highly overall in the World Economic Forum's global competitiveness index but falls short in areas such as road quality and internet connectivity. To address those gaps, Berlin could commit to higher investment for the next 15 to 20 years, says Christian Odendahl, chief economist at the Centre for European Reform in Berlin.

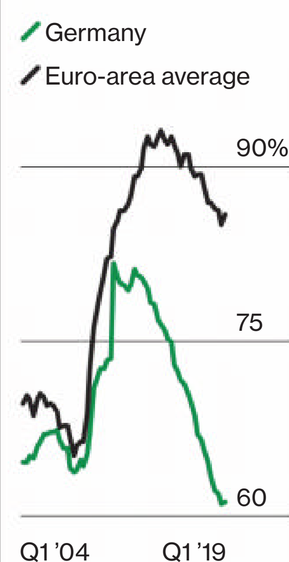
Tax cuts are a key ingredient in almost any stimulus plan. Christian Schulz, an economist at Citigroup Inc., says Germany could follow the U.K.'s example of 2008 and temporarily trim its sales tax to give consumption a boost. Reducing income taxes, on the other hand, would backfire, according to Odendahl, because it would prompt federal, state, and local governments to curtail spending to offset the drop in revenue.

The government could revive a 2009 cash-for-clunkers program that offered consumers €2,500 rebates for replacing older cars with more fuel-efficient models. As well as aiding a key industry—one whacked by the diesel scandal and trade tensions—the initiative would dovetail with the country's drive to accelerate the switch to more environmentally friendly energy sources. Also, authorities are already considering options such as incentives to improve the energy efficiency of homes.

Merkel's administration could also choose to stand pat. The most recent budget sets aside more than €150 billion for infrastructure, education, housing, and digital technology over the next four years. Berenberg economist Florian Hense reckons that provides Europe's largest economy with a boost equal to 0.4% of GDP, which he says should be enough for now. *—Birgit Jennen and Jana Randow, with Piotr Skolimowski*

THE BOTTOM LINE The German government is debating whether to deploy stimulus measures that could add up to €50 billion to counter a likely recession.





Practicing th

● G-7 host Emmanuel Macron has vowed to "innovate," but the age of multilateralism is over

By 2 a.m. on June 29, officials locked away in the negotiating room at the Group of 20 summit in Osaka, Japan, were starting to fall asleep. They'd been working without a break for two days, subsisting on pasta with shrimp paste and other unpalatable fusion fare, and yet were no closer to drafting a communiqué that all the world leaders present could accept. As the fatigue set in, the "Sherpas," as these officials are known, decided the only way to stay awake was to conduct the rest of the meeting standing up. Even that didn't resolve the impasse.

Forums such as the G-20 and the Aug. 24-26 meeting of the G-7 in France were first dreamed up in the 1970s as a place for foreign officials to come together, quarrel, and ultimately resolve issues that go beyond borders. At first the discussion was primarily on economics, but the agendas quickly grew to encompass human rights, international security, global health, and climate change. The joint statement of values typically produced at one of these gatherings, known as the summit communiqué, lacks the force of law, or really any force beyond symbolism. But what it signifies—multilateralism, globalization, international understanding—has formed the foundation of the world order in what we like to think of as the modern era.

That foundation is beginning to crack. In the age of the strongman leader embodied by Russia's Vladimir Putin and Turkey's Recep Tayyip Erdogan, and especially since the election of U.S. President Donald Trump, disrupting international norms has become a norm in itself. After last year's G-7 meeting in Canada, Trump blew up the communiqué he'd agreed to mere hours earlier, reacting to a perceived

Edited by
Jillian Goodman

e Art of No Deal

▲ World leaders pose for a G-20 family photo in Osaka on June 28

TRUMP: NICHOLAS KAMM/AFP/GETTY IMAGES. LEADERS: KIM KYUNG-HOON/BLOOMBERG

slight from Prime Minister Justin Trudeau. Despite their valiant effort, the Sherpas at this year's G-20 failed to craft language that all of the assembled leaders could agree to and had to insert a special section for the U.S. position on climate change.

If the era of agreement is over, what will the future look like? French President Emmanuel Macron has been grappling with that question as his country prepares to host the G-7 in Biarritz. "I have battled at the G-20 and ended up at 19," he said at the end of the G-20, "and I have battled at the G-7 to be all seven together and then have the U.S. pull out." Desperate to avoid a repeat of the summit in Canada, Macron promised to "innovate," floating the idea of a series of mini-communiqués on individual issues such as climate change, signed only by those leaders who agree with one another. "We need to have a reflection on our formats," he said. "Accept that on some subjects, there's a member of the club who may not sign. We cannot do miracles."

These are hardly abstract concerns. While Macron and others have framed their search for solutions in terms of improved protocol, disagreements that begin at international meetings have a way of rippling into far less rarefied circles, and vice versa. Trump's pique at Trudeau concerned the latter's attempt to retaliate against tariffs the U.S. had applied to Canadian steel and aluminum weeks before. The Iran nuclear deal and the Paris climate accord were both reached through carefully orchestrated international discussions—and they were both shredded single-handedly by Trump.

Yet even on the question of how to achieve unity, there's disagreement. According to a high-ranking German official, Chancellor Angela Merkel also left the Osaka G-20 summit frustrated that once again Trump had hijacked a major gathering of world leaders. In her view, these events were turning into opportunities for the U.S. president to put on a show and boost his ego. But ▶

◀ Merkel also insisted that reaching a common final declaration, however weak the language might be, still ought to be paramount.

Trump isn't alone in turning international diplomacy into a stage for political posturing, complete with a global audience and background leaders to populate the scenery. Chinese leaders, for instance, have been frequent spoilers. Since Trump took office, however, his bilateral meetings have occupied center stage. Before the G-20, his anticipated meeting with China's Xi Jinping dominated press coverage. In all, Trump held eight one-on-one meetings in Osaka, including with Putin; Erdogan; Saudi Crown Prince Mohammed bin Salman, still under a cloud after being accused of orchestrating the murder of critic Jamal Khashoggi; and Brazilian President Jair Bolsonaro, a gun-loving ex-military leader regarded as the Trump of South America.

In Biarritz, the marquee event will be Trump's meeting with the group's latest populist entrant, Boris Johnson. Since he became Britain's prime minister in July, Johnson has shown no interest in compromising on Brexit policy with his critics in London, let alone with his European counterparts; he waited nearly a month after taking office to travel for talks with the European Union's two most powerful leaders, finally making a last-minute dash to Paris and Berlin in the days before heading to Biarritz.

As a former foreign secretary, Johnson is well-aware of the diplomatic conventions he's defying. The danger, says Alistair Burt, a Conservative member of Parliament who served with Johnson in the Foreign Office, is that the rest of the world will shift to accommodate that defiance rather than challenge it. "If you revert to a foreign policy where 'my country comes first, and stuff the rest of you,'" Burt says, global leaders risk contributing to the appeal of those who've succeeded at home by looking tough and standing alone on the world stage. "Size will matter, the weakest will get picked off, and with that way forward lies more conflict, more confrontation, and greater risks."

Not that the global leadership has ever been entirely without conflict, even in the days when cooperation was a given. The G-7 used to be the G-8, of course, until 2014, when a U.S.-led coalition moved to suspend Russia from the group over its annexation of Crimea. Later that year, Australia's then-Prime Minister Tony Abbott borrowed a term for an aggressive challenge in Australian football and vowed to "shirtfront" Putin at that year's G-20, after pro-Russian rebels in Crimea shot down a Malaysia Airlines plane carrying some Australian citizens. (He didn't, but Putin nevertheless found himself isolated.) Years earlier, in 2009, Italy so bungled preparations for the G-8 that some questioned the country's continued relevance.

Innovation aside, some realpolitik ways to limit dissent already exist. According to an Italian official, G-7 diplomats expect the French to announce which foreign affairs topics will be on the agenda close to the beginning of the summit, perhaps only two days before. No full plenary discussion is likely on trade, and a minimal restatement of existing positions is likely on climate change. Should Trump make it impossible to reach a joint position, France, as the host, has the option of issuing its own statement at the end of the meeting.

"Size will matter, the weakest will get picked off, and with that way forward lies more conflict"

Formal diplomacy has always been a complicated dance, which may pose a problem more fundamental than those created by chaos-loving nationalists. With or without Trump, the G-7 is already too slow for a world that will have fully digested whatever news comes out of it by the time everybody gets home. The talks among Sherpas have almost always been tortuous—the summit in Japan was less the exception than an extreme example of the rule. Much as with fusion cuisine, the result is usually an unhappy compromise designed to please the tastes of all that ultimately satisfies no one. —*Tim Ross, Gregory Viscusi, Arne Delfs, with John Follain*

THE BOTTOM LINE International summitry may be mostly symbolic, but the symbolism is far from empty, and some powerful leaders are wondering what we'd do without it.

A Bitter Pill for Democrats on Health Care

● Even their most moderate proposals aren't likely to get past a hostile industry

Democrats are engaged in a vigorous debate about how to achieve their goal of universal health-care coverage. Moderates such as Joe Biden want to enhance the existing Affordable Care Act with a "public option." Progressives like Bernie Sanders and Elizabeth Warren want to junk private insurance and set up a "Medicare for All" system. But looming in front of the discussion is an obstacle

no amount of careful messaging will help them overcome: Even the most modest Democratic plan would face intense opposition from health-related industries, not to mention Republicans.

Already, powerful interest groups are mobilizing and pooling resources to undermine the Democrats' plans. The Partnership for America's Health Care Future—a lobbying group that represents insurance companies, drugmakers, hospitals, and other industry players—is running TV ads and commissioning polls designed to undercut support for any expansion of government-provided coverage.

The industry coalition despises Medicare for All, which would end private insurance, hammer pharmaceutical profits, and slash provider payments as much as 40% in the hope of making coverage universal and accessible. But the group's also against letting Americans buy into a Medicare-like plan at lower cost. "We want to build upon what is currently working and fix what is not," says Lauren Crawford Shaver, the Partnership's executive director, who worked in the Obama administration and on Hillary Clinton's 2016 presidential campaign. "Candidly, we do not see Medicare for All, Medicare buy-in, or public option helping to accomplish those goals. Our members are not really together on many things in this town, but they are united in this."

So far, voters disagree. A July poll commissioned by NPR and Marist found that 41% of Americans favor a Medicare for All plan that replaces private insurance, while 70% said they support having the choice of being covered by a government-run plan or private insurance. A public option may poll well now, Shaver says, but "people genuinely don't know what it means." Once the industry makes its case about what a government-sponsored plan would mean for people's coverage, she expects opinion will change.

Its recent six-figure TV and digital ad campaign, rolled out nationwide, is just the first step. "The politicians may call it Medicare for All, Medicare buy-in, or the public option," say a rotating cast of seemingly ordinary people. "But they mean the same thing: higher taxes or higher premiums, or lower-quality care." The industry coalition argues that Medicare for All could pummel rural physicians and cause many hospitals to close. Proponents have responded that only insurance would be centralized and that the program would allow all Americans to go to doctors and hospitals of their choice. But the real impact on the industry depends on the extent of reimbursement cuts to providers, a detail that remains unspecified in many Democratic proposals.

The lobbyists may not have a vote in Congress, but they have demonstrable influence over the legislative process. Ask Jim Manley, a former Democratic aide who began his two-decade Senate career a few years before Bill Clinton tried to pass universal health care. He saw the bill run into a buzz saw of opposition after insurance lobbyists ran a multimillion-dollar TV campaign in which a couple named Harry and Louise lamented being stuck with bad government options.

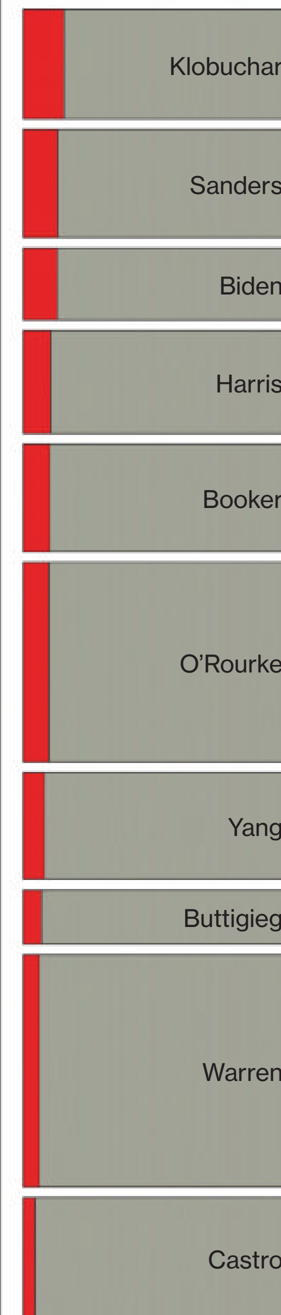
A decade and a half later, Democrats held painstaking negotiations with key industry figures to neutralize opposition. Insurers would come under tougher rules and have to cover people with preexisting conditions at reasonable rates; drug companies would pay rebates for some prescription medication; doctors and hospitals would face some payment cuts. But they'd also be guaranteed millions of new customers thanks to the subsidies that extended coverage. The result was the Affordable Care Act—or Obamacare.

"One of the big takeaways from Clintoncare is, when you have a powerful opponent such as the health-insurance industry, it's very difficult to get anything done," says Manley, who worked for then-Senate Majority Leader Harry Reid when the ACA passed with not a vote to spare. "They managed to demonize the issue and make it radioactive to many Democrats. Which is why the takeaway from Obamacare was to try to build a coalition to take away some of those politics."

Even if Democrats win the White House, hold the House, and regain the Senate, their best-case margin in the upper chamber would fall far short of the 60 votes needed to pass legislation. Republicans, who in 2009 and 2010 refused to supply a single vote for Obamacare, aren't likely to sign on to any Democratic idea. One Senate Republican aide, speaking on condition of anonymity, says the majority has no intention of compromising on a public option, calling it a "radical" idea no matter how moderate the candidate.

Manley doesn't see single-payer getting the kind of support it would need to overcome Republican and industry opposition. A public option may have more Democratic support, he says, "but it's fair to point out that these are very powerful interests that are prepared to oppose just about anything that's being discussed right now." Industry players killed it in 2009, and this time, just like last time, "there's a whole bunch of groups that are dead set against it." —*Sahil Kapur*

THE BOTTOM LINE The Obama administration was able to win over the health-care industry only by killing the public option, which even the most moderate Democratic candidates are promoting.



DATA: COMPILED BY BLOOMBERG

The New Old T

UNIFORMS
French drivers are required to keep yellow safety vests in their cars to make themselves visible in the event of a roadside breakdown. When commuters rose up to protest a gasoline tax proposed by President Emmanuel Macron, the *gilets jaunes* were already at hand. A uniform signals solidarity and makes it harder for police to distinguish any individual activist. It also creates an instantly recognizable visual emblem—very useful for media coverage.

BUCKETS
Tear gas—banned in war, along with other chemical and biological weapons—is legal as a crowd-control measure in peacetime. But as police have become more comfortable using it, protesters have gotten better at protecting themselves. Demonstrators in Caracas often carry plastic buckets to cover a tear gas canister and contain the gas. Someone wearing gloves can then run over, scoop up the canister, and throw or kick it back at the government's troops.

TELEGRAM
The app of choice for political resistance doesn't offer the end-to-end encryption of WhatsApp or Signal. But Telegram does provide useful features for organizers, including group chats that can accommodate as many as 200,000 users, and a ready-made poll function to gauge collective opinion. Telegram was Hong Kong's seventh-most downloaded app in July, with 110,000 new users.

After the Sudanese military toppled dictator Omar Hassan al-Bashir in April, it turned its attention to a new opponent: protesters demanding a civilian government. In a bid to cut off activists' ability to communicate with one another and the outside world, leaders ordered the country's internet shut down. This, they thought, would also shut down the movement.

Instead, organizers communicated via handwritten notes, couriers, and face-to-face meetings—all time-honored tactics from the pre-internet age. By early July, internet access was restored, and on Aug. 4 the two sides agreed on a transition to civilian rule.

Since the 2011 Arab Spring, it's been difficult to talk about civil unrest without considering the catalyzing role of social media and the web. But in the political protests dominating global headlines this summer—from northern Africa to Russia, from Latin America to Asia—organizers are using physical tools as much as digital ones

Tools of Protest

CLICK COUNTERS
Governments under pressure have every incentive to minimize the scope of dissent, and they often downplay the size of mass demonstrations. To refute the police figures, a Russian group called White Counter has volunteers count everyone who passes through official entry points. "The police figures are used for propaganda, which long ago divorced from reality," says a volunteer coordinator for the group. "Independent media began to trust our figures."

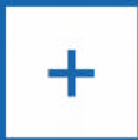
LASER POINTERS
By some estimates, Hong Kong has 50,000 closed-captioned TV cameras trained on public areas. Protesters have long worn masks and bandannas to avoid recognition, but they've also begun waving laser pointers and flashlights to make the footage harder to decipher. The erratic light show has the added benefit of disorienting and annoying police.

to propel and sustain their uprisings.

This is in part because the same technological advances that made it possible to mass millions of people in the streets of Cairo have also enabled increasingly sophisticated government surveillance. "If we look at movements and governments as engaged in a contest, you expect to see a cycle of innovation and counter-innovation," says Hardy Merriman, president of the International Center on Nonviolent Conflict, based in Washington. "What we're seeing now is an incredible cycle of counter-innovation, and a lot of people are watching."

Encrypted messaging apps, social media mobilizing, and livestreaming have all done their part this time around. But organizers have learned that it doesn't take technology to disrupt train service, snarl traffic, or create a striking image. *—Janet Paskin, with Gregory Viscusi, William Turton, Jake Rudnitsky, and Patricia Laya*

PHOTOGRAPHS BY KANG HEE KIM FOR BLOOMBERG BUSINESSWEEK; STYLIST: PAOLA ANDREA



SOLUTIONS

Small Business

Reality Bites

Is SmileDirect redefining the doctor-patient relationship at the expense of safety?

It's been a busy two years for SmileDirectClub, the hard-charging startup that promises what many customers undoubtedly consider a win-win: plastic aligners to straighten teeth for a fraction of what they would pay to get treatment through a dentist. Even better, they don't have to go to the dentist at all. The company became ubiquitous, its ads appearing in social media feeds and on TV, buses, and billboards. Since 2017 it's opened 342 retail locations—"SmileShops"—across the U.S. and in Canada; that includes more than 94 kiosks in CVS pharmacies. And in the first half of 2019, the company sold close to 232,000 sets of aligners—nearly as many as in all of 2018.

On Aug. 16, the company quietly filed for an initial public offering, one that market-watchers say will sell $1 billion worth of shares when it closes this fall. Although not yet profitable, SmileDirect is valued at $3.2 billion. The company has proven so successful—conceptually, if not actually—that it's led the way for several smaller competitors. Still, SmileDirect faces challenges from dentists who say the company puts patients at risk.

The idea behind SmileDirect was simple: Orthodontics isn't nearly as complicated as dentists would have you believe. In 2013 co-founders Alex Fenkell and Jordan Katzman were developing a drivers-license-renewal business and spending time in the offices of Katzman's venture-capitalist father, David.

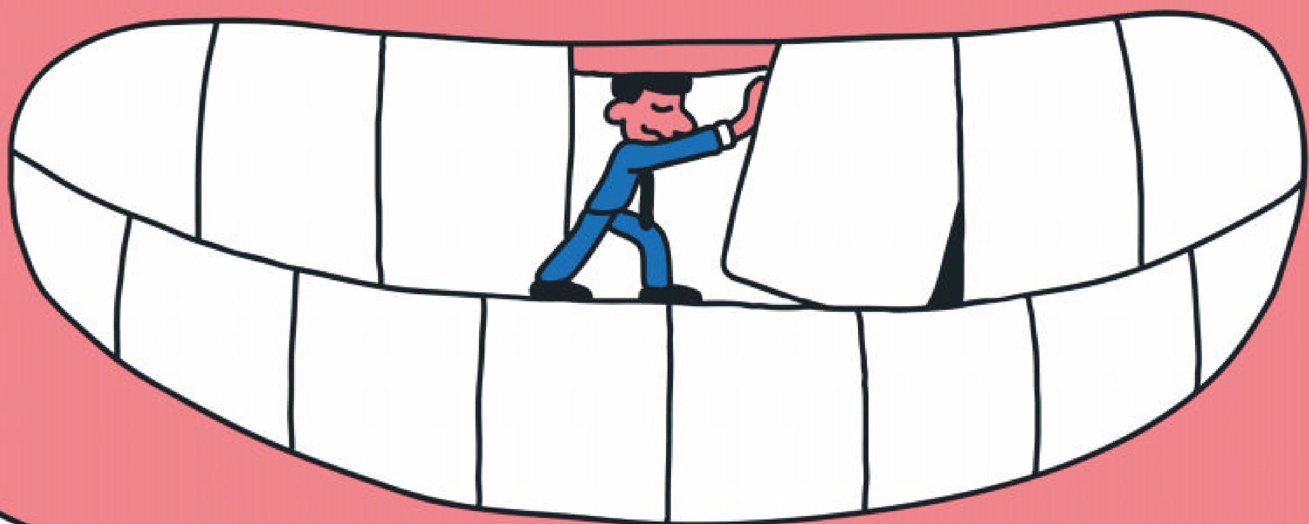


ILLUSTRATION BY OSCAR BOLTON GREEN

August 26, 2019

Edited by
Dimitra Kessenides

Conversations about one of the elder Katzman's most lucrative investments, 1-800-Contacts, took them in a different direction. "It inspired us to look for the next multibillion-dollar industry that we could disrupt, one which had that medically regulated component," Fenkell says.

The pair soon settled on the clear plastic Invisalign braces developed by Align Technology Inc. in the 1990s. Ease is a big part of the pitch—patients can slip the braces on and off. But it still requires a licensed dentist's touch. Fenkell and Katzman suspected the aligners could be prescribed and monitored remotely. Fenkell says conversations they had with dentists confirmed their hunch. Katzman's father was intrigued. "David told us, 'If we can get 500 people through a pilot site, there probably could be a business here,'" recalls Fenkell. They officially founded SmileDirect in May 2014.

In place of dental visits, a customer goes to a shop for a digital scan or buys a kit to make a mold of her teeth and gums. The results are sent for review to a dentist licensed in the customer's state. The company seldom requires dental records or X-rays, but the patient must affirm that another dentist has found her to be in good oral health. Once the dentist approves a treatment, SmileDirect makes a series of aligners to wear over several months; the customer periodically takes photos of her teeth for the dentist to review. The cost is $1,895 for a basic set, about 60% less than traditional braces.

Is it safe? SmileDirect's consent form acknowledges that its service is not equal to visiting a dentist. "Because I am choosing not to engage the in-patient services of a local dental professional," patients agree, their teeth will improve but "still be compromised." Four teaching orthodontists interviewed for this article say it's dangerous to prescribe aligners without a diagnostic exam or review of X-rays that could detect gum disease or cavities. Plus, they say, patient-taken photos don't match real-time monitoring.

Dr. Jeffrey Sulitzer, SmileDirect's chief clinical officer, says the company's procedures are no less thorough than what dentists in daily practice do. The company's customers have no trouble taking photos, he says. As for obtaining medical records or X-rays, "why create an additional layer that doesn't exist in the traditional environment?" Sulitzer declined to comment on the consent form's fine print except to say, through company spokeswoman Carrie Moore, that "moving teeth is a simple, safe process that is elective and noninvasive."

As the SmileDirect has grown, however, more customers are saying that their teeth have been compromised. In the last three years to mid-August, consumers had lodged some 1,050 complaints on the Better Business Bureau website; complaints had totaled 592 as of Dec. 18. Many described broken and loose teeth and misaligned bites.

Moore says clinical issues are the source of less than half the complaints, and she points to positive reviews on other sites, including the BBB's.

Some customers have sought refunds. But those who accept must sign a secret agreement to not discuss their experience anywhere and to withdraw any complaints they've made to any government agency, including the state dental board. The American Dental Association and American Association of Orthodontists have asked the Food and Drug Administration, which regulates aligners, to sanction SmileDirect for treating prescription medical devices like an over-the-counter product. The FDA hasn't taken action.

However, it's state dental boards that regulate dentistry. The orthodontist association has made formal complaints in 36 states, demanding they enforce their laws against practicing dentistry without a license. (The company doesn't directly employ licensed dentists; rather, it's structured to provide services, such as its platform, to them.) But in many states, the dental board only has authority over licensed practitioners, says Dr. Jeffrey Cole, president of the American Dental Association, predicting that the company will be allowed to continue operating as it now does.

At least two dental boards, in Georgia and Alabama, are seeking to bar the company from scanning patients' teeth without a dentist physically present, prompting SmileDirect to sue. The company says the dental boards' actions violate SmileDirect's rights under federal law and the Constitution. This spring, federal judges in both cases dismissed many of the company's claims, though they allowed others to proceed. SmileDirect is appealing the orders.

Arkansas recently passed a law that requires an in-person exam before a doctor can treat a patient remotely, with some exceptions. Kevin O'Dwyer, a state dental board lawyer, says, "there's no doubt" SmileDirect violates the law. The matter has drawn the attention of the state attorney general. SmileDirect says the in-person requirement is an attempt to block competition and impede its innovations; it says "it abides by all proper and enforceable laws applicable to its business."

The battle over SmileDirect probably won't end in court. Deborah Ferguson, the Arkansas state representative and a dentist who co-wrote the law requiring in-person exams, expects to see the company at the statehouse if the attorney general opts to take action. "It's really about not letting big companies make money at the expense of patients who don't understand the complexity of treatment," she says. ——*Robb Mandelbaum*

THE BOTTOM LINE SmileDirectClub is experiencing huge growth, but its model is under attack from orthodontists who want regulators to take a closer look at the business.

A Bicycle Built for Many

Swapfiets aims to take its Amsterdam rental/repair business into every city with a bike rack

Amsterdam has more bikes than people, and far more of its 860,000 residents pedal to work than take a car or public transit. But at least 80,000 bikes are stolen every year, and flats and breakdowns are common. On any given day thousands of Amsterdammers face life without their two-wheelers. Richard Burger has a solution.

Five years ago he, Martijn Obers, and Dirk de Bruijn co-founded Swapfiets in Delft, where the three were students at the University of Technology. Swapfiets—Dutch for "swap bicycles"—provides a basic bike for a monthly fee of about €16.50 ($18). That covers repairs and insures against theft. Although there are many motives for signing on, Burger says, "everything comes back to the fact that you get the advantages of a bicycle, and as soon as there are disadvantages, we will take care of them for you."

Convenience—and cost—persuaded Ruta Puodziunaite, 24, to sign on. "When you go to a store, they offer you a bike for €300, which is too much. Why pay €300 to get a bike, with a shitty lock, which gets stolen in like two days, if you can get a Swapfiets for €16 a month?"

That argument has led about 130,000 customers, mostly in the Netherlands but also in Germany, Denmark, and Belgium, to join Swapfiets. As the hassles of owning a bicycle increase, the company's prospects rise, the co-founders say. If a customer suffers a flat, or a cable snaps, a few clicks on the app will summon a technician, who can fix the bike on the spot in as little as 10 minutes or swap it if the bike needs extensive repairs.

The operation began in spring 2014. Burger, Obers, and De Bruijn were working on a thesis project together—about icebreaking vessels. They fell into conversation about how many bikes they noticed in need of repair. That led to the bike swap idea. The three quickly set up a website and a Facebook page. A fellow student needing wheels contacted them via the site, and practically overnight, the business was born. They bought 40 bikes from a depot where the city deposits abandoned and illegally parked bikes. Within a couple of weeks, they bought 100 more from the depot. (The first customer remains a subscriber today.)

Before long, the trio was overwhelmed: They had 200 customers on a waiting list, and they needed money to maintain and fix the bikes they bought. In the spring of 2016, Swapfiets started making its own bikes via a deal with Almere-based Pon Bicycle Group, the manufacturer of the popular Gazelle and Kalkhoff models. They also hired a Pon executive, Steven Uitentuis, as managing director and secured an investment from a Pon-affiliated venture capital firm, Ponooc, which enabled much faster and sustainable growth. In fall 2016 a quarter of the university's 4,000 first-year students had signed up for a bike with Swapfiets. The Pon partnership also has led Swapfiets to add a seven-speed (€19.50 a month) option and an e-bike (€75 a month).

There have been plenty of growing pains, says Burger. "First we didn't have enough bikes, then we had enough bikes but not enough people to work for us. Once we got them, we didn't have the back office to handle it all." They staffed initially from their own network of friends. As they expanded to other cities, back-office operations—hiring, training, payroll, and more—gradually developed. Today, Swapfiets has 1,300 employees in more than 50 cities across four countries. More specialized roles have been created, such as one to oversee bicycle logistics and another to analyze repair and usage data. The information offers a competitive advantage, the founders say, that many bike manufacturers miss out on, since their customers typically visit independent repair shops for fixes.

The first city outside the Netherlands Swapfiets entered was Leuven, Belgium. Because it's a university town, a large percentage of its 100,000 residents are bicyclists; the city has more than 500 bike paths. The local bike culture is key to the company's decision of which new markets to enter.

Expansion brings headaches. "Requests for baskets, helmets, and bicycle bags came much more from other countries than from the Netherlands," Burger says. Michael Lucassen, a partner at VC firm Tiin Capital in Naarden, says, "Close to home, you can find people who support your high level of service." Local laws also dictate some bike features. For example, Germany requires an additional brake system beyond a coaster brake.

Swapfiets is weighing moves to Australia and Japan and considering two cities in the U.S.—Portland in Oregon and Boulder in Colorado. Burger won't comment on specific plans, save to say that the founders want their blue-tired bikes—the color of every front tire in the fleet—in every city with bike racks. The Netherlands might be the biggest bicycle country, Burger says, but "it is of course not the largest country." —*Ellen Proper, with Ruben Munsterman*

THE BOTTOM LINE A bicycle-rental startup begun by three college classmates in the Netherlands now has its sights on bike racks in Asia, Australia, and North America.

ILLUSTRATION BY OSCAR BOLTON GREEN. COURTESY FLOYD (6)

Scaling Up

Floyd

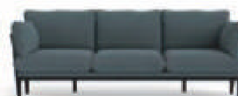
❶ It all started with a table leg.

Floyd co-founders Kyle Hoff and Alex O'Dell marketed their first product—a leg that can be clamped onto any surface to create a table—in 2014 via a Kickstarter campaign. The hardware drew 1,395 backers who pledged a total of

$256K

14 times more than what the partners sought.

❷ The duo want to reduce the disposability of furniture. The Detroit-based company's collection comprises four "foundational" products, each modular: a bed, a table, a couch, and, the latest, a shelving system. New products are released about once a year. Add-ons for existing pieces help reduce waste.



"You can make a really great product that could be a staple in a home by designing it in a thoughtful way that encourages keeping it," O'Dell says.

❸ The shelves come in tall and short configurations, with several options for expanding. "Shelving is a real pain point," Hoff says, because it's not easy to make it elegant, and modular, and durable.

LOCATION
Michigan is home to major furniture companies including Herman Miller Inc. and La-Z-Boy Inc. (a Floyd investor).

Shelving inventory that the company had projected would last a month sold out in

24

hours.

DESIGN
Everything is made for easy assembly, disassembly, and moving.

MATERIALS
Every piece is made in the U.S., out of birch sourced from Poland—it looks light but is superstrong, Hoff and O'Dell say—and steel that's made in Pennsylvania.

The repeat customer rate on the shelf when it went on sale on July 30 was

52%

The number of repeat customers has risen 140% a year since 2014.

Next up

Seating will come sometime in 2020. Floyd has been collecting customer feedback as part of the first phase of creating a dining chair. And the company is two-and-a-half months into a new collaboration with West Elm (the retailer sold the table legs in 2016); stores in Austin, New York, and Santa Monica, Calif., sell the full collection. "It's helping us to learn about creating a better retail experience for customers," O'Dell says. ——*Dimitra Kessenides*

BATTLE

BUB

OF THE
BLES

LACROIX WAS ONCE THE DARLING OF SPARKLING WATERS. TODAY IT'S STRUGGLING AGAINST A CROWDED MARKET AND A RAFT OF LAWSUITS

BY LAUREN ETTER AND CRAIG GIAMMONA
PHOTOGRAPHS BY SARAH ANNE WARD

When the value of Nick Caporella's company, National Beverage Corp., reached $2 billion in the spring of 2016, its top executives raised a congratulatory toast not with Champagne, but with cans of LaCroix, its marquee brand of flavored sparkling water. That summer, Caporella wrote a press release attributing the recent success to "Genius innovation!" By April 2017, the company was worth $4.1 billion.

It's been a thrilling ride for LaCroix, which for more than two decades languished in obscurity on the bottom shelf of the water aisle, in the shadows of Perrier's and S.Pellegrino's green glass bottles. Around 2013 the brand began rising from the dust that had been collecting on its 12-packs as consumers collectively shunned sugary sodas. Over the next five years, LaCroix's sales jumped almost eightfold, accelerated by a social media machine that excited young people with its Instagrammable rainbow of cans and zero-additive innocence. "They were really the first large brand to go after millennials that way and target their health and wellness concerns," says Alexander Esposito, a research analyst at Euromonitor International.

LaCroix is still the king of the sparkling water aisle, but the competition is crowding in. Last year, PepsiCo Inc. released Bubly, a sparkling water backed by a marketing arsenal that LaCroix has struggled to match. In 2017, Coca-Cola Co. paid $220 million for Topo Chico, a Mexican mineral water with a cult following. Meanwhile, a legion of startups has rolled out "craft" sparkling water brands that promote artisanal ingredients, antioxidant boosts, and cannabidiol infusions. LaCroix's sales for the four weeks ended July 14 fell more than 15% from the prior-year period, even as its main competitor, Bubly, saw sales surge 96%, according to Bloomberg Intelligence.

Then things only got more combative for National Beverage. It's been sued by shareholders and former employees, and reports of internal strife and personality clashes suggest deeper problems. Interviews with a dozen current and former employees, executives, and business associates describe Caporella as a hard-driving, idiosyncratic boss. Even though National Beverage is publicly traded (its ticker is FIZZ), he retains ultimate control. He's chairman and chief executive officer, owns almost 74% of the company's shares, and even pilots his own corporate jet. As the stock has plummeted, his net worth has fallen from $4.7 billion to about $1.9 billion. The siege phase of the water wars has begun, and LaCroix is behind the castle walls.

"WE'RE LACROIX. THEY NEED US MORE THAN WE NEED THEM"

Over 35 years, Caporella turned a family construction business into a sparkling water dynasty. Born in the western Pennsylvania town of Connellsville to Italian immigrant parents, he was raised in a home built above a coal-ash dump. As a boy he earned money by selling scrap metal and coal pieces he'd collected alongside the railroad tracks. His father, a miner, later moved the family to South Florida and began working in construction. In the 1960s, Nick founded his own construction company, Caporella & Sons, which was later purchased by a telecommunications conglomerate called Burnup & Sims Inc. Within 10 years, he was named CEO.

Caporella got into the soda industry in 1978, when he sought to diversify Burnup's business by purchasing a chain of drive-in movie theaters and a soft-drink bottling plant. He defended the company fiercely through the 1980s, as the corporate raider Victor Posner acquired shares and incited a shareholder revolt, a saga that appeared regularly in the *New York Times* and the *Miami Herald*. In 1985, Caporella created National Beverage, headquartered in Fort Lauderdale, to purchase Sara Lee's Shasta soda brand, later using the new company to buy enough Burnup shares to dilute Posner's stake and effectively end the takeover attempt. National Beverage also added Faygo, Big Shot, and other sodas.

Meanwhile, in 1992, WinterBrook Beverage Group in Seattle purchased a sparkling water called LaCroix from G. Heileman Brewing Co., a bankrupt beermaker in La Crosse, Wis. When WinterBrook too filed for bankruptcy four years later, National Beverage swooped in to acquire the company's assets, including LaCroix, which at the time was sold in bottles and came in three flavors—pure, lemon, and lime.

Caporella became entirely devoted to his beverage business, a transformation he once described as "being reborn." National Beverage's portfolio grew to include Creepy Coolers soda and VooDoo Rain, an herbal drink with flavors called Moon Glow and Lucky Devil that's packaged in psychedelic colors. Caporella added juices such as Mr. Pure and rolled out Rip It energy shots. In the early 2000s, the company expanded distribution of LaCroix in cans. It also unveiled a new logo with a calligraphic font and brushstroked waves, which Caporella personally helped design, according to two longtime business associates. He also boosted the carbonation so the fizz would retain its "bite." This served to contrast LaCroix with the more lightly carbonated mineral waters on the market, says Bill Phillips, a former president at National Beverage who began working with Caporella in 1985 and remains an adviser to the company.

In 2006, *Beverage Digest* released a report showing that soda sales in the U.S. had declined for the first time in two decades, as consumers grew concerned about obesity and Type 2 diabetes. That year, LaCroix staked out an early position as a health-conscious alternative to soda, becoming a sponsor of the Susan G. Komen Breast Cancer Foundation. Still, the brand languished amid National Beverage's syrupy bacchanal. In 2010 the company's annual report described Shasta and Faygo as its "flagship brands" and barely mentioned LaCroix. Even as LaCroix gained steam, longtime executives reminded Caporella not to forsake the company's roots. "I would say to him, 'It's great to be behind it a hundred percent, but we should remember to dance with the one who brung us,'" says Dennis Thompson, another former longtime National Beverage executive. "This company was built on soft drinks."

In the meantime, a small team of executives quietly began working to revitalize LaCroix. They decided to market it as different from both elegant mineral waters and sugary sodas,

aiming squarely at diet soda drinkers. The company expanded LaCroix's distribution outside its traditional regional markets and into major retailers such as Target and upscale national grocers like Whole Foods that would prominently feature the product. By 2013, National Beverage was touting "double-digit volume gains" for LaCroix.

Even though Caporella had largely stepped back from daily duties and handed over operations to his son Joe, he remained intensely focused on LaCroix, which one former employee describes as "his baby." He took classes in graphic design and flavor development, worked on package designs, visited the flavor lab in California, and conceived of marketing the iconic grapefruit flavor as "pamplemousse," according to his associates. In 2014 he oversaw the release of LaCroix's first major spinoff, Cúrate, which was packaged in taller, slimmer cans and featured flavors like "cerise limón" and "pomme bayá."

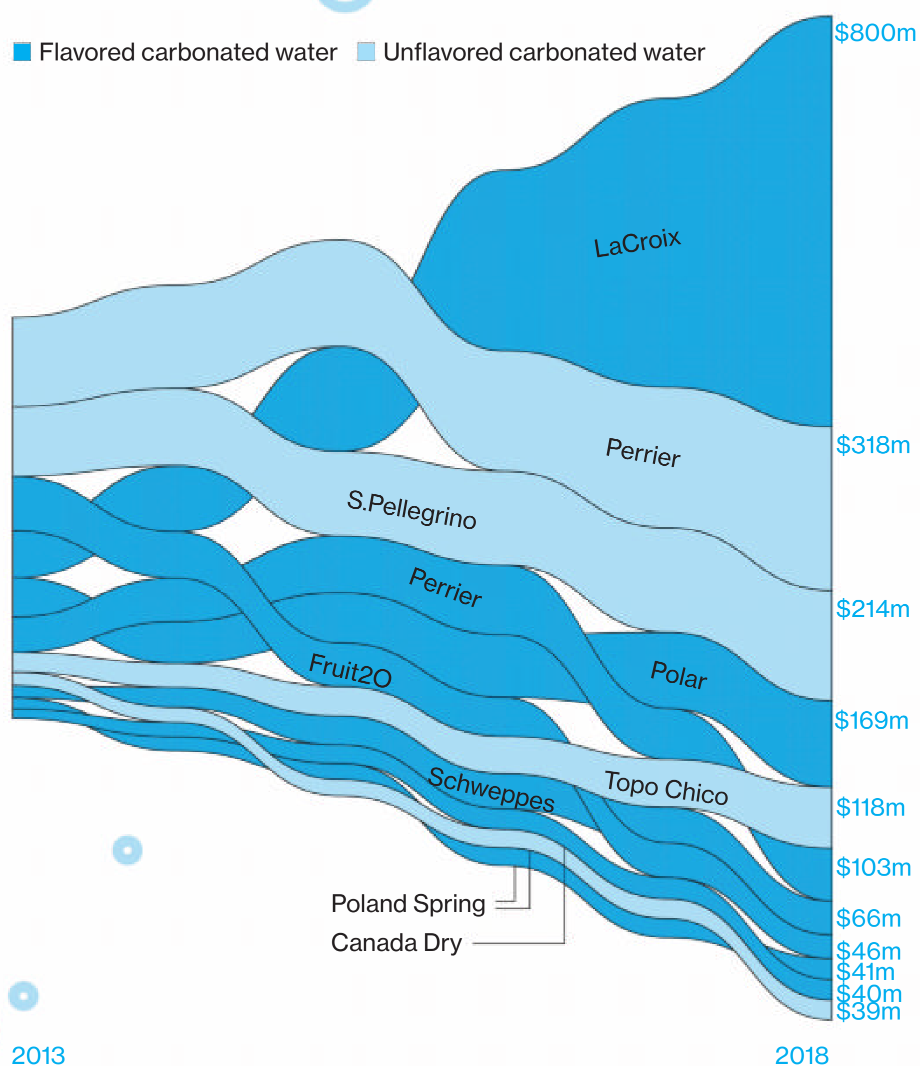
The brand relied on Instagram, Twitter, and recipe blogs instead of traditional advertising. Brides posted pictures of themselves with LaCroix on Instagram, and hashtags such as #LaCroixLove and #LiveLaCroix started trending. Fans posted locations of where to buy the newest flavor, sending consumers on treasure hunts. Whole Foods bakeries made cakes shaped like LaCroix boxes. A turning point was 2015, when the *New York Times Magazine* published a "Letter of Recommendation" for LaCroix. "Aside from the can, everything about LaCroix is gentle," it read. "Even the bubbles are small and frothy rather than spiky—a Vinho Verde, not a cava—making it easy to put away a couple in one sitting, totally guilt-free."

Over the years, LaCroix rolled out a rainbow of flavors—cola, passion fruit, key lime, hibiscus—to keep consumers' attention and excitement high. Soon cases of LaCroix were bursting from the endcap towers of supermarkets, which became Instagram-worthy tourist attractions in their own right—one was formed in the shape of the Empire State Building.

As LaCroix took off, so did Caporella's personal wealth. The taste of victory drew him deeper into the fray. "The faster it grew, the more excited he got," Thompson says. Caporella became more hands-on with the marketing of the brand, to the point where every decision—from the testing of new flavors to the timing of product releases—had to be approved by him, according to former employees. His domination rubbed some the wrong way—and led to intense personality clashes. Around the same time, top LaCroix executives began leaving. In 2016, BevNet, an industry publication, printed a story with the headline "National Exodus" that described how two LaCroix executives left for a competitor, prompting Caporella to sue. A third, Vanessa Walker, LaCroix's longtime marketing executive, who was instrumental in building the brand, left and ultimately started Millennial Brands Consulting, Inc.

National Beverage executives in Florida treated LaCroix as a delicacy. Company meetings included "tasting ceremonies" complete with unsalted crackers to cleanse the palate, bottles of still water to swish, and coffee beans to sniff. Caporella often referred to LaCroix as "the Tiffany of sparkling water." Breathlessness is his trademark style, and he writes most of National Beverage's annual reports and press releases

RETAIL SALES OF CARBONATED WATER, SELECT BRANDS



DATA: EUROMONITOR INTERNATIONAL

himself. In one from 2015, he wrote that the company was in a stage of "metamorphic" transition. "Ultimately, this evolution will generate our true value while significantly improving the health of our society! What a gratifying bouquet of goodness for everyone."

Caporella was so confident in his ability to transform water into money that he'd made a personal investment in Smuttynose Brewing Co., a famed New Hampshire craft brewer, according to four people familiar with the transaction. In 2017, with Smuttynose and other craft brewers facing a downturn in the market and LaCroix enjoying some of its headiest days, Caporella dispatched George Bracken and Rod Liddle, two National Beverage executives, to the brewery. A spokesman for National Beverage says Bracken and Liddle are technically employed by a separate entity, called Corporate Management Advisors Inc., a management services company Caporella owns. The pair helped Smuttynose with its financial statements and hammered out financial models they hoped would save the brewery—and Caporella's personal investment. Ultimately the brewery fell into foreclosure. That same summer, LaCroix competitors began circling.

For all the genius Caporella once attributed to LaCroix, it turns out that just about anyone can inject carbon dioxide into water, flavor it, and package it. By 2017, Coca-Cola had introduced its sparkling varieties of Dasani and Smartwater. PepsiCo's Bubly generated serious social media buzz, and that was followed by a Super Bowl ad featuring ▶

◀ Michael Bublé. (Get it?) A little more than a year in, Bubly has surpassed $170 million in sales, and its share of the sparkling water market has jumped about 3 percentage points, to 7.7%. What's more, LaCroix can't match the distribution heft of the beverage giants like Coke and Pepsi, which send convoys of trucks directly to stores and restaurants in the U.S. National Beverage depends largely on retailers picking up the product from warehouses. That limits LaCroix's reach, analysts say.

A flood of private equity money has backed other competition, including Spindrift, the Boston-area startup that lured away National Beverage executives. It touts "farm to bubble" flavors extracted from real fruit juices. Waterloo Sparkling Water Corp., from Texas, promises "a bigger, brighter bubble." Pep Talk, out of Minneapolis, has "energetic bubbles" (i.e., caffeine). Mountjoy Sparkling, from Petaluma, Calif., boasts no carbs, no sugars, and "fast-acting" CBD.

With so much money sloshing around, another, bigger bubble could be forming, but until it pops, LaCroix has a bull's-eye on its back. "There's more share to be taken from LaCroix because they've had the top spot for the longest time," says Brandon Cason, Waterloo's co-founder and chief marketing officer. His company is seeking to compete primarily on flavor. "If you're drinking a LaCroix, there's a hint of a flavor, but it's very tinny, it's very thin. There's not a lot there," Cason says. A Waterloo in-house food scientist has helped develop flavors that Cason calls more "realistic" and "delightful," such as a grape modeled after the grape soda of his youth and a watermelon he says is "playful, almost like a Jolly Rancher."

With all this competition, LaCroix's market share in the four weeks ended June 16 had dropped by almost 4 percentage points from the same period in 2018, to 14.5%, while Bubly, Spindrift, and Waterloo saw their market share increase, according to data from Bloomberg Intelligence. And whereas analysts once viewed National Beverage's sugary soda brands as a drag on the company, LaCroix has become the cause for worry. Based on Nielsen data, sales are now falling faster than those of the company's soda categories, says Sean King, a U.S. beverage analyst at UBS.

The 83-year-old Caporella rarely discusses details of his life, even with his closest advisers; he declined multiple interview requests for this story. A number of former employees, executives, and business associates agreed to speak about him only on condition of anonymity, citing fear of retribution. These people say he almost never shakes hands; upon greeting people, he clenches his fist and offers a "pinkie shake." Employees preparing to meet him for the first time are coached not to speak to him unless spoken to first. Multiple people describe a man who could explode at any moment, berate anyone who crossed his path, and veer into what some describe as verbal abuse. "If somebody made a mistake, it would be 'you're a good-for-nothing' or 'you're an expletive this and an expletive that,' " says a former employee.

In meetings, Caporella often speaks for the duration, regaling managers with tales of his battles and successes, to the point that they're known internally as "Nick Parables." Top managers are urged to write "letters to the chairman" congratulating Caporella whenever the company achieves something big, such as a stock price high. They're also expected to write apology letters if, say, they come unprepared to a meeting. Few dare incur Caporella's wrath or that of his son by challenging them. Anything short of adoration for one of Caporella's new package designs could result in being excluded from future meetings. Disagreement could be met with a stern reminder that LaCroix was "M-I-N-E," according to a person who heard him say it.

With National Beverage's resurgence, some employees began to feel that the celebration of LaCroix, at least internally, had become more like worshipping in the Cult of Caporella. They recall a Thanksgiving event that turned into a "Nick love fest." It was "This is Nick's brainchild, this is Nick who's gotten us to where we are," one former employee says. "It was all about Nick and the money that was being generated because of Nick." The company, which employs 1,640 people, disputes this characterization, as do some current and former associates. "I've seen Nick not happy with outcomes of things," Phillips says. "But I've never heard him raise his voice." He and Thompson say in meetings Caporella can be critical and "harsh" toward his son Joe, but the tough love doesn't extend to others. "Nick is passionate and can be demanding of himself and others, but is always fair and level-headed in dealing with people," Bracken said in an email. Even some of Caporella's strongest critics acknowledge his generosity. Every Christmas, he hands out gift bags to employees containing a honey-baked ham. He recently sat on a fundraising board for St. Jude Children's Research Hospital.

In late 2017, the biggest sparkling water brands began flooding the market with heavily discounted products. Retailers in turn asked for discounts on LaCroix and more in-store spending to continue prominently displaying the

brand. National Beverage instead raised prices of LaCroix and in some cases reduced spending on promotions, befuddling employees and retail partners, according to three people familiar with the strategy. As LaCroix's biggest rivals dipped into their massive marketing budgets, National Beverage's historically spare marketing spending slipped as a percentage of sales, according to company filings. The Caporellas maintained that LaCroix was beyond reproach. "The arrogance level reached an all-time high," says a former employee. "They'd say, 'We're LaCroix. They need us more than we need them.'"

In 2018 top managers at Whole Foods, a major LaCroix customer, called their bluff. They'd implored the Caporellas to provide concessions to the retailer as a way to secure prominent positioning in the stores, according to three people familiar with the negotiations. In particular, the company wanted LaCroix to match the aggressive discounts and promotions being offered by the new brands. When the company didn't yield, Whole Foods eventually decided to reduce the number of prominent in-store LaCroix displays and replace them with its competitors', according to people familiar with the decision. A Whole Foods spokesman declined to comment.

Phillips says he didn't have firsthand knowledge of the Whole Foods incident, but noted that Caporella has long had an aversion to making concessions for even his biggest retail customers if it requires taking a hit on margins. "One of the things that helped save the company before LaCroix is that Nick is first and foremost a businessman," he says. "The overwhelming philosophy in the past has been that you really can't start taking an individual retail customer and cutting them a sweetheart deal."

As Caporella worked internally to maintain a grasp on the brand, outside problems mounted. In July 2018 the *Wall Street Journal* reported on two lawsuits previously filed by former co-pilots of Caporella's who sued him for sexual harassment and an alleged "hostile work environment" in the cockpit of his Falcon 2000EX airplane. One of the pilots claimed that Caporella slapped him in the face and subjected him to "angry tirades," and that after complaining about it he was told by Caporella and others that he'd have to write a "letter of apology" to retain his job, according to the lawsuit. The company denied the claims. National Beverage settled the lawsuits, without admitting liability, and the pilots retracted their allegations and said they were "factually unsupportable." Despite that, shareholders have sued Caporella and National Beverage, arguing among other things that the company failed to tell investors about alleged workplace misconduct, including the conduct reported by the pilots. The company has called these claims "nonsense" based on unadjudicated and retracted allegations.

In October 2018, National Beverage was sued by a consumer whose lawyers argued the "all-natural" claim printed on LaCroix's cans was misleading because it allegedly contains synthetic "chemical compounds," including an ingredient "used in cockroach insecticide." After the lawsuit was filed, the stock dropped, and by the end of the year it had fallen 32%. Then, this January, a second lawsuit was filed, on grounds similar to those of the first. The company responded in court that the claims were "nothing more than a vicious attack" and reiterated that "National Beverage properly labels LaCroix sparkling water, and LaCroix sparkling water is created from natural ingredients."

By the spring of 2019, National Beverage executives were referring internally to the situation as a crisis, according to documents *Bloomberg Businessweek* reviewed. In March, the quarterly earnings report showed revenue had fallen for the first time since 2014, leading Caporella to issue one of his most unconventional statements yet. "We are truly sorry for these results," he wrote. "Negligence nor mismanagement nor woeful acts of God were not the reasons–much of this was the result of injustice!" His missive did little to assuage the concerns of traders, who sent the shares spiraling once again. Currently, more than half of the company's available shares are in the hands of short sellers, according to Bloomberg Intelligence.

In June a former LaCroix executive, Albert Dejewski, sued National Beverage for wrongful termination. A former senior director at Pepsi and marketing vice president at Chobani, Dejewski alleged that he'd been fired in retaliation for raising concerns earlier this year about the company's plans to publicize its transition to cans free of the liner containing the chemical bisphenol A, or BPA. The lawsuit said that Joe Caporella, under pressure to "drive positive buzz and awareness for the suffering brand," had planned to "prematurely announce that LaCroix cans would be BPA-free going forward" despite the company being "months away" from replacing the cans. This was because National Beverage had a "large stockpile" of LaCroix in cans with the BPA liners, "which the company planned to use," according to the suit. The filing detailed that on April 10, Dejewski had written an email to Joe saying he was concerned about the impending announcement. In response he received an angry email from Joe saying, "Don't know how you heard about BPA, but tell your source if they want to stay with the company, what's said in Ft Lauderdale, stays in here!" Dejewski was fired the following day. Today, National Beverage states on its website that "as of April 2019, all cans produced for LaCroix products were produced without BPA liners."

National Beverage has taken steps to contain the damage. In March the company named Joy Bauer, a well-known dietitian and expert on the *Today* show, an ambassador for the brand. The following month the company announced it was introducing LaCroix in the U.K. But Kenneth Shea, a senior beverage and consumer analyst at Bloomberg Intelligence, says he doesn't see a "quick fix" for LaCroix, largely because the company's competitors are "tougher" than they've ever been in this category and appear to be in it for the long term.

Caporella can't simply outwait his enemies. Laurent Grandet, a consumer analyst at Guggenheim Partners, says it isn't enough to roll out another flavor or a different-shaped can. The company needs to think about how it can "disrupt the market," he says, perhaps by introducing its own premium sparkling mineral water to compete with Topo Chico and Perrier, or using specialty ingredients such as real fruit juice. Caporella once wrote in an annual report that innovation "runs as liquid miracle through the arteries of Team National." For LaCroix, another liquid miracle can't come soon enough. Ⓑ

You Paid for a Business Magazine. Would You Pay for Sports News, Too?

The *Athletic* has more than half a million subscribers. If only it could turn a profit

By Ira Boudway
Photographs by Ian Allen

Athletic colleagues cover an Oakland A's home game

Alex Mather would like you to know that he loves newspapers. He's loved them since he was a kid growing up in Philadelphia. "I waited for the smack of the *Inquirer* on the ground in the morning," he says. "I would grab it, rip it apart, take the sports section, leave the rest for the family, and read it front to back." Mather, co-founder and chief executive officer of the *Athletic*, a digital sports-news subscription service, delivers this paean to the sports pages in a June interview at the company's San Francisco offices.

It's a do-over, of sorts. Two years ago, while talking to the *New York Times*, Mather spoke less warmly about newspapers when describing his company's ambition. "We will wait every local paper out and let them continuously bleed, until we are the last ones standing," he said. "We will suck them dry of their best talent at every moment." After the comments went viral, Mather apologized, writing that he was "not rooting for newspapers to fail" and had "learned a lesson in humility." But the damage was done: The *Athletic* was just another tech-bro startup out to wreck livelihoods in the name of disruption.

"I'll stay away from metaphors, for sure, for the rest of my career," Mather says now.

"That's good," says Adam Hansmann, the *Athletic*'s co-founder and chief operating officer, who's sitting across the table.

Mather has tempered his rhetoric, but the *Athletic* hasn't stopped poaching talent. It had about 65 editorial staffers when he spoke with the *Times*. Now there are over 400, covering more than 270 teams in the U.S. and Canada. This summer the service added dozens of reporters from the BBC, the *Guardian*, and elsewhere to cover English Premier League soccer. "We have hired more journalists than most in the world," Mather says. "We've both hired over a hundred personally."

The hiring spree comes amid spiraling industry decline. American newspapers shed 238,000 jobs—more than half of their total employment—from 2001 to 2016. And the layoffs have recently hit digital publishers once hailed as the future of media, including BuzzFeed, Refinery 29, and Vice Media. There were 3,000 jobs cut in the first five months of this year, which is on pace to be the worst in a decade.

The *Athletic*—ad-free, online-only—is a test of digital journalism's subscription model. Subscriptions cost $10 per month or $60 per year, though many start at lower promotional rates. Average annual revenue per subscriber is $64, according to the company. Almost every one of the 1,200 stories the site publishes in an average week is behind the paywall.

In August, Mather says, the *Athletic* crossed 600,000 subscribers. "We'll end the year somewhere close to a million," he says. The leader in digital journalism, the *Times*, has almost 3 million online-only subscribers, not including people who get just its crosswords and cooking services. The *Wall Street Journal* has 1.8 million, the *Washington Post* more than 1.5 million as of last year, and the *Financial Times* about 750,000. All four were founded in the 19th century and have carried a loyal readership into the internet age. The *Athletic* published its first story three and a half years ago.

ESPN's new subscription service, ESPN+, which has more than 2 million subscribers, includes some journalism with its live sports. But the *Athletic* doesn't really have direct competitors. ESPN, *Bleacher Report*, and Yahoo Sports, each of which reaches tens of millions of users per month, rely on ads to support their free content.

The question is whether the *Athletic* can make money. It has yet to turn a profit. Venture capital investors have poured more than $90 million into the site to date; in the most recent fundraising round, a $22 million investment the Founders Fund led in May, the company was valued at about $500 million, says a source familiar with the offering. (The *Athletic* declined to comment on its valuation.) The early numbers are impressive, but more than one person interviewed for this story made comparisons to the ill-fated *National Sports Daily*. The tabloid started in 1990 and spent $150 million to poach top writers before folding 18 months later.

Mather, 39, and Hansmann, 31, met while working at Strava Inc., a subscription service runners and cyclists use to track and share routes. Mather was head of product, and Hansmann worked in finance and operations. In 2015, Mather told his colleague his idea for building a network of online sports pages by hiring beat reporters and charging for subscriptions. He planned to call it the *Armchair*.

A few major newspapers had begun experimenting with paywalls, but the consensus then was that "information wants to be free" on the internet. Publishers would have to ride on the back of social media. *Bleacher Report* and *SB Nation*, two of the most successful digital sports media startups, had built their brands by paying armies of freelancers to churn out stories designed to show up at the top of Google search results or go viral on Facebook. (Sample headline, from *Bleacher Report*: "Why Tom Brady Is the Most Overrated Quarterback in NFL History.")

In fall 2015, Mather and Hansmann left their jobs and funded the *Athletic* out of their own pockets. "Someone has to be in the locker room," Mather says. "We can't have everyone barely paying kids to write their opinions on teams." They messaged hundreds of journalists on LinkedIn.

The first bite came from Jon Greenberg, a reporter at ESPN's local site in Chicago who'd recently been told his contract wouldn't be renewed. "Open to a new opportunity?" asked the message from Hansmann. Greenberg said that he was and that he knew others who might join him. Mather and Hansmann made Chicago their test market and hired Greenberg as editor. He recruited two others from ESPN Chicago, and the site went live in January 2016. Hundreds of subscribers signed up on the first day, mostly friends and family and readers of the three reporters' prior work. Later that year, the *Athletic* added coverage in Toronto, and by yearend the site was reaching 3,500 subscribers in the two cities. Emails began coming in from writers who wanted to introduce the site elsewhere.

That fall, Mather and Hansmann raised $2.5 million in seed money from a handful of investors and, in 2017, began ▶

◀ raiding newsrooms in the Bay Area, Cleveland, Detroit, and Philadelphia. Big-name national writers joined: Ken Rosenthal (baseball), Seth Davis (college basketball), Stewart Mandel (college football). "Why I'm Joining the *Athletic*" essays—loving remembrances of print's glory days and disdain for clickbait—became their own subgenre on the site.

The rest of digital media, meanwhile, was in free fall. In 2016, Facebook Inc. announced it would no longer traffic in headlines "that intentionally leave out crucial information." The company adjusted its algorithm to deprioritize publishers and solidified its grip, with Google, on the digital ad economy. Traffic plummeted, leading to layoffs. Vice shuttered its sports department. Fox Sports announced it would stop publishing written work, one of many sites to "pivot to video."

Dana O'Neil got a call from Mather in June 2017, a couple of months after losing her job covering college basketball for ESPN. She was one of about a hundred laid off from the network's newsroom that spring. "I remember I hung up the phone, and I said to my husband, 'If he's honest, I just talked to my journalistic fairy godfather,' " says O'Neil, who also remembered the *National Sports Daily*. "I was uneasy," she says. "But I said, 'I'm willing to take one more hard swing at this.' " With the industry in shambles, it felt as safe a place to land as any.

Starting salaries, according to conversations with more than a dozen *Athletic* employees, ranged from $55,000 to more than $120,000, depending on experience and location. For a top beat writer in a new market, the company might pay a 20% premium or more. In the early days, the site offered bonuses for bringing in subscribers. Every employee gets a small slice of equity. Stephen Holder, who came from the *Indianapolis Star* to cover the Colts last year, says of Mather, "He's infamous for his *New York Times* quote, but he's passionate and he made a hell of a pitch."

The *Athletic* doesn't want reporters racing to get a postgame quote from a head coach to plug into a game summary on deadline. The mandate is to report what can't be found elsewhere—to get the back story on a trade, to break down the tactical move that tilted a game or the strategic shift that's shaping a league, and to explore personalities. The standing order, from Mather, Hansmann, and Chief Content Officer Paul Fichtenbaum, a former editor of *Sports Illustrated*, is to "do the best work of your career."

"I don't have to scramble to get something quick off at the buzzer," says Anthony Slater, who came from the *Mercury News* to cover the Golden State Warriors. Instead, he takes a few hours after each game to produce a "five observations" column that uses video clips to break down plays and strategy. Katie Strang, a reporter in Grand Rapids, Mich., who came from ESPN, spent much of last year reporting on the trial of Larry Nassar, the former USA Gymnastics and Michigan State University doctor convicted of sexual assault and child pornography. "I always tell people, 'I write much less but work much harder,'" she says.

Every *Athletic* story is available to all subscribers, who can choose which teams and leagues they want to follow. (A few stories, usually teasers in new markets or those considered public service, such as Strang's Nassar coverage, are free to read.) Company data show that close to 60% of subscribers are what it calls super bundlers—people who follow teams from more than two cities, plus at least one college team, and at least one league as a whole. In my feed, on a Friday in August, there was a story about the Boston Red Sox's fading playoff hopes, a mailbag-style column about the coming Warriors season, and a profile of North Carolina Courage forward Kristen Hamilton. "You can't get that bundle anywhere else," Mather says.

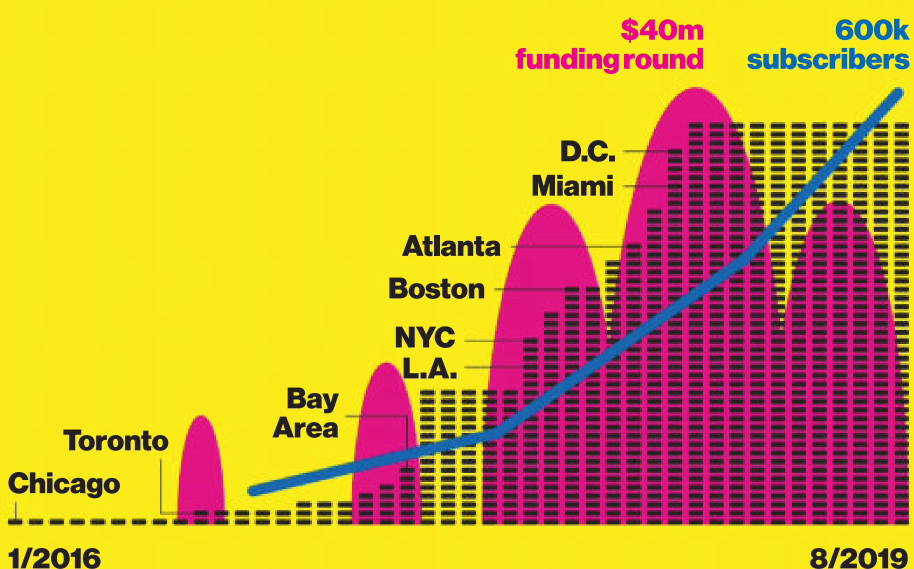
Online dashboards for reporters show how their stories perform. The main internal metric is the number of people subscribing to read a story. A hundred or more is a "home run" in company vernacular. Most stories draw far fewer—getting to double digits is considered a success. The dashboard also shows engagement among existing subscribers. Out of everyone who follows, say, the New England Patriots, what percentage open a story about the team? In that case, 40% would be seen as good.

Feedback loops aren't always kind to journalists, who want to believe that readers care about finely tuned phrases, hard-won insights, and nuanced portraits. But traffic data show that what many want are rumors about where free agents are going to sign, reminders about what time the Super Bowl starts, and opinions about whether, if LeBron James had a time machine, he could beat Michael Jordan one-on-one. But Strang and other reporters say *Athletic* readers' appetites align with their own. "It's what everyone tries to do when they write or produce anything," says Jayson Jenks, who left the *Seattle Times* for the site last year. "It has to be informative or emotional or interesting or fun or thought-provoking."

"The more phone calls you make for a story, the more traffic or subscriptions it drives," says Brendan Quinn, who covers college basketball in Michigan. He points to a story he did last year about the University of Alaska at Anchorage, which upset the University of Michigan in 1988, as the kind of reporting-heavy piece that does well.

Coming to a Locker Room Near You

Local markets the *Athletic* covers



DATA: THE ATHLETIC

18+

WHAT IS

AVAXHOME?

AVAXHOME -

the biggest Internet portal, providing you various content: brand new books, trending movies, fresh magazines, hot games, recent software, latest music releases.

Unlimited satisfaction one low price
Cheap constant access to piping hot media
Protect your downloadings from Big brother
Safer, than torrent-trackers

18 years of seamless operation and our users' satisfaction

All languages
Brand new content
One site

AvaxHome - Your End Place

We have everything for all of your needs. Just open https://avxlive.icu

Mather and Hansmann

The *Athletic*'s goal isn't for every story to reach the largest audience; it's for each one to fill a niche. The target demographic, Mather says, is the fan who follows a team, win or lose. He and Hansmann say they can potentially amass tens of millions of subscribers by collecting die-hard fans of every team under one roof.

Investors, media executives, and reporters who don't work for the *Athletic* all express skepticism about the business. But almost no one will share these sentiments publicly. Who wants to be seen badmouthing one of the only places still hiring journalists? Bringing on writers for top dollar and freeing them from chasing clicks is admirable, the doubters say, but it's no way to make money. The digital media economy is a cutthroat competition for attention, and there are plenty of places online to read about sports for free, from ESPN to local newspapers to team websites.

"It's hugely competitive," says Joseph Lichterman, manager of editorial and digital strategy at the Lenfest Institute for Journalism. The *Athletic*, he points out, competes not only with other news organizations but also with Netflix Inc. and Spotify Technology SA and companies selling subscriptions for razors, meal kits, and underwear. McClatchy, which owns 30 daily newspapers across the country, has responded to the *Athletic* by offering readers in 10 markets regional, sports-only digital subscriptions for $50 a year.

A lot rides on whether the *Athletic* can retain the large number of subscribers still reading through introductory discounts. Doing so will require adding to the service so that it still feels like a bargain when it comes time to renew at full price. Earlier this year, the company added a podcast network—mostly beat writers talking about their teams and leagues—along with a New York office covering the business of sports. The move into the Premier League is as much about pleasing current subscribers as it is about adding new ones in the U.K.

Mather says more than 80% of users re-up after their first year, and the rate is the same whether or not they first signed up at a discount. The Lenfest Institute estimates that newspapers keep only about half their digital subscribers after a year. "We have not seen anything like the retention they've put up at the scale they've put up," says Daniel Gulati, managing director at Comcast Ventures LLC, an *Athletic* investor.

The company is profitable in all but a few markets, according to Mather, who says it usually takes 6 to 12 months to break even. The money losers, he says, are the youngest cities, which include Phoenix and Washington, D.C. He declined to comment on overall revenue and losses other than to say the site is still looking to grow by expanding coverage and adding writers. Within the past year, it has introduced national coverage of boxing, motor sports, and fantasy baseball. "There's always a moment where, if we need to, we can pull the rip cord and worry less about the next continent and get to profitability," says Mather.

In June the *Athletic* had a *Bird Box* moment, a breakout hit that came out of nowhere. Jenks, the 29-year-old *Seattle Times* alum, unearthed what became the unofficial tag line of the NBA Finals: "Board man gets paid." The phrase comes from Kawhi Leonard, who was then leading the Toronto Raptors to their first championship. Leonard had initially used it years ago, as a college player at San Diego State University, when he would grab rebounds during practice. (The brag is a pun on "board," another word for rebound, and, of course, chairman of the board.) Jenks found out about it by calling his former teammates and coaches for an oral history.

He had written this type of story twice before at the site, calling college teammates of NBA stars Klay Thompson and Damian Lillard to talk about what they were like. Both pieces had done well, Jenks says. Leonard's went viral, however, landing at just the right time to provide a peek into the personality of the league's most laconic superstar. (Leonard's most famous utterance in eight professional seasons was telling reporters that he was a "fun guy" before laughing like a robot about to fail the Turing test.) Jenks's story showed that Leonard was as enigmatic in private and that, when he did speak, he sounded like a modern-day folk hero.

ABC commentator Jeff Van Gundy said Leonard's four-word catchphrase on air during Game 3 of the Finals. "That was a great piece in the *Athletic*," added play-by-play man Mike Breen, providing free advertising for an audience of 10 million. Leonard wore a T-shirt with the line on it at the victory parade. Nearly 1,800 people have signed up for subscriptions to read Jenks's story, making it one of the top 10 in the site's history. "He wrote the defining piece of the NBA playoffs from Seattle," says Hansmann. "And Seattle doesn't even have an NBA team." B

IMPOSSIBLE FOODS AND BEYOND MEAT CAN'T MAKE FAKE BURGERS FAST ENOUGH

BY DEENA SHANKER
PHOTOGRAPHS BY HANNAH WHITAKER

WHERE'S THE BEEF?

ANSWER: NOT HERE! THIS PAGE: IMPOSSIBLE, OPPOSITE PAGE: BEYOND

Ethan Brown, chief executive officer of Beyond Meat Inc., doesn't want to talk about his company's stock price. He's more than happy to talk about Beyond's plant-derived meat matrix or its athlete spokespeople, or even how his products aren't quite as good as they should be—yet. But the stock price? No. Not even in June, when the shares were trading at 500% above their initial public offering price. "I generally don't comment on stock price," he says, possibly out of genuine humility, or maybe so as not to jinx anything.

Brown prefers to hold forth about the meatlike substances he's been working on for more than 10 years, breaking plant materials down into their component parts—amino acids, lipids, minerals—and then rebuilding them to mimic the structure of animal flesh. He'll identify the five necessary sensory experiences: fat, flavor, aroma, appearance, and texture. "Meat is these five components," he says. "What the animal is doing is organizing plant material." Instead of using cows to turn plants into burgers, Beyond uses a system of heating, cooling, and pressure. The result is a raw, reddish-brown patty that's closer to animal meat in taste and texture than any freezer-aisle predecessor.

Brown is also eager to discuss Beyond Meat's "rapid and relentless innovation," which keeps it churning out prototypes. The latest beef iterations, Brown says, approach a true burger's "heterogeneity of the bite" (or, in more vegan-triggering terms, the "variety of tissue"). Its burger includes cocoa butter for a marbled texture, apple extract for red-to-brown color transition, and a protein blend made from peas, mung beans, and rice. It improves on the last version, but it's not exactly mirroring beef. In raw form, it's stickier and smells a little off; on the grill or in a pan, it cooks only to medium and doesn't shrink like a real burger. Brown knows the product isn't quite there yet; he says it's 65% to 70% there.

"THE BEYOND BRATWURST IS THE CLOSEST YOU'LL EVER COME TO TRICKING A MEAT EATER"

But back to the stock price, which everyone wants to talk about even if Brown doesn't. For investors and rivals, the name Beyond Meat is shorthand for the whole industry. It's the star of a movement that for decades has been trying and failing to take vegan products mainstream. The frozen-hockey-puck veggie patties of yore haven't gone away, they're just not where the action is. Kellogg Co.'s MorningStar Farms is still No. 1 in meatless burgers, but its share is shrinking. Beyond and a long line of competitors are battling it out to make the best product and amass the most restaurant and retail customers. Somehow, in a year that saw IPOs from Uber, Lyft, Slack, and Pinterest, the breakout star has been a company making fake meat.

Not so long ago, consumer food choices were understood to be driven by taste, price, and convenience. They're why Big Macs and sandwich meats were such enduring American staples, despite headline after headline linking red and processed meats to everything from obesity to cancer to premature death. Today, health is a top concern for many consumers—from millennials looking for "organic" and "natural" labels to older Americans worried about cardiovascular health and diabetes. Concern for the environment is also beginning to influence purchasing decisions, especially among younger shoppers.

Plant-based foods check both the health and environment boxes, or at least that's the perception. Almost a third of consumers surveyed by Mintel Group Ltd. last year said they considered plant-based burgers healthier than the animal kind. As awareness of beef's environmental impact spreads—livestock accounts for about 14.5% of man-made greenhouse gases, and about 41% of that comes from raising beef—vegan alternatives become even more appealing. Retail sales bear out these changing attitudes, with meat substitutes hitting $895 million in the U.S. for the year ended May 25, according to data from Nielsen Holdings Plc. That's tiny next to the $90 billion in sales for actual meat, and growth may slow if consumers notice faux meat's calories. But to investors it's just the start.

This year, major food companies have announced plans to enter the meat-alternative market or expand their offerings in it. Nestlé SA has a soy- and wheat-based Incredible Burger in Europe (already in McDonald's in Germany), and a pea-based Awesome Burger is coming to the U.S. in September. Conagra Brands Inc.'s Gardein, long a vegetarian favorite, has an improved burger and products for the hot dog and sausage categories on the way. "Gardein's corn burger platform is underdeveloped," Conagra's CEO told investors on a June earnings call, "and we are in the process of creating the next generation of beefless burger." Maple Leaf Foods Inc.'s Lightlife line, already well known for its veggie hot dogs and sausage, offers raw plant meat in more than 7,500 U.S. stores. Smithfield Foods Inc., the world's biggest pork producer, has a line of soy-based products on the way. Even Safeway is selling its own raw patties. "I really feel we're about to enter burger wars," says Brian Swette, co-founder of Sweet Earth Foods, Nestlé's plant-based brand.

Beyond's real competition, though, probably isn't the major food companies. Rather, it's Impossible Foods Inc., another California startup producing "bleeding" "beef." The Impossible Burger, available in roughly 15,000 restaurants and food-service locations, according to the company, is another avatar of a theoretically meat-free future. To date, Impossible has raised more than $750 million, and it's estimated to be valued at $2 billion. That's a fraction of Beyond's roughly $9 billion market value (it peaked at just above $14 billion), but both are chasing the same sustainability-minded consumers, who want to have their beef and low-carbon lifestyle, too.

Beyond and Impossible are often mistaken for each other—both count Bill Gates as an investor, and both are led by CEOs named Brown (Patrick at Impossible) who like ▶

FOOD STYLIST: MICHELLE GATTON

PLANT PROTEIN. IT'S WHAT'S FOR DINNER

MEATLESS BURGERS BY PRICE, SATURATED FAT, AND FIRST INGREDIENT

Beyond Burger
$3.30, 5g, pea protein isolate

Impossible Burger
$5.59 at Burger King, 8g, soy protein concentrate

Morning Star Grillers Prime Burger
$1.40, 1g, wheat gluten

Amy's California Veggie Burger
$1.60, 0.5g, organic mushrooms

Quorn Meatless Gourmet Burger
$1.20, 2.5g, egg white

Dr. Praeger Super Greens Veggie Burger
$1.30, 0.5g, collard greens

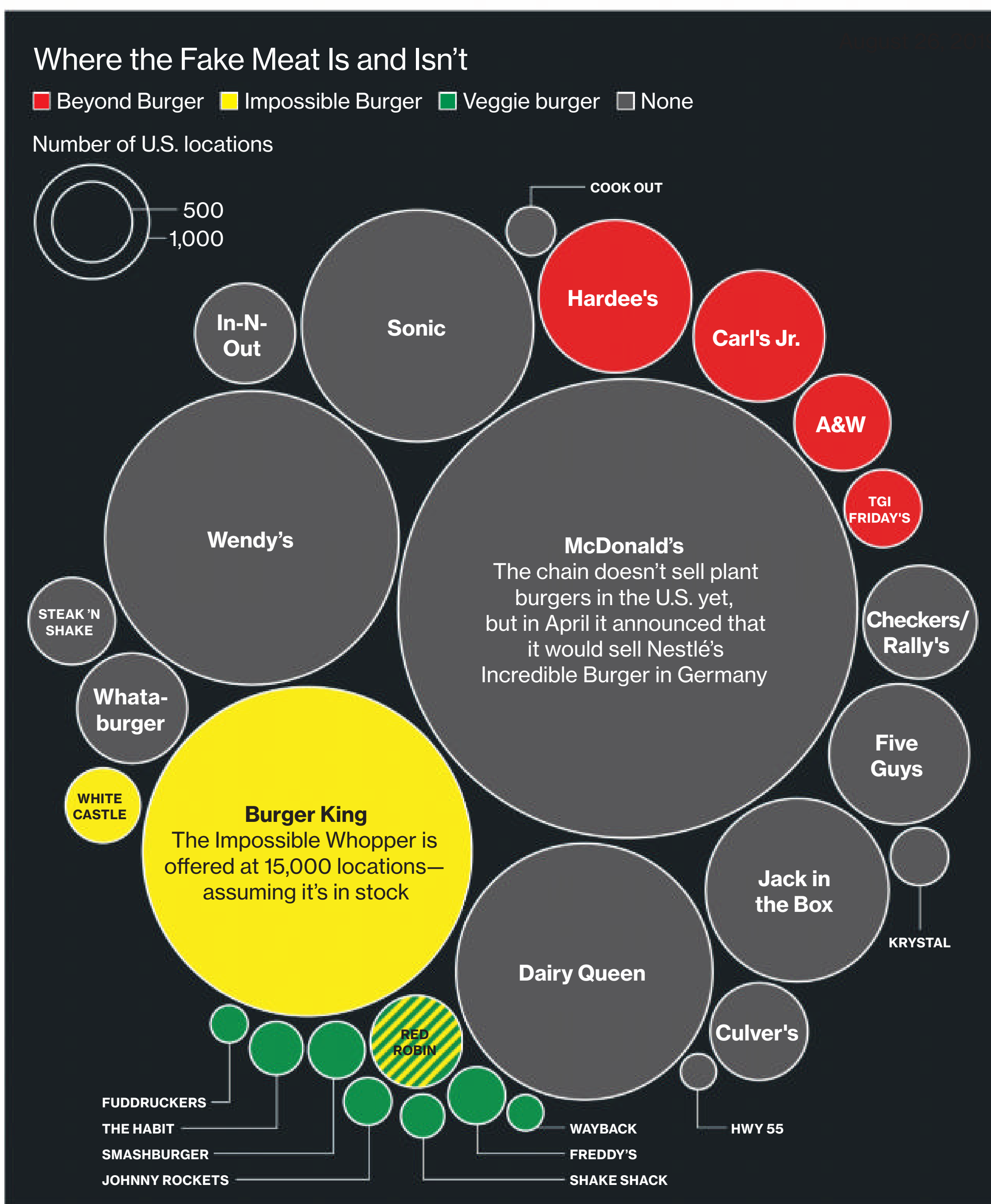
Morning Star Garden Veggie Burger
$1.40, 0.5g, carrots

Gardein Ultimate Beefless Burger
$1.30, 0g, soy protein concentrate

Original Boca All American Veggie Burger
$1.20, 1g, soy protein concentrate

◀ to talk to varying degrees about saving the world. But the companies took very different paths to mass market. Beyond went first into Whole Foods Market and then bigger channels such as Kroger Co. and Safeway; Impossible unveiled its burger in restaurants, starting with celebrity chefs such as David Chang.

Of course, each company claims it has the superior product, and picking a favorite is subjective. But at Bareburger Group LLC, an upscale chain with both burgers on the menu, Impossible outsells Beyond by a 3-to-1 ratio, says founder Euripides Pelekanos. Impossible points to heme, its "magic ingredient," as the reason its burger is the best fake beef on the market. It says the iron-containing molecule, made from a genetically modified yeast, is what gives its burgers their essential metallic meatiness (think of the iron-heavy taste of blood). After winning U.S. Food and Drug Administration approval in July for retail sales, Impossible Burgers could be in supermarkets as soon as September.



At Beyond, Brown draws attention to his product's lack of genetically modified organisms (GMOs), a not-so-subtle dig at Impossible's heme and its primary ingredient, genetically engineered soy. "It would make our jobs a lot easier to be able to genetically modify plant material to make it behave exactly as we want," he says. But in the company's early days, when he talked to consumers during samplings at stores, hospitals, and universities, "they made very clear to me what was acceptable," he says. And GMOs and soy were not.

For now, concern about GMOs isn't dissuading Impossible's consumers, chefs, or restaurants, even those who gravitate to natural ingredients. Beyond, though, has the numbers: Its products are sold in more than 53,000 restaurants and other locations, over three times as many as Impossible. And Beyond has another product line that may impress consumers even more than its flagship burger: sausages. "I think the Beyond bratwurst is the closest you'll ever come to tricking a meat eater," Pelekanos says. "That sausage is one of the best plant-based meat products out there."

With Beyond safely in supermarkets and Impossible moving into the mass market, the most high-profile battle of the burger war is happening in restaurant chains. Beyond notched its first major win last year, announcing that its burgers would be available at TGI Fridays from coast to coast in January 2018. A few months later, in April, Impossible landed White Castle, its first fast-food customer. Since then, Beyond has put its "meat" in Carl's Jr. and Del Taco, but the biggest win so far goes to Impossible: In August, the Burger King Impossible Whopper went national.

The ultimate prize is McDonald's. And the expectations for a McBeyond are high. Former McDonald's Corp. CEO Don Thompson is on Beyond's board, and Brown was asked during Beyond's very first earnings call, in June, about the company's ability to supply the fast-food giant. "I'm assuming you guys drew straws to see who's gonna ask the McDonald's question," he joked, before launching into his explanation about how Beyond will ready itself to produce the number of burgers a McDonald's-level deal would require. "I don't see anyone out there that would break our system," he said.

Impossible, famously, has had some trouble keeping customers supplied. (Bloomberg developed an online Burger Stalker to keep track of which restaurants were holding.) The shortage was first reported the same day the company announced it would launch nationally in Burger Kings. Mission Taco Joint, a small chain based in St. Louis, used to sell Impossible "meat" in its tacos. Then it was jilted. "They kept providing for fast-food chains but stopped for small restaurants," says Jason Tilford, chef and co-owner. (He switched to Hungry Planet Inc., a maker of meatless alternatives he says is "arguably better than Impossible.") Soon, White Castle and Red Robin experienced shortages, too. Beyond's stock price duly rose about 7%.

Adding customers while being unable to serve current ones may seem like a questionable business tactic; a Bloomberg News survey in July found that more than 30% of Impossible's listed restaurants weren't serving its product

DATA: COMPANY WEBSITES

while it was pushing into Burger Kings. About 10% of the restaurants surveyed told Bloomberg News they'd switched to Beyond. But Impossible didn't believe the shortage was cause to slow down. "We see this as an urgent, short-term problem, and we are quite literally working 24/7 to fix it," Rachel Konrad, Impossible's chief communications officer, said in June. She adds that the company doesn't prioritize chains over independents. In late July the company announced that it had succeeded, thanks to a partnership with global food producer OSI Group that will let it quadruple its rate of production by the end of the year.

Beyond has had its own shortages. Last summer, Beyond Burgers ran out at Canadian fast-food chain A&W Restaurants Inc., just as customers were flocking to buy them. (The desperate search for an A&W Beyond Burger is what led celebrity investor Jessica Chastain to invest in the brand.) But the company says it's learned from the past. On June 12 it announced a partnership with Canada's Tim Hortons, putting its sausages in breakfast sandwiches in almost 4,000 locations. The stock jumped 13% that day.

That same week, Freebirds World Burrito, a Texas-based chain, had a message on its website letting customers know it would be out of Beyond Meat products until June 17. Brown insists the hiccup was a result of the company pouring its resources into its fresh products, such as the burger; Freebird uses the beef crumble from the frozen line. "There will be isolated incidents from time to time," the CEO says. Beyond has been expanding production capacity so that when the big customer comes, the company will be ready.

As the plant protein industry grows, stocks of ingredients will grow with it, though possibly with a lag. For Beyond, that means pea protein, which Brown says the company has plenty of. "We took steps to make sure that we have contracts and supply in place to grow at the rate we expect for 2019 and beyond," he said on the June call. But peas aren't his only option.

"Pea protein is an amazing resource for us. It works well, but there's nothing particularly special about it," Brown says. "There are so many other stocks we can use—mung bean, brown rice, mustard seed, lentils." Mung bean is the primary ingredient for the eggless eggs made by Just Inc. The company extols the bean's gelation, its ability to get a curdlike texture when it mixes with an oil such as canola. Impossible, meanwhile, uses American grown (and genetically modified) soybeans.

Beyond has the production advantage, at least for now. The company uses about 100,000 square feet in two facilities in Columbia, Mo., to produce the "core protein-fat matrix" that gets turned into burgers and sausages. It does some patty-making itself, but most of the mixing, blending, and patty-forming is done by a network of co-packers, five as of June, using machinery that's nearly identical to what beef processors use. Impossible has a single 68,000-square-foot plant in Oakland running similar equipment 24 hours a day. The recently announced partnership with OSI will expand production, beginning in the Midwest.

Investors point to plant-based milk alternatives—a $1.8 billion business, according to Nielsen—to predict just how big the imitation meat market can grow. But Barb Stuckey, president of Mattson, a food and beverage development company in Silicon Valley, uses it as an example of what happens when demand outstrips manufacturing capacity. For her clients, finding a co-packer for a plant-based beverage now happens before a product is fully developed. "We have multibillion-dollar clients who can't get line time," she says. "Even to have a conversation, you need to be producing huge quantities."

And just as the alterna-milk makers have been fending off fights from Big Dairy over what gets to be labeled "milk," a similar dynamic is happening with alterna-meat. Legislation is popping up state by state to limit the use of words like "meat" and "sausage" on products that don't come from slaughtered animals. Litigation is testing whether Mississippi and Arkansas laws will stand up in court—and whether Beyond will need to refrain from putting its full company name, "Beyond Meat," on its packaging.

The category's bigger long-term problem, though, may be that the products are less healthy than a lot of people think. "If you compare a Beyond Burger to a McDonald's Quarter Pounder patty, nutritionally speaking, it's a wash," says Bonnie Liebman, director of nutrition at the Center for Science in the Public Interest. The health benefits of the Beyond Burger, if there are any, would be in a possible lack of increased risks, such as for heart disease, cancer, and premature death, from red meat. But for a day-to-day dieter, "they're about comparable for calories and saturated fat."

Consumers finally realizing that the health benefits are, at best, marginal is "one of the largest risks we see," says Antonio Hernandez, one of the authors of a Barclays report predicting the sector could reach $140 billion in the next 10 years globally. Yet Beyond Burgers are marketed by celebrity athletes, including basketball player Chris Paul. Brown says he drew inspiration from the iconic Got Milk? ads; he wanted to send the same type of message—if you eat this, you'll feel better, perform better. "A well-designed plant protein can be a superior protein," says Brown, who's tall and brawny and calls himself a health nut. He says his burger is missing the cholesterol and carcinogens that come with beef. If Carl's Jr. wants to load it up with extra mayo, that's not his fault. "It's really about the consumer who's coming in. We can't control the rest," he says. "I eat mine with a lettuce wrap."

If the health halo enjoyed by plant-based food is an illusion, there's still the green halo. "Sustainability is far higher on the total value proposition," says Thomas George, president of Grizzle, an investment research company that focuses on millennials. But ultimately, he says, a lot will depend on price. "The biggest part embedded in the share price is that they can eventually price cheaper than beef. If it can be viewed as 90% as tasty as beef and 30% cheaper, that's the watershed moment here." Ⓑ *—With Leslie Patton, Lydia Mulvany, and Josh Eidelson*

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Dresses in Ralph & Russo's London *maison*

PURSUITS

Slip Into Fantasy

In just 10 years, London duo Ralph & Russo has taken a fairy-tale ride to the inner circle of haute couture

By Devon Pendleton
Photographs by Laura McCluskey

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Preppy classics get superpowered by punk

August 26, 2019

Edited by James Gaddy

Businessweek.com

When Prince Harry and Meghan Markle released their engagement photos to the public in 2017, the future Duchess of Sussex's long-sleeved gown with a sheer top and tulle skirt sparked an instant controversy. It was modern, glamorous, and, at £56,000 ($68,112), incredibly expensive. To the *Daily Mirror*, it was "racier than what we're used to."

But to the low-profile fashion house Ralph & Russo, it was a royal coup. Creative director Tamara Ralph had founded the business in 2010 with then-boyfriend, now-fiancé Michael Russo. A fourth-generation couturier and native of Sydney, she sold her first piece, a skirt, at age 12. Up until Markle, though, the duo had catered to billionaire clients out of a seven-floor, 19th century townhouse in London's Mayfair district in a rather quiet fashion.

It's been a quick rise since. In June 2018, Angelina Jolie was photographed attending a service at St. Paul's Cathedral in London in an ivory couture Ralph & Russo dress and matching fascinator. Last winter, Priyanka Chopra donned a cream-colored silk-crepe couture jumpsuit from the brand in a ceremony before her wedding to pop star Nick Jonas. In less than a decade, the duo has established itself right alongside the elite old guard. Now the brand must grapple with what all independently funded fashion houses must face—how to take on financial backers without losing its identity and individualized focus on the customer.

Ralph and Russo

"They've taken luxury fashion back to the olden days, like when nobles and royalty would go and sit with the craftsmen and commission a piece of art or a gown"

Day to day, Ralph plays the role of the fairy godmother, winning over clients with lavishly personalized fittings, unusual even in the rarefied world of haute couture. Not many *maisons* exist where customers still get to sit down at length with the person whose name is on the door. "They've taken luxury fashion back to the olden days," says retail consultant Said Chaarawi. "Like when nobles and royalty would go and sit with the craftsmen and commission a piece of art or a gown."

Ralph & Russo is the first British brand in almost a century to be accepted as a member of the Chambre Syndicale de la Haute Couture, the French regulatory body that officially deems what is and isn't haute couture. Twice a year, the brand is invited to show at Paris Haute Couture fashion week with the likes of Chanel (founded 1910), Givenchy (1952), Valentino (1960), and Elie Saab (1982).

The reason for Ralph & Russo's swelling popularity is straightforward: The goods are gorgeous. Hallmarks include luminous fabrics, elegant flattering shapes like nipped-waist jackets, and decadent yet tasteful embellishments such as crystal-glass beading and rose-gold foiling. Ralph has a dreamy aesthetic that anticipates what her clients want—think diaphanous silk-chiffon gowns and A-line wedding dresses with intricately embroidered bodices. "Couture represents the fairy tale," she says.

At its most recent show, held in July at the British Embassy in Paris, models floated down the runway in sherbet-hued ruffled-organza frocks and a bejeweled midlength dress featuring tiers of pale pink ostrich feathers. "Fantasy made real," was how *Vogue* described it.

But while Ralph & Russo adheres to the painstaking craftsmanship and elite design required for its haute couture distinction, the brand does not strive to be high art. It aims to make clothes that sell.

Stylistically, the designs are accessible for a certain swath of moneyed client. "Tamara's style is very classic," Chaarawi, the consultant, says. "It's not adventurous or cutting-edge. You look at other brands, they're very artistic. But you see them on the catwalk and you think, How would I wear that? You look at Ralph & Russo's line—every single thing, you can see yourself wearing."

Ralph, who studied fashion at the Whitehouse Institute of

Design in Melbourne, has an eye for "what a couture client would expect" says Lily Templeton, a fashion writer in Paris. "You want something that screams wealth, that says I had this made to measure, and obviously Tamara has the skills to answer that." Russo describes the duo's ethos as "unarrogant" luxury. "We always want our clients to feel welcome." Ralph goes even further, describing their deep client base, with customers in 58 countries, as an "extended family."

When starting off, Russo, 38, used his connections as a former banker and consultant with Deutsche Bank AG and Barclays Wealth Management to gain the brand an early foothold in the Middle East, where about 700,000 high-net-worth individuals control $2.6 trillion.

That strategy caught the eye of their first outside investor, British telecommunications billionaire John Caudwell. He became friendly with the couple after meeting them socially and in 2014 acquired a 7% stake for an undisclosed price. He was persuaded to make the investment—his first in the fashion industry—through "a combination of Tamara's skill as a designer and the couple's ability to network in the Middle East and win a lot of the Middle Eastern royal families as customers," he says.

Two of the duo's six locations are in the Gulf—one in Dubai, one in Doha. Rumored royal devotees include Sheikha Moza bint Nasser al-Misnad, wife of the former Qatari Emir, and Saudi Princess Ameerah al-Taweel, ex-wife of billionaire Prince Alwaleed. Ralph & Russo's London headquarters is also particularly convenient for wealthy Gulf clientele, many of whom consider the city a second home. They have a second London shop at Harrods, one in Monte Carlo, and another in Paris. Outposts in New York and Miami are in their "immediate plans." In 2018 the duo began a ready-to-wear line, featuring asymmetric black mini-dresses for $2,000 and $14,500 pleated lamé evening gowns. A custom-designed piece can run more than six figures.

The duo also has expanded into shoes with a line called the Eden, a $2,000 stiletto with ornamental filigree leaves spiraling up the heel, and a line of purses called the Alina. Identifiable by a feather-shaped handle that comes in silver or rose gold, the handbags can be made of mink, calf, or python, and prices can reach more than $9,000. A line of beauty products and fragrances is also in the works.

Ralph & Russo is trying to leverage its cachet with a new investment, potentially valued at $50 million, that will expand its reach. In July, German entrepreneur Lars Windhorst's Tennor Holding BV took a minority stake in the company, with an option to boost his interest to 40%. The size of the current investment is unclear. Tennor is the only other shareholder alongside Caudwell, the co-founders, and investor Nick Candy's family office, Candy Capital.

Russo boasted to the *Financial Times* in 2016 that the company was "a profitable business from the start." And given the heady prices and stream of clients, you'd think the business would be handsomely profitable. But filings indicate losses soon began to mount as Ralph & Russo grew. The company ▶

A black tulle-layered gown with floral lace appliqué

Inside Ralph & Russo's London headquarters

The Dedicated Followers of Fashion

For investors looking for a taste of the glamorous life, Savile Row's heritage brands have been solid bets on style

HUNTSMAN
Belgian-born financier Pierre Lagrange bought this Winston Churchill favorite (est. 1849) for an undisclosed amount in 2013. It had net assets of a little more than £1 million ($1.2 million). Lagrange has since expanded to New York; Marc Jacobs commissioned a suit for his wedding in April.

RICHARD JAMES
American real estate tycoon and Academy Award-nominated film producer Charles Cohen purchased this relatively new kid on the block (est. 1992)—and Harrys of London—in March 2017. He has since installed a 2,000-square-foot outpost of the shop on the ground floor of his Ritz Tower in New York.

GIEVES & HAWKES
There was some hand-wringing that London might lose its heritage brands when William Fung, the Hong Kong retail magnate, snapped up Gieves & Hawkes (est. 1771), tailor to Prince William and David Beckham, for more than £32 million in 2012. But after years of losses, the brand at No. 1 Savile Row has stabilized and is expanding with a ready-to-wear collection as well as new boutiques throughout Asia.

◀ currently employs 226 artisans, almost four times more than the number at Christian Dior Couture's ateliers.

Its most recent financials showed sales of £14.3 million ($17.3 million) through the 12 months ended March 2017. Although revenue at the business jumped by 45% from 2016, it had an operating loss of £2.5 million, according to company filings, almost 40% larger than the previous year's loss. A filing footnote attributed this to "increased promotions and exhibition costs, which will hopefully result in an increase in profitability in the future." A brand spokeswoman said the company expects to be profitable this year.

It isn't that unusual for newish, rapidly growing brands to attract big-pocketed investors even as they're losing money, "especially those that are growing sales online and direct-to-consumer, as they're seen as having higher growth potential," says Maxime Boucher, a luxury analyst for Bloomberg Intelligence. He cites two recent examples: LVMH, which acquired a minority stake in Gabriela Hearst in January, and Movado Group Inc., which bought watch startup MVMT in August 2018 just as the Los Angeles-based brand was turning profitable.

The timing is curious, though. The investor Windhorst, 42, was once feted as a wunderkind but has been dogged by several near-flameouts, including a personal bankruptcy and a corporate insolvency. The acquisition of a stake in Ralph & Russo came only weeks after H2O Asset Management LLP, Windhorst's biggest backer, suffered €8 billion ($8.9 billion) of redemptions because of its investments with the German financier, whose checkered past attracted scrutiny and criticisms.

Windhorst often buys troubled companies for cheap in the hope of restructuring and selling them for a profit. Last year he bought loss-making Italian lingerie brand La Perla.

Tennor made the investment in Ralph & Russo through the bra maker's parent company, La Perla Fashion Investment BV. And while La Perla Chief Executive Officer Pascal Perrier is joining Ralph & Russo's board, the two investments "are completely different," according to Filippos Kodellas, managing director of Tennor's investment team.

A wedding dress with asymmetrically draped bodice and silk flowers

The co-founders say they have not had any discussions with Windhorst—only La Perla executives. Ralph remains optimistic: "It's crucial to forge partnerships that propel the brand forward."

Even though Markle went with Givenchy for her big day, the buzz around Ralph & Russo has persisted thanks in part to an aggressive social media marketing plan. And the brand still seems to be in the good graces of the monarchy. Last October, Markle's cousin-in-law Princess Beatrice channeled Jacqueline Onassis in a royal-blue Ralph & Russo dress while serving as maid of honor at the wedding of her sister, Princess Eugenie. This time, even the *Daily Mirror* approved: "Princess Beatrice stuns," read the headline. Ⓑ —*With Luca Casiraghi and Thomas Beardsworth*

GETTY IMAGES (3)

Clear Cut

Sapphire watch cases are pricey, hard to make, and perfectly on-trend. *By Justin Mastine-Frost Photograph by Jamie Chung*

There's a reason why only eight of Greubel Forsey's sapphire double-tourbillon timepieces exist, and it isn't merely a matter of its $1.1 million price. Sapphire is the second-hardest material known to man, next to diamonds, and brutally challenging to cut and finish with any artistry. Watchmakers run a risk, down to the last polish, that it will shatter and waste hundreds of man-hours of work. More and more brands, however, are testing the material's limits, which means a sapphire case is more accessible than ever. They're still not cheap—you'll spend north of $60,000 as opposed to seven figures—but you'll get a piece that, for now, is a rarity in watches.

BELL & ROSS BR-X2 SKELETON TOURBILLON MICRO-ROTOR

The simplest-looking of our trio, this watch from Bell & Ross's more experimental BR-X line has the same circle-within-a-square design of the brand's signature BR 01 model. The mainplate of its self-winding flying tourbillon movement is sandwiched between two sapphire plates that act as its casing—one upfront, and one fitted as a caseback. Four screws secure the plates, with hidden gaskets that also make it water-resistant to 50 meters (164 feet). The see-through case is 42.5 millimeters across with a skeletonized dial and a flying tourbillon at 6 o'clock. It's available in an edition of 99. *$64,900; bellross.com*

GREUBEL FORSEY DOUBLE BALANCIER SAPPHIRE

Three years after their initial million-dollar foray, the Swiss watchmaker brought a (nominally) more approachable model to market in January. A power reserve indicator rests in the upper right quadrant of its skeletonized dial; an open portion exposes a pair of inclined balances that work in symmetry to deliver accurate timekeeping and counteract the effects of gravity on the watch's running stability. The sapphire crystal case, measuring 43mm in diameter and 13mm thick, gives the watch the feel of floating on your wrist. Only 11 examples will be produced. *$695,000; greubelforsey.com*

HUBLOT BIG BANG UNICO BLUE SAPPHIRE

Although it wasn't the first brand on the sapphire bandwagon, Hublot has embraced the material with a fervor so far unmatched by its rivals. In 2016 it released a clear sapphire version of its signature Big Bang collection followed by red and yellow iterations. This April, Hublot introduced one in translucent blue. The case measures 45mm in diameter and 15.7mm thick and comes with a strap made from blue rubber. The brand, a manufacturing powerhouse, is capable of producing 250. *$85,000; hublot.com*

LOUIS VUITTON New this fall, Abloh's $3,550 Keepall Bandoulière 50 adds strong graphic elements to the brand's signature silhouettes.

NIKE AIR ZOOM TERRA KIGER 5 In June, Abloh dropped this part of a collection dubbed Athletes in Progress, which featured sneakers tested by 800-meter champion Caster Semenya.

VITRA This "hacked" version of Jean Prouvé's Antony armchair in orange lacquer made its debut at Art Basel in June. Another collection will travel to the U.S. this fall.

MCA CHICAGO For his "Figures of Speech" exhibition, Abloh created two shirts. This one is reselling for more than 40% above its retail price on site StockX.

Man on the Street

While you were on vacation, Virgil Abloh was busy

By Kim Bhasin

Over the summer, Chicago was transformed into a style nerve center–Saks Fifth Avenue and Neiman Marcus unveiled streetwear displays in their windows, an Apple store held a series of design labs, and the Museum of Streetwear opened a pop-up shop. The activity was all clustered around "Figures of Speech," an exhibition about influential designer Virgil Abloh at the Museum of Contemporary Art Chicago.

More than 100,000 people, most of them young, have flocked to see a dress Abloh designed for Beyoncé, a belt he made for A$AP Rocky, and an embossing plate he created for Jay-Z and Kanye West's collaborative album *Watch the Throne*. Unreleased prototypes of other products are shown off near rainbow T-shirts designed for LVMH, where Abloh was named men's artistic director a year ago.

Outside the museum, he and Nike Inc. teamed up to christen a temporary space for creatives to host workshops. To the south, Louis Vuitton opened a store for a month devoted to Abloh's new collection, a bright orange monument to the designer that local press described as "electric" and "traffic-stopping."

Abloh's evolution from the son of a seamstress to one of the hottest names in fashion has brands clamoring to collaborate with him and earn his stamp of approval. This year alone he's had a hand in at least eight brand partnerships. (By comparison, Louis Vuitton's

head of womenswear has done one in the same time frame.) On June 24 he dropped a shoe with Nike; a week before that, a collection of furniture and home decor with Swiss company Vitra International AG made its debut at Art Basel. In May, Abloh released a set of rugs with Ikea of Sweden AB and a limited-edition water bottle for Evian. In April he created a small collection for Saks, which featured yellow Gore-Tex separates and deconstructed denim. "I view a great collaboration as a great conversation," Abloh says. "To me it's a metaphor and a modern way of working. New, unpredictable, constructive ideas come from conversation."

The designer grew up outside Chicago in a middle-class neighborhood in Rockford, Ill., raised by Ghanaian immigrant parents. After earning degrees at the University of Wisconsin at Madison and the Illinois Institute of Technology, he interned at Fendi in Rome, where he impressed Michael Burke, current chairman and chief executive officer of Louis Vuitton. Abloh introduced his first brand, Pyrex Vision, in 2012. It featured screen-printed T-shirts, but he shuttered the project after a year and rebranded it as Off-White, the label that would earn him international recognition.

Over the past six months, prices for Abloh's products have skyrocketed on resale marketplace StockX. The 2017 Off-White Chicago Jordan 1 sneakers have increased in resale value by $900 and today sell for as much as $5,000; the 2018 Off-White Jordan 1s have risen $700. Items in the Virgil x MCA collection are reselling for 40% above their retail prices. Jesse Einhorn, StockX's data content director, says the Chicago takeover has accelerated this surge in interest for Abloh's goods. "Overall, demand for Virgil-associated products is stronger than ever," he says.

The sheer number of collaborations hasn't damped enthusiasm. In the past two years, he's released a see-through luggage collection with Rimowa, a bottle of rosé Champagne with Moët & Chandon, a sweatsuit that looks like medical scrubs for Equinox, and a series for Nike that reimagined 10 of its most famous shoes. He's also designed a cafe for Le Bon Marché and costumes for the New York City Ballet. He's made sunglasses for Warby Parker, fragrance and skin-care products for Byredo, boots for Timberland, sweatshirts for Champion, watches for Braun, weather gear for Gore-Tex, swimming trunks for Vilebrequin, shirts for Kith, and a black tutu for Serena Williams.

In August, global luxury marketplace Farfetch Ltd. acquired New Guards Group, the parent company of Off-White, for $675 million. Farfetch CEO José Neves called Off-White and other newly acquired labels, including Palm Angels and Heron Preston (which Abloh has also worked with), the "brands of the future."

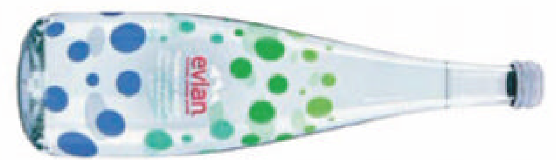
Abloh's rise has been fueled at least in part by an uncanny ability to create bridges with fans. Jeff Carvalho, managing director of streetwear site Highsnobiety, says Abloh has allowed fashion consumers to be a part of his world, letting them in closer than anyone else before. He answers an inordinately high number of direct messages on Instagram and even responds to tagged photos. "I don't think he's become so much of a design celebrity as much as he's become an important figure for young creatives that are looking to figure out how to make it," Carvalho says. "He's one of us."

Abloh's show at the Museum of Contemporary Art (on view until Sept. 22) is on track to set an attendance record, besting totals from the likes of Jeff Koons and Andy Warhol. And Chicago seems to be thirsty for more streetwear. Sneaker reseller Stadium Goods—which received a $250 million infusion from Farfetch in December—will open a store near the museum. The rapper Drake, too, will set up a Windy City shop for his own streetwear brand in the No. 9 Walton building, home to Citadel founder Ken Griffin.

Abloh's new fall collection for Louis Vuitton features clothes in muted neutrals and bags with colorful stripes. Up next are three more shoes with Nike that are rumored to hit shelves in September. Ⓑ

VILEBREQUIN The French brand's $300 swimming trunks got a dose of the street in June with an Off-White collaboration that included floral prints and neon colors.

IKEA A collection of rugs for the Swedish furniture brand featured Abloh's trademark text set off with quotation marks. Released in May, it's sold out, but a new line is due this November in the U.S.



EVIAN After assuming the role of creative adviser for sustainable design at the bottled-water brand, Abloh dropped this collaboration with hydration startup Soma during New York Fashion Week in May.

NIKECOURT FLARE 2 Abloh has designed outfits for Serena Williams to wear at this year's U.S. Open. This shoe, from last year's tournament, has a built-in sock and an off-center Nike swoosh.

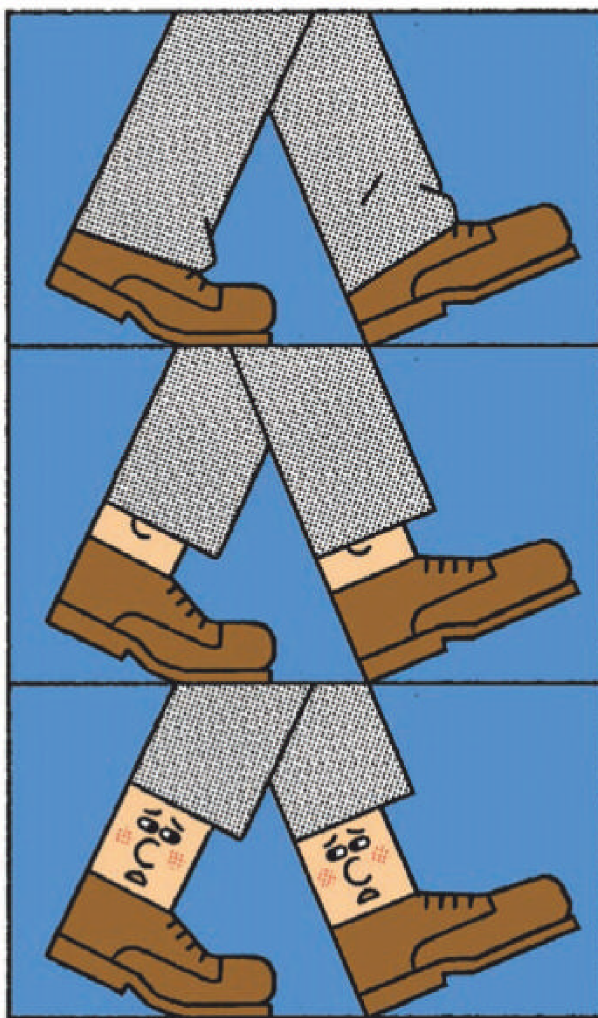
ABLOH: JOSHUA OSBORNE/VITRA

Break's Over

A tailored guide to the most contested two inches in menswear. *By David Coggins*

The correct length of a pair of pants, like a well-made martini, is a question of proportion. And like martinis, there are strong feelings about the right way to blend taste, trend, and tradition.

Historically, a wider trouser has been worn long enough to rest on the top of the shoe, which creates a break in the fabric in front of the shin. For years there was an uneasy détente between those who wanted this kind of "good break" and those who preferred "no break," a cut that favors narrower trousers and runs parallel to the ground instead of falling over the top of your shoe. (Let's not even get into the kind of break that gathers into an unruly pool of fabric around the ankles, evidence of a man struggling to keep pace with the world.)



I heard the phrase "a good break" before I knew what it meant. My father took me to the Polo store in Minneapolis when I was a boy and would tell Paul, our longtime sartorial consigliere there, that my trousers should have a good break. He said this with such confidence that I never questioned the validity of that declaration—and in any case, my preference wasn't asked.

Eventually, I grew to prefer clothes that fit in a more concise way. I started gravitating to trimmer trousers with little break and, finally, to ones with no break at all—the hem was right at the top of the shoe.

That didn't seem too controversial until last year, when I was standing in a renowned London tailor to be measured by the pant maker, himself a specialist in the art of trousering for over three decades. He made it clear, in an understated way, that he was disinclined to produce a pair without a break. When pressed to do so, he refused. And since I have a policy of not arguing with tailors, fishing guides, or anybody who has the keys to my car or apartment, the pants were returned to me with a compromise: a "slight" break, which is the equivalent of asking for a medium rare steak as opposed to one rare or well done.

Some no-break advocates believe the straight line down the leg makes a man look taller. According to Sid Mashburn, whose Atlanta-based men's stores do a brisk business in suits, eliminating breaks in the line of the pants "visually lengthens one's legs, making a cleaner line from toe to head."

Even dapper men who once wore a break are reconsidering their positions. Celebrated New York tailor Alan Flusser has always worn his dress trousers with a slight break. "I think it fosters a smoother and slightly elongating transition from the trouser opening to the shoe," he says. But he's evolving toward a break-free stance: "These days, with a slightly trimmer trouser than before, I tend to wear them almost straight, without a noticeable break."

Michael Hill, creative director and an owner of Drake's, believes it's a generational thing. "Typically, younger men err on the shorter side, as that's a slightly more fashionable, trend-driven look," he says. "Older gentlemen tend to opt for a fuller length." He adds that a shorter cut feels a little sportier, "a little more casual. It also affords the opportunity to introduce a pop of color with the choice of a sock."

Then there's the issue of seasonality. We deal with summer by giving ankles room to breathe with lighter loafers. Luca Rubinacci, creative director of his family's renowned Naples tailor, wears pants with a break during winter, and in summer, he says, "I have them a little shorter with no break."

But once you head north of the shoe and, more treacherously, north of the ankle, you have reached dangerous altitude. Blame is often laid at the brogue-clad feet of Thom Browne, the designer who shortened all of his suits.

Massimo Alba, the Milan-based designer, has his own line of clothes with an enlightened, relaxed sensibility, and he's worn his pants the same way for decades: "Loose throughout the whole length of the leg and slightly—and when I say slightly, I mean really slightly—short," he says. "They never rested on my shoes, perhaps two fingers above them."

He's opposed to the upward creep of tight trousers, however, since they restrict movement and are essentially impractical. "I find it extremely vulgar," he says, "to see how working men are wearing some kind of hot pants that cling to their calves, thighs, hips and are cut off to show their ankles as if they were leggings."

So, how high is too high? Patrick Grant, director of Savile Row tailor Norton & Sons, says his rule is that "the anklebone should never be fully exposed, in any circumstance, ever. If you don't like long trousers," he declares, "then wear shorts." Ⓑ

ILLUSTRATION BY JAY DANIEL WRIGHT

Case Closed

The new Kelly tote meets today's hauling needs in classic Hermès style

Photograph by Eric Helgas

Since it was first introduced in 1992, the Kelly Dépêches briefcase from Hermès ($10,200) has been almost as sought-after as its celebrated namesake handbag. This iteration, new for fall, has a slimmer profile, a shorter flap for easier opening and closing, beveled corners, and a rounded bottom.

THE COMPETITION

• The Russia Leather folio may be even harder to get than a Kelly. The classically handsome bag from 205-year-old James Purdey & Sons Ltd. is made with restored hides recovered from a shipwreck off the coast of England. Finished with red goatskin lining, the $12,050 case has a gold-plated buckle.

• Big enough to handle most larger laptops, Valextra's $2,980 Classic briefcase is 16 inches wide with a slightly padded interior to protect digital devices, plus five internal pockets and two pen loops.

• Berluti's $5,000 Prisme briefcase pairs palladium-finished brass hardware with Venezia leather and an easy-to-use clasp.

THE CASE

On the original Kelly case, the clasp was so fussy that leaving it open was as much a practical consideration as an effort in studied nonchalance. This updated version lets you skip the clasp entirely: The softer corners and shorter flap slip under the strap to close quickly. Elsewhere it bears the hallmarks of the brand, such as impeccable saddle stitching, here in white linen thread, which serves as a contrast to the palladium hardware and fine-grained toffee leather in what is a classic Hermès palette. (It's also available in red, green, gray, and navy.) With two pockets inside—one zip, one sleeve—it's just the right size for a 13-inch laptop, more than enough to fulfill the demands of modern schlepping. *$10,200; 800 441-4488*

PROP STYLIST: JOSEPH PARRA

Babenzien in his Manhattan shop

The Preppy Punk

Menswear line Noah brings an in-your-face honesty to luxury retailing

By Angelo Spagnolo Photographs by Lumia Nocito

Outside Noah's shop in New York, a smiling family of tourists stops to take pictures in front of a mural of a cartoon pig in a suit with the caption "Pig Brother is watching you." The references to author George Orwell's dystopian novels *Animal Farm* and *1984* were also printed and sold on T-shirts and trucker hats as part of Noah's 2019 spring collection. Because in today's polarized climate, promoting in-your-face politics is clever business—and for this almost 5-year-old brand, it is the business.

Founded by Brendon Babenzien and his wife, Estelle, in 2015, Noah has hit a sweet spot by selling an identity seemingly in conflict: surfers, skaters, and punk rock fans who want to challenge the man while wearing nicely made fabrics and colorful shirts. He's so far bet correctly that the generation that grew up on new wave and hip-hop didn't automatically turn into dorks once they started having children of their own.

The two of them expanded the store this summer. It's on a downtown corner of New York where SoHo and Little Italy meet the Lower East Side. In one room are corduroy pants and madras shirts that could have been rescued from your grandfather's closet; elsewhere are tees that reference hardcore bands like Youth of Today and the underground straight edge culture of the 1980s and '90s.

Babenzien grew up in East Islip, on Long Island, where he developed what became Noah's penchant for nautical stripes and the classic polos, rugby shirts, hoodies, and sweaters that dominate seafaring leisure pursuits. Imagine the staple items of J.Crew, made with the premium fabrics of a Loro Piana, with a supply chain managed as tightly as Hermès's, but with a subversive design angle that's entirely singular. It's the only clothing shop in New York with *An Introduction to Sailing* and a copy of the *Skate Jawn* zine on its bookshelves.

Before Noah, Babenzien spent more than a decade leading design for Supreme, taking it from influential streetwear brand to global luxury phenomenon. He left the company two years before private equity firm the Carlyle Group bought a 50% stake for $500 million, essentially valuing Supreme at $1 billion.

Despite that success, Babenzien always wanted to run his own company, his own way. "In a business meeting before we launched this, when I said all the things we wanted to do—to make cool clothes, but not so cool that they weren't accessible, to be responsible when it came to the environment to the best of our ability, to inform customers about making better choices, to make clothes in First World countries with environmental laws and labor laws—I was told, 'You can't do that. It's impossible,'" Babenzien says.

And it might have been if not for Donald Trump. In the early days of the company, leading up to the 2016 election, Noah's social media profiles were outspokenly supportive of movements such as Black Lives Matter, and it released shirts emblazoned with the words "Anti Nazi League"—all of which garnered more than a few comments telling it to "stick to business."

Instead of apologizing, the brand did something, well, punk rock: It offered a full refund on any Noah purchases for those who planned to vote for Trump. "I kind of freaked out on Brendon, because it started to pick up some press," says Beau Wollens, Noah's chief operating officer. "I was scared of people taking advantage of it."

Not only did no one claim a refund, the resulting attention brought a new wave of like-minded consumers. By its second year, Noah had opened a store in Tokyo. Later it opened two concession shops inside the New York and Los Angeles locations of the trendy Dover Street Market retail outlet.

It's begun expanding into new product categories while still keeping true to the tenets its customers have come to love. For the fall, Babenzien has introduced traditionally made topcoats embroidered with '80s-style track-and-field graphics. A down vest is made from patchwork paisley. There's even a leopard-print two-piece suit and penny loafers.

An expansion of its shop this summer includes a suit station

All of it is conscientiously made and sourced, and volume is deliberately limited. "Brendon is very conscious of who he works with in terms of production and factories, and he makes sure the product run is not overly produced," says Federico Barassi, senior director of menswear buying at Ssense, a luxury retailer in Montreal. "Every season we see the T-shirts, hoodies, and caps all sell out."

Crucial to the sell-through is a strategy of raw transparency. The brand takes a page of the Everlane playbook by telling customers exactly how much their clothes cost to make, and why. The "aha!" moment came early in the company's existence, Wollens says, when he and Babenzien came up with a blog post called "Anatomy of a Jacket," explaining why the two-tone parka at Noah costs $488.

The brand started communicating expenses and challenges more deliberately in a series called "Breaking Down the Costs." The first, focused on labor, explained how price increases on Noah's hoodies correlated to Canada bumping its minimum wage more than $2. Another focused on tariffs. "This is one of those things that sounds a world away," it reads. "But it's frightening for small brands like us."

Honest accounting such as this helps communicate these pressures to consumers and to explain brand priorities like a commitment to fine materials and fair wages. "Over the last few decades, the American public has gotten used to a price—whether it be for a T-shirt or a cup of coffee—that is not an honest price," Babenzien says. "If you had to factor in the human component, other people's lives, how much they're getting paid, what their life is like, then the price is a lot."

Customers, Wollens says, have been overwhelmingly receptive to the practice. "The younger consumer actually has a better idea and understanding of those things than the older ones," he says. Oliver Chen, a luxury retail analyst at Cowen Inc., says this sort of philosophy fits in with the values of millennials and Gen Z. "Technology has really enabled transparency," he says. "The new generation of shoppers values sustainability."

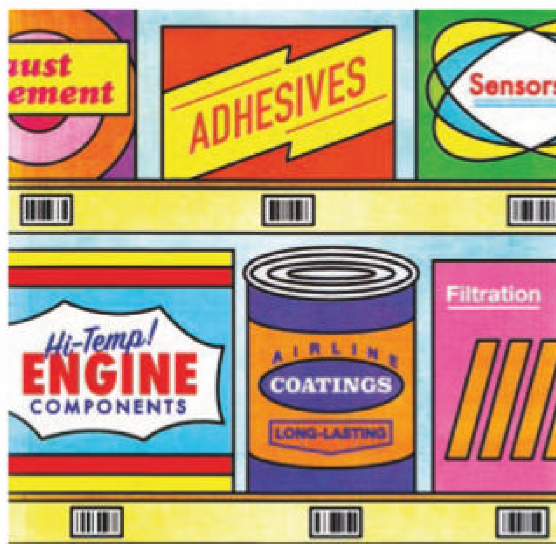
Patagonia Inc., the venerable outdoor outfitter, is viewed by many, including Babenzien, as the gold standard for responsible capitalism at scale. But whereas Patagonia has a party-agnostic, pro-conservation ethos for protecting the environment, Noah's "Save the Whales" shirts look banal from the front but feature detailed illustrations on the back of how the endangered animals are divvied and sold.

"I don't have a problem with choosing sides," Babenzien says. "Most businesspeople do." Ⓑ

An Old Company Buys New Tricks to Spur Growth

By Brooke Sutherland

Parker-Hannifin Corp., maker of motion-control technology for planes and factories, isn't a household name. But at $20 billion, its market value is bigger than that of Nordstrom, Harley-Davidson, and TripAdvisor combined. Founded in 1917 in Cleveland, it waited almost a century before doing a deal bigger than $500 million. But in the almost five years that Thomas Williams has been chief executive officer, Parker has announced not one but three large takeovers, each over $1 billion.



First came the $4.3 billion purchase of filtration company Clarcor Inc. in 2017. This April, Parker announced the $3.7 billion acquisition of adhesives and coatings maker Lord Corp. Come July, Parker was back in the M&A news with the $1.7 billion purchase of Exotic Metals Forming Co., which makes high-temperature engine components and exhaust management systems for aircraft including Boeing Co.'s 737 Max.

20%

● BIT BY BIT
Already, since fiscal 2016, adjusted Ebitda margins have climbed from 14.7% to about 18% in the year ended June 30.

● STILL ROOM TO IMPROVE
Parker has said it can achieve a 20% Ebitda margin by fiscal year 2023. Its recent deals may help it get there.

The Clarcor deal is the only one that's closed, but all three are part of Williams's push to make Parker's finances less vulnerable to swings in the economy by bolstering its margins and growth prospects. So far, it's worked: Cost savings are tracking ahead of the initial target, and Parker is squeezing more profit from its revenue. But while Clarcor gets a higher share of its revenue from less volatile repair and maintenance work, its business, like most of Parker, is still tied to cyclical machinery markets.

After adjusting for the impact of currency swings and M&A, sales growth at Parker turned negative in the three months ended June 30, the first time that's happened in two and a half years. The company expects sales at best to be little changed in fiscal 2020, but the prolonging of the U.S.-China trade war puts even that downbeat guidance at risk. Against this backdrop, it's understandable that Williams sought a shot in the arm.

While Clarcor wasn't screamingly cheap, Parker bought it just as the company's sales growth was starting to recover from the manufacturing recession in 2015 and 2016. With Lord and Exotic Metals, Parker is paying rich price tags for businesses that are arguably near a peak with less obvious opportunities for cost cuts and margin gains. It's also loading up on debt, causing Standard & Poor's to downgrade its credit rating in July.

The buying spree could transform the company. But analysts and ratings agencies agree: Parker has much to prove. Ⓑ
—Sutherland is a deals columnist for Bloomberg Opinion

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