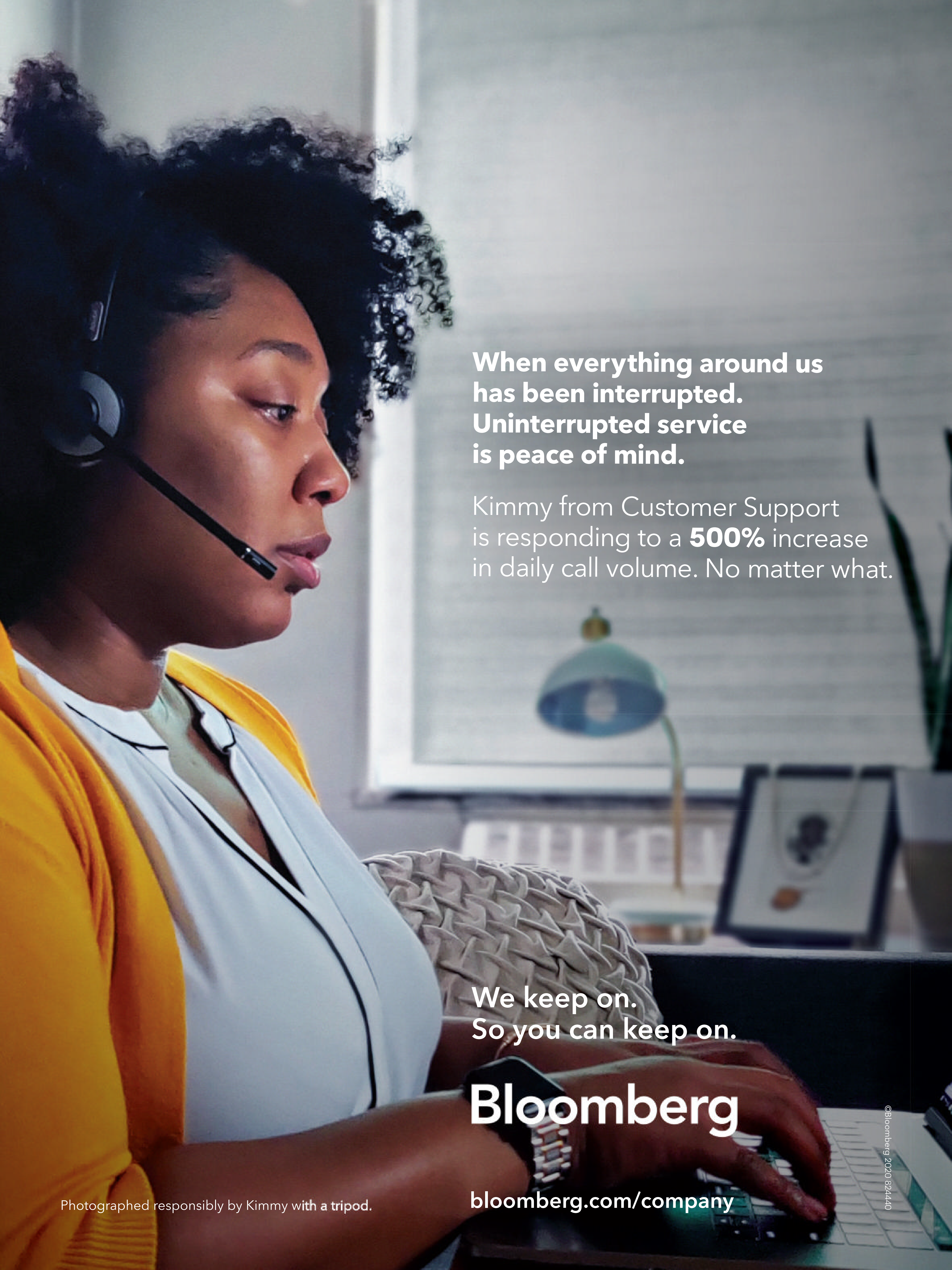

When everything around us has been interrupted. Uninterrupted service is peace of mind.
Kimmy from Customer Support is responding to a 500% increase in daily call volume. No matter what.
We keep on. So you can keep on.
Bloomberg
bloomberg.com/company
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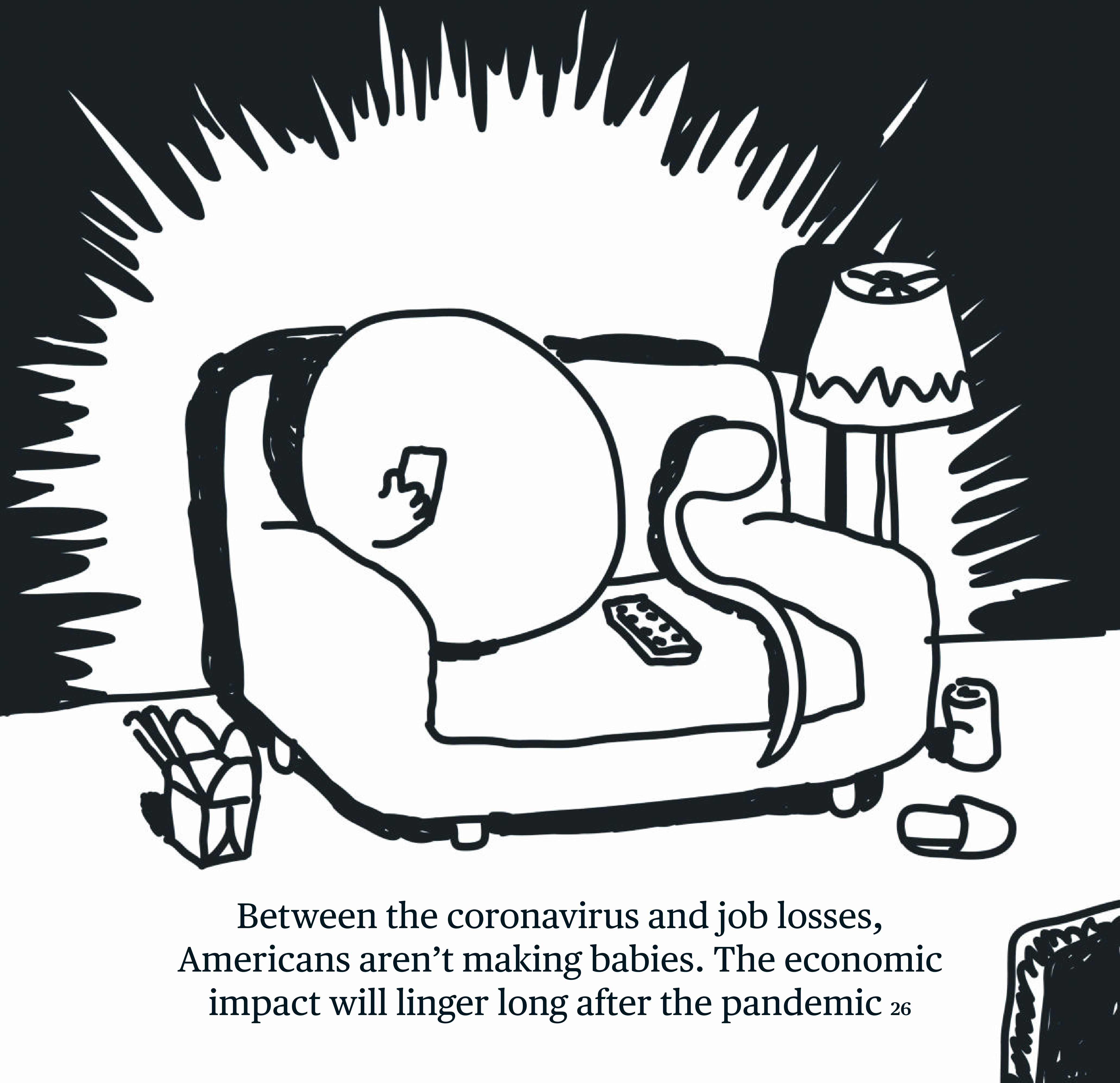
Bloomberg Businessweek
August 3, 2020

Not in the Mood



Between the coronavirus and job losses, Americans aren't making babies. The economic impact will linger long after the pandemic 26

Circles drawn in the grass promote responsible social distancing at a waterfront park in Brooklyn, New York.

Bloomberg Businessweek

August 3, 2020

◀ Mandela intended the castings to be sold for a favorite charity, but he soon soured on the idea

PHOTOGRAPH BY DOLLY FAIBYSHEV FOR BLOOMBERG BUSINESSWEEK

FEATURES

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■ COVER TRAIL

How the cover gets made

❶ "This week we're talking about how Americans aren't making babies during the pandemic. The future of the economy is at risk!"

"Wow, this is too easy."

❷

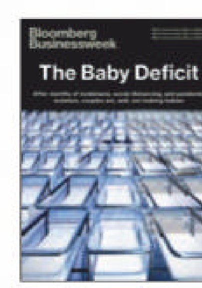
"Close, just not the procreation part."

"Something more prophylactic, perhaps?"

❸

"No. Just... no. Let's focus on the babies."

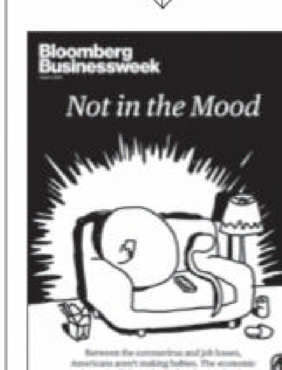
❹



"Whoa. That got really dark really fast."

"I've got it! A sperm and an egg on a love seat, but not making love."

"Yep, this looks like my life right now."



Cover: Illustration by Chris Nosenzo

PATRICOF: PHOTOGRAPH BY JUSTIN WEE FOR BLOOMBERG BUSINESSWEEK. CUCUMBER, FLAG AND RABBITS: SHUTTERSTOCK (3). MASK: ALAMY. BASSINET: GETTY IMAGES

STAYING HOME SAVES LIVES.

CORONAVIRUS.GOV

ARTWORK BY THOMAS WIMBERLY / AMPLIFIER.ORG

ad COUNCIL

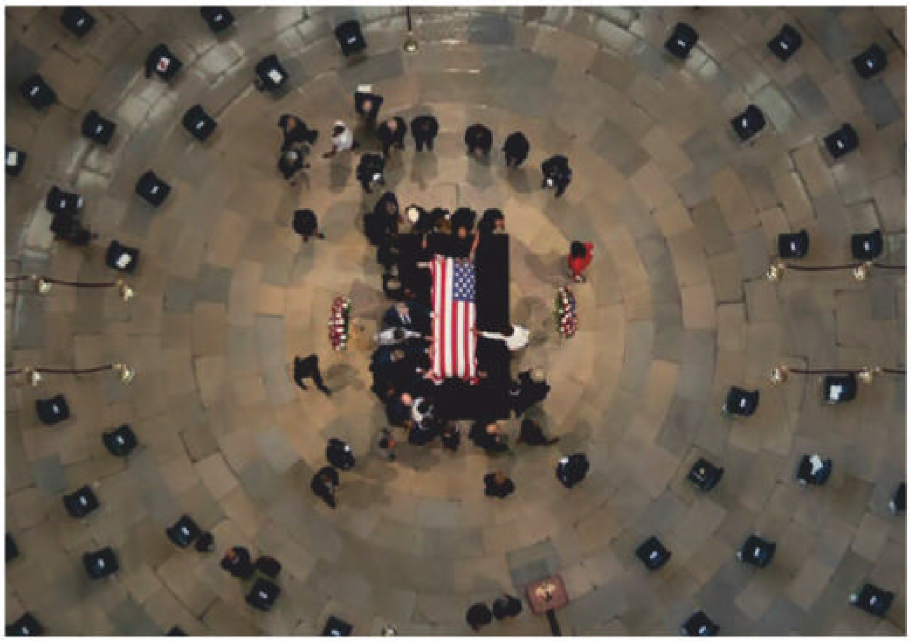
IN BRIEF

● Worldwide, the number of Covid-19 cases is nearing

17m

The U.S. accounts for more than 150,000 of the 662,000 global deaths from the disease. Meanwhile, with infections flaring up again in parts of Europe, the U.K. ordered travelers from Spain to quarantine for 14 days.

● New York state health authorities are investigating a charity concert in the Hamptons that featured Goldman Sachs CEO David Solomon doing a turn as DJ. Governor Andrew Cuomo said there were "egregious social distancing violations" at the event; organizers say they maintained appropriate health standards.



● Representative John Lewis of Georgia became the first Black lawmaker to lie in state in the U.S. Capitol rotunda. The civil rights legend died on July 17 from pancreatic cancer.

● The U.S. plans to pull about 12,000 troops out of Germany.

It will redeploy some forces to Poland and other European nations and bring other personnel home. The drawdown follows President Trump's criticism that Germany doesn't spend enough on its military and has taken advantage of the U.S.

● Eastman Kodak's shares surged

2,441%

over three days after the company secured a $765 million loan from the U.S. government to shift some of its factories to producing drug ingredients. It's a possible lifeline for the storied photography giant, whose business has been hollowed out by the switch to digital cameras.

● Intel ousted its top engineer.

Murthy Renduchintala, who came from rival Qualcomm in 2015, was put in charge of the company's vast chip design and manufacturing organization, which will be split up when he leaves on Aug. 3. The dismissal comes less than a week after Intel said it had failed to keep up with the most advanced chip production technology.

● The price of gold hit

$1,981.27

on July 28, about $60 above its previous peak, in 2011. Wary of a drop in real rates, the recent weakness in the dollar, massive government stimulus programs, and flaring tensions between the U.S. and China, investors are seeking a safe haven in the precious metal.

● "Those people are going to need support if they're to be able to pay their bills."

Fed Chair Jerome Powell speaking about U.S. workers during the pandemic after the July 29 Federal Open Market Committee meeting. The central bank left rates unchanged.

● AT&T, the world's most indebted company, sold

$11b

of new bonds to help refinance its debt pile of about $169 billion, which stems in large part from its acquisitions of Time Warner and DirecTV.

● A Malaysian court sentenced Najib Razak, the former prime minister, to 12 years in jail, finding him guilty on all seven counts of corruption relating to his involvement with the country's sovereign wealth fund, 1MDB. Razak plans to appeal.

ROTUNDA: JONATHAN ERNST/POOL/GETTY IMAGES. POWELL: TASOS KATOPODIS/GETTY IMAGES/BLOOMBERG. RAZAK: MOHD RASFAN/AFP/GETTY IMAGES

Japan and China Should Stop Promoting Coal Around the World

Few nations can spare a thought for anything right now except battling Covid-19 and mitigating its economic fallout. But it's essential that their rescue efforts don't add to an even bigger global danger: climate change. The governments of China and Japan, especially, need to keep this in mind. By continuing to fund new coal projects at home and abroad, Asia's two largest economies threaten to doom any chance of limiting global warming to 1.5C.

Chinese authorities, looking to revive their battered economy and increase energy security, approved more coal capacity in the first six months of this year than in 2018 and 2019 combined. An additional 40 gigawatts of coal plants have been proposed, almost as much as South Africa's entire fleet. Meanwhile, China continues to finance a quarter of coal-fired capacity under construction around the world.

Japan, the next-biggest financial provider, recently pledged to support only the most efficient coal-burning technologies at home and overseas. Such plants are and will continue to be highly polluting. And, though coal opponents such as Environment Minister Shinjiro Koizumi say this is a sharp change in policy, more powerful ministries are thought to still favor new projects. From now on, countries getting help will have to present long-term plans for lower emissions, but what difference that will make, if any, is unclear.

Policymakers in Beijing and Tokyo might argue that this is no time for idealism. The Chinese economy shrank 1.6% in the first half of this year, and the International Monetary Fund projects Japan's output will fall 5.8% in 2020. Officials in Beijing have been striving to promote cleaner forms of energy, but local authorities see coal plants as an easy source of stimulus, jobs, and demand for domestic coal. Japan argues it can't afford to eliminate coal because of fierce resistance to restarting nuclear plants after the Fukushima Daiichi disaster.

Both countries are being shortsighted. Given the rapidly falling cost of renewables, coal projects no longer make financial sense. Already, more than half of China's are estimated to operate at a loss. Some of the countries receiving financing from China and Japan can ill afford the projects they have on the books, let alone the future losses the plants could impose. That's leaving aside the economic costs of unabated climate change. China and Japan are acutely vulnerable to those risks.

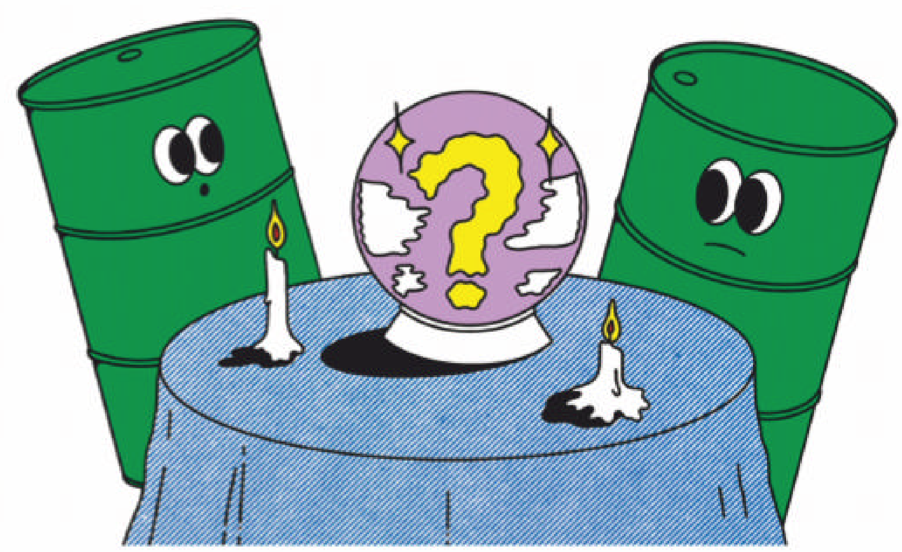
The Covid-19 crisis offers a chance to reverse course. Given low fuel prices and reduced demand, governments around the world have a window to cut fossil fuel subsidies, freeing up money for pandemic aid. Rather than offering other countries debt relief on financially unsustainable coal projects, China could cancel them outright and offer help with solar and wind technology—in which it's a world leader—instead.

Neither country should think it has the luxury of time. The next global climate summit has been postponed until November 2021. Around then, Beijing is expected to set a new domestic target for coal-fired capacity. If China and Japan want other nations to commit to more ambitious goals for reducing emissions, they need to demonstrate their own seriousness. Both aspire to greater roles in global governance. They shouldn't discount the damage continued support for coal will do to their credibility and influence.

Those considerations ought to be compelling by themselves, but here's another: Former Vice President Joe Biden has pledged, if elected in November, to impose carbon tariffs on nations that don't meet their climate obligations. Global carbon pricing might be on the way. A source of energy that's already unduly costly is only going to get more expensive. Ⓑ

For more commentary, go to bloomberg.com/opinion

■ AGENDA



► Does Big Oil Have a Future?

BP reports second-quarter earnings on Aug. 4. Under new CEO Bernard Looney, the oil giant has taken massive writedowns on the value of its business to prepare for the transition to a low-carbon world.

► HSBC unveils its second-quarter earnings on Aug. 3. The bank has already announced 35,000 job reductions, but it may need to cut deeper to manage a turnaround.

► The Bank of England sets its interest rates on Aug. 6. It's already cut borrowing costs to 0.1% and added £300 billion ($390 million) to its asset purchase program to support the economy.

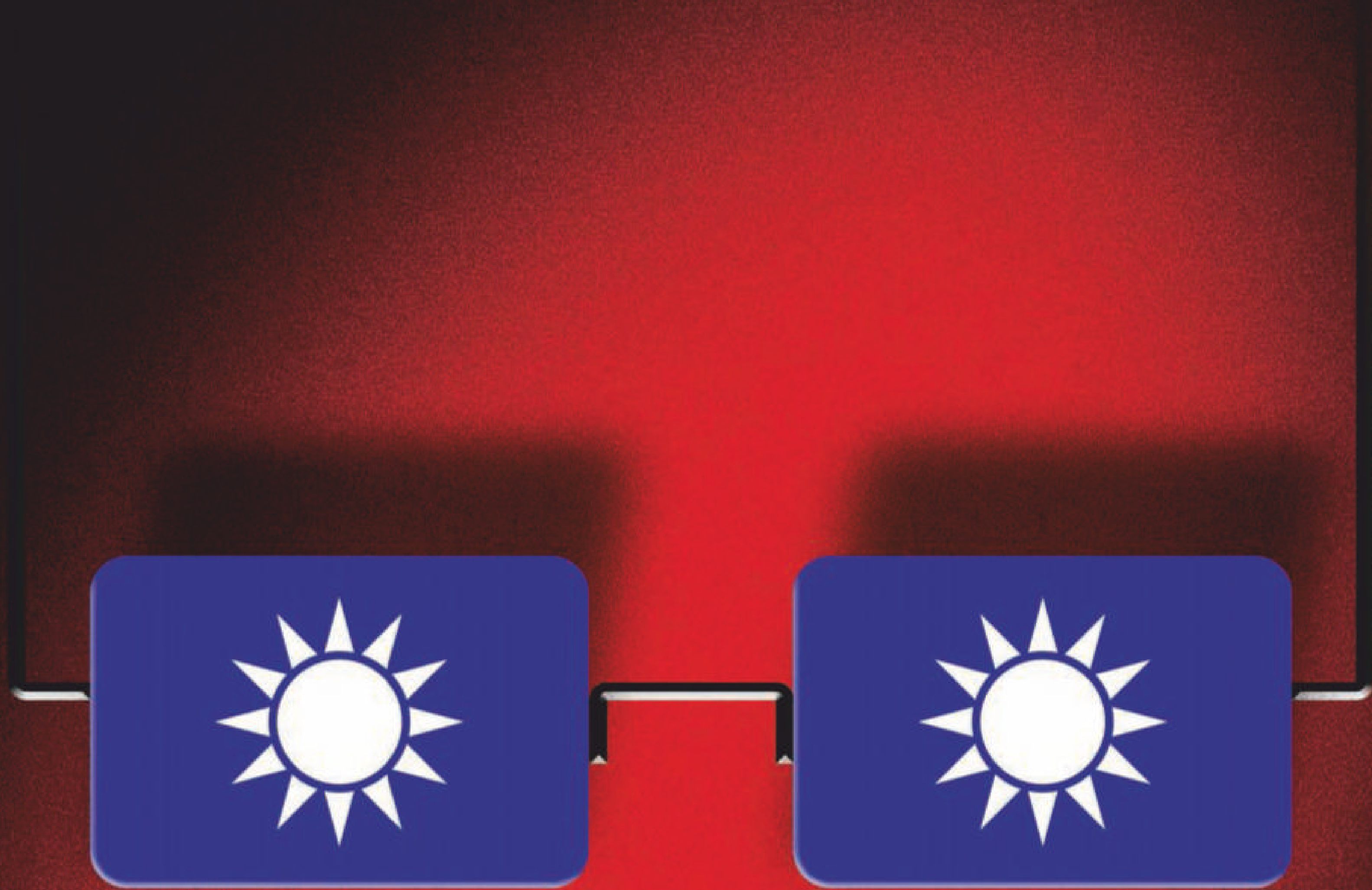
► The judge overseeing Bayer's Roundup cancer settlement called parties into court on Aug. 6 for a hearing to discuss the status of the complex $10.9 billion agreement reached in late June.

► New Zealand reports jobless numbers for the second quarter on Aug. 5. The country was among the first to declare victory over the coronavirus outbreak after a strict lockdown.

► Aug. 6 in Japan is Hiroshima Day, marking the day in 1945 that the U.S. used the first of two atomic bombs against the country. The second fell on Nagasaki three days later.

► Want to look sharp back at the office? Pick up a watch at Bonhams in London on Aug. 5. Timepieces being auctioned include a Patek Philippe valued at more than $200,000.

ILLUSTRATION BY LAUREN MARTIN



China Has Eyes On Taiwan

● After cracking down on Hong Kong, Beijing turns its attention to the island across the strait

● By Iain Marlow and Cindy Wang

Ever since Mao Zedong triumphed in 1949, prompting his Nationalist enemies to flee to Taiwan, Communist Party leaders have bolstered their legitimacy to rule by taming rebellious corners of China's vast periphery.

The quest to capture lost territory prompted Mao's army to subdue Tibet, where cadres co-opted Buddhist monasteries and eventually built a railway that ensured well-supplied garrisons of troops across the Himalayan plateau. He also reclaimed Xinjiang in the far west, a Muslim desert region the size of Iran where Silk Road traders once crossed paths with Uighurs—who have now been reduced to about 30% of the population of their own homeland after millions of China's dominant Han ethnicity moved in. After Mao's death, Deng Xiaoping further helped restore China's glory following the so-called century of humiliation when he negotiated the return of two cities lost to colonial powers. The U.K. handed over Hong Kong in 1997, and Portugal followed two years later with Macao.

Xi Jinping has consolidated control in all of these places since taking power in 2012 and bolstered Beijing's hold on disputed reefs in the South China Sea. Most notably, he set up a vast police state in Xinjiang that sent Muslims en masse to reeducation camps, and just in July he imposed a sweeping national security law in Hong Kong aimed at stamping out dissent in a city that many in the West once hoped would spur China to embrace democracy.

Now fears are growing that Xi wants to cement his place alongside Mao and Deng by conquering Taiwan, a prize that's eluded Communist Party leaders for decades. Joseph Wu, the foreign minister of the island's democratic government, warned on July 22 that China "may look for excuses to start a war or conflict" after it suddenly stepped up incursions into Taiwan's air defense identification zone, raising the risk of a collision that could escalate. "What China is doing now is continuing to ramp up preparedness to solve the Taiwan issue," Wu said. "We are very concerned that China will target Taiwan now that the Hong Kong security law's been passed."

Worries are also growing in the U.S., where both parties are increasingly united in viewing China's rise as a threat to the free world. On July 23, Secretary of State Michael Pompeo said "securing our freedoms from the Chinese Communist Party is the mission of our time," and a Republican Party lawmaker even planned to propose a bill authorizing the president to respond with military force if China attacks Taiwan.

The U.S. had terminated its mutual defense treaty with Taiwan as part of the agreement to establish diplomatic ties with China in 1979 in the wake of Richard Nixon's famous trip to Beijing. It replaced that with legislation authorizing the sale of weapons for Taiwan to "maintain a sufficient self-defense capability," while stopping short of saying it would join a conflict.

Those defense sales have become an increasing point of tension with Beijing. China slapped sanctions on Lockheed Martin Corp. in July after the latest approval of weapons sales under President Donald Trump's administration, which has included billions of dollars worth of F-16 fighter jets, tanks, and Stinger missiles. Nikki Haley, Trump's former United Nations envoy, on July 21 called for sales of more high-tech equipment and a trade deal. "Protecting Taiwan from Chinese aggression is essential to preventing an outright conflict with Communist China," Haley wrote in a Medium.com opinion piece that lauded Trump for regularly sending warships to the Taiwan Strait. "No one wants war. Yet by threatening Taiwan, Beijing is making the world less safe and a confrontation more likely."

Of the many U.S.-China conflicts right now—from Huawei Technologies Co. to Hong Kong to the consulate closures—none is more dangerous over the long haul than that involving Taiwan. The Communist Party has threatened to invade the island ever since Chiang Kai-shek's Nationalists fled China in 1949. In a speech in Beijing last year about the party's policy toward Taiwan, Xi said, "We make no promise to renounce the use of force and reserve the option of taking all necessary means." He declared that "China must and will be united, which is an inevitable requirement for the historical rejuvenation of the Chinese nation in the new era."

How a war would play out is the subject of much debate. China's population of 1.4 billion dwarfs Taiwan's 23 million, and its total defense expenditures are estimated to be 25 times greater. Hu Xijin, the editor-in-chief of the Communist Party's *Global Times* newspaper, said in July that China wants peace but "is fully capable of destroying all of Taiwan's military installations within a few hours, before seizing the island shortly after."

Yet researchers who've studied war preparations on both sides doubt it will be so easy. While the People's Liberation Army would seek to bombard the island with missiles and cyberattacks to quickly neutralize Taiwanese forces before they could fight back, the chances of pulling off such a comprehensive surprise assault are slim, according to a 2017 paper by Michael Beckley, who's advised the Pentagon and U.S. intelligence communities.

Any failure to immediately knock out Taiwan's forces, he wrote, would allow the island to repel an amphibious invasion or sustained bombing campaign—even without the U.S. military. Taiwan has been building up asymmetric capabilities like mobile missile systems that could avoid detection, and a prolonged conflict that draws in the U.S. and its allies risks dire economic consequences that could backfire on the Communist Party. "Even if China's prospects are better than I have suggested, the PLA clearly would have its hands full just dealing with Taiwan's defenders," Beckley wrote, ▶

◀ referring to the People's Liberation Army. "Consequently, the United States would only need to tip the scales of the battle to foil a Chinese invasion."

Any military action would be catastrophic for the global economy in one crucial regard: Taiwan has more than 20% of the world's microchip production, including Taiwan Semiconductor Manufacturing Corp., which briefly became the 10th most valuable company in the world on July 24 following reports speculating that Intel Corp., the largest U.S. chipmaker, might outsource its production to the company. TSMC is based in Hsinchu, less than 100 miles from China's coast. A sudden disruption of the supply chain would resound everywhere, including the People's Republic.

Even if it took over the island, Beijing would face a hostile population. While China long used economic incentives to win hearts and minds, it cut off direct contact after the 2016 election of President Tsai Ing-wen, who views the island as a de facto independent nation that needs increased international recognition. China's suppression of Hong Kong only boosted support for Tsai, who easily won reelection in January. Xi's proposal to use Hong Kong's "one country, two systems" model for unification is so unpopular in Taiwan that even the Kuomintang, the main China-friendly opposition party and the rump organization of the Nationalists who fled Mao, has rejected it.

The difficulties of unifying under that system were made evident in July. After China imposed the national security law in Hong Kong, the government tried to force senior Taiwanese officials at the Taipei Economic and Cultural Office to sign a "one China" pledge that recognizes Beijing's sovereignty over the island. The officials refused and returned to Taiwan, and it's uncertain whether the office will stay open. Converted from a travel agency setup in the 1960s under British rule, the office had come to reflect the kinship between two bastions of democracy-loving Chinese people on territory claimed by Beijing. Whereas Hong Kong once provided refuge for more than a million people seeking to escape the mainland, Taiwan is now becoming a destination for pro-democracy protesters in the city. "In the past, Hong Kong was not only a buffer for cross-strait relations, it was a window for global countries to engage and interact with China," says Lin Fei-fan, the deputy secretary-general of Tsai's ruling Democratic Progressive Party. "And Taiwan will be at the front line of China's pressure now that Hong Kong is no longer a buffer."

Lin says Taiwanese officials are monitoring Xi's statements closely, so as not to be caught unprepared if he takes any action to distract from a slowing economy in China. They also expect Beijing to further isolate Taiwan from its remaining diplomatic allies, block its officials from joining global bodies, step up cyberattacks and spying operations, and continue military drills near the island in the air and at sea.

Still, an invasion remains unlikely. At an annual legislative meeting in May, China's premier, Li Keqiang, called Taiwan's people "brothers and sisters" and said leaders would "do our very utmost to promote peaceful reunification of China." And in July, a spokesman for China's defense ministry put the blame on the U.S. for the increased tensions, saying its leaders frequently play the "Taiwan card" and want to undermine China's sovereignty by "salami slicing."

While China is Taiwan's largest trading partner, Tsai has sought to take advantage of Trump's trade war to reduce the island's dependence on Beijing. Her "Invest Taiwan" initiative attracted more than $36 billion worth of pledges with incentives to persuade businesses to bring operations back home from the mainland. Despite a lower 2020 gross domestic product forecast of 1.67% because of the Covid-19 pandemic, Taiwan is set to be the only developed economy in the world to see growth this year.

Taiwan's response to the coronavirus has also boosted its international standing. The island's quick reaction and warning to the world prompted the U.S. and its allies to push for Taiwan's inclusion in the World Health Assembly, the decision-making section of the World Health Organization—a move Beijing continues to oppose despite the pandemic. (The Trump administration has announced the U.S. withdrawal from the WHO effective July 2021.)

In the U.S. the rhetoric over Communist designs on the island has ramped up. After the State Department abruptly booted China from Houston on July 23, GOP Texas Senator Ted Cruz tweeted that "the city now has a consulate for the free Republic of China (Taiwan) and no consulate for the tyrannical People's Republic of China…as it should be." That evocation of the "two China" policy hails Taipei as a viable democratic alternative to Beijing. It also raises the issue of a formal declaration of Taiwan's independence, a red line for the mainland that would likely trigger an invasion.

"The U.S. is desperately using the Taiwan issue to put pressure on the Chinese government, while some in Taiwan hope to use the opportunity to promote independence," says Liu Guoshen, director of the Collaborative Innovation Center for Peaceful Development of Cross-Strait Relations, based in Fujian, the province directly across from Taiwan. "Given this situation, Beijing must prepare for the worst." He adds that "if the United States holds no bottom line in using the Taiwan issue to carry out provocation, China will respond appropriately in its own way and at its own pace." Liu says "Beijing has been the biggest defender of the status quo, and the Chinese government has not given up the goal of peaceful reunification."

China's idea of status quo doesn't seem all that stable in the eyes of Taiwanese officials, however. They take a quick look around the neighborhood and see good reason for worry: China recently surprised India with the deadliest border clash in decades around the same time that it clamped down on Hong Kong. "China has moved toward Hong Kong first and Taiwan's next," says Tung Li-wen, a consultant for Taiwan's Mainland Affairs Council, which oversees the island's relations with Beijing. "But China's ambition is not only Taiwan. It's all of Asia—and the whole world." Ⓑ
—*With assistance from Jing Li and Lucille Liu*

Bollywood Gets a Covid Makeover

● As it reopens, health rules mean that big dance numbers are out, social distancing is in

Bollywood movies have always been about excess, with even serious scripts often managing to squeeze in lavish musical numbers and frenetic routines featuring scores of dancers. No more. The pandemic is turning Bollywood downright minimalistic. Shooting scenes of crowded wedding songs—a staple of the genre—has been temporarily ruled out by Covid-wary officials. And a chase scene scripted for a dusty, crowded Indian street was recently rewritten to take place in an empty warehouse, confides one director at a major studio.

These are just some of the changes the globe's most prolific movie industry is making to awaken from one of the world's strictest lockdowns. The coronavirus, which has sickened more than a million Indians—including superstar Amitabh Bachchan and his daughter-in-law, Aishwarya Rai, a former Miss World who is one of the nation's best-loved actresses—is forcing filmmakers to radically rethink how they do their job. "We've looked at all the scripts on our table to make them more production-friendly," says Atul Kasbekar, producer of the award-winning thriller *Neerja*, who's now preparing to shoot a Hindi remake of the 1998 hit German experimental film *Run Lola Run*. "The only thing you can do is figure out what is the path of least risk, financially."

Kasbekar and other filmmakers in India are competing for attention from streaming sites such as Netflix and its homegrown rivals; these are the only

● Rehearsal on the set of *Bhakharwadi*, where umbrellas are a social distancing tool

Edited by James E. Ellis

showcases available as Indians continue to shelter in place while grappling with increased oversight from a government that's struggling to contain a worsening viral outbreak, now the third-largest in the world. The resulting clash between creativity and caution has poised India's almost $34 billion entertainment industry at an inflection point that some say could change it forever.

The surging reliance on direct-to-home distribution is encouraging producers to experiment with genres and storylines that don't fit the traditional formula for Indian fare. Such efforts include Netflix's *Indian Matchmaking*. The reality show on arranged marriages has become a hit as people remain homebound; it's also sparking controversy for its portrayal of caste and obsession with fair skin, qualities Indians consider when choosing a suitable mate. Another is *Home Stories*, a collection of four rough-hewn short films set amid the lockdown that play off the anxiety and confusion that quarantine creates—everything including watching the deteriorating mental health of one homebound character and the tale of a delivery man working during the pandemic.

The shift also opens up more space for grittier dramas such as Amazon Prime's acclaimed *Paatal Lok*, a glimpse into the netherworld of Indian policing, because streamed content is able to bypass the country's censor board that often bedevils multiplex-bound productions.

"Rather than signaling the end of the big box office numbers, instead we're seeing a broadening of the field," says David Lunn, a researcher at University of London's School of Languages, Cultures & Linguistics. "In this new, more diverse landscape, there will be greater space for experimentation and novelty—and failure—and filmmakers are already trying their hand at new formats."

Still, all experiments need to comply with the 16-page protocol issued by the government in Maharashtra, the Indian state that's home to Bollywood's capital city of Mumbai. It advises studios to cast real-life kin as family members on screen to limit strangers interacting. There are daily temperature checks, plus fumigation of sets and editing rooms. People older than 65 aren't welcome on the set in an industry known for its generation-spanning sagas. No wedding, marketplace, or fight scenes, which typically involve crowds, are allowed. And only a third of pre-Covid-era crew is permitted on set during filming.

Producer JD Majethia came up with a quirky way to combat virus transmission on the set of his television show, *Bhakharwadi*: Everyone is required to carry an umbrella on the shoot floor. "Holding an umbrella automatically ensures social distancing, so nobody can brush past another even by mistake," he says. Masks—and umbrellas—aren't ditched until the cameras begin to roll.

"We have tweaked our script wherever possible to reduce the number of actors in a frame," Majethia says. "We've also tried to shoot with multiple cameras in such a way that actors appear to be sitting closer when they are actually sitting fairly apart. I recently told a writer that we can easily swap a kissing scene with an air kissing one and still retain the underlying emotion in the scene."

R. Balki, who previously directed Bachchan in the hits *Paa* and *Cheeni Kum*, first got a taste of Covid constraints when he shot a coronavirus public-awareness campaign in May. Everyone had to enter the set through a tunnel from which disinfectant was sprayed. They wore face shields and had doctors in full protective gear on standby. Sanitized costumes were sent to actors in advance, and Akshay Kumar—who has received India's National Film Awards for two of his films—came dressed from home and did his own makeup.

"I won't say it was a pain, but it requires a bit of care," says Balki, who shot the public-service spot with only 20 crew members, instead of the typical 60. The backdrop of his campaign was an uncharacteristically deserted Indian village square.

Sanjay Jadhav, who's directed several Marathi language films, says he's changing scripts to have a maximum of three people in the frame at a time. Actors are becoming increasingly vocal on the risks they face on set and off, says Jadhav, who also expects retaliation from unionized crews who may be laid off because of the sparer productions.

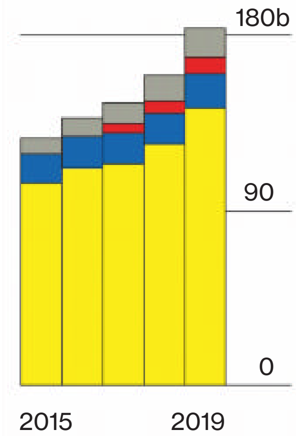
Popular TV actress Hina Khan shared on Instagram how unsafe she felt while dubbing dialogue for a recent production, first with a mask on and then without. "I was told my voice is not clear.… I realized it's so, so unsafe to inhale and exhale so close to the microphone.… God knows how many have dubbed in the same studio before me.… God knows who amongst them was a carrier," she wrote.

Film financiers have begun buying an add-on Covid coverage for lead actors as part of their key man insurance policies, according to Sonam Chandwani, managing partner at law firm KS Legal & Associates in Mumbai, which says it has about 30 media clients. The firm is also bolstering the force majeure clauses in contracts, which allow provisions to be breached as a result of circumstances beyond human control, to cover any future lockdowns.

Kasbekar, who was supposed to start shooting his *Run Lola Run* remake in April, changed ▶

▼ India film industry revenue, in rupees, by fiscal year

■ Theatrical
■ Cable and satellite rights
■ Digital rights
■ Other



▼ Lights, camera, social distancing

1. Only one-third of the pre-Covid crew can be on set
2. Daily temperature checks for all cast and crew
3. Daily fumigation of sets and editing rooms
4. Make-up artists and hair stylists must wear face shields
5. Actors encouraged to bring their own food, do their own makeup
6. No wedding, marketplace, carnival, or fight sequences
7. Staggered lunch breaks to avoid crowding
8. No one in the cast or crew can be pregnant
9. Wardrobe fitting to be conducted over Skype, Zoom, or Facetime
10. No handshakes, hugs, or kisses to say hello

COURTESY HATS OFF PRODUCTIONS; DATA: KPMG

◀ the protagonist's profession after he found "a giant location" that could accommodate several different shooting setups, allowing him to save some money. The producer also predicts special effects will now be needed in other action films where rewriting is impossible, especially for battle scenes, despite India having a vast supply of cheap extras who traditionally have been available for such productions.

It's not clear how the extra costs and lack of cinema outlets will affect Bollywood's finances. The typical Bollywood production is a money-spinner, with even the films' music farmed out for stage shows that pay royalties, while stars enjoy the glamour—and product endorsements—that traditionally accompany big hits in theaters.

Just how long the pandemic-spurred production changes will last is uncertain. "That's a million-dollar question," Balki says. "Filmmakers will have to lean on streaming platforms. Producers will have to be happier with lesser profits, and actors with lesser payouts. At least for now." *—Bhuma Shrivastava and Nikhil Patwardhan, with P R Sanjai*

THE BOTTOM LINE India's Bollywood film studios annually churn out the world's largest number of movies. Pandemic restrictions are putting their business model to the test.

ESPN Goes on The Injured List

● With college sports in flux because of Covid, the network could lose millions in ad revenue

You almost feel sorry for Mark Packer and Wes Durham. The two veteran broadcasters have what might seem like dream jobs, chatting about college sports for two hours every morning for the Walt Disney Co.-owned ESPN empire. These days they air their show separately from their respective homes, and you can hear the frustration in their voices when yet another athletic league cancels its season or a high-profile school delays its start date because of the coronavirus.

"We've talked about this almost ad nauseam," Packer told his colleague after football powerhouse Clemson University said its students won't return to campus until late September. If students aren't even able to walk across a quad to class, "how can you have a football game, a baseball game, a tennis match, whatever it happens to be? That's a very difficult question."

It's one echoing throughout the ESPN operation these days. No major media company has bet more on college sports than ESPN. The company airs college games on 10 different channels, including the ABC broadcast network and its ESPN+ streaming service. It runs specific networks for the Southeastern and Atlantic Coast conferences and for the University of Texas. Last season more than half of all college football viewers tuned in to one of ESPN's outlets.

But this year the season is completely up in the air. Some conferences, including the Ivy League, have canceled fall sports entirely. The Pac-12 and Big Ten have eliminated games with schools outside of their conference, so they can limit travel and start their seasons later. That's squashed popular matchups such as Ohio State vs. Oregon and Penn State vs. Virginia Tech.

▲ Clemson's Memorial Stadium

The college crisis comes as ESPN is benefiting from the return of professional sports, after months of airing old games, Korean baseball, documentaries, and an Eagles concert. The National Basketball Association and Major League Soccer are even playing their Covid-shortened seasons at the company's Wide World of Sports facility near Orlando.

ESPN, which declined to make any of its executives available for this article, said the games canceled so far have mostly involved those on its online channels, or those coming from conferences shared with other broadcasters such as Fox Corp. So the lost games on ESPN could be fewer than it seems, it said. The network could also move up lesser matchups from its online outlets to run in place of canceled games.

Still, many decisions about the upcoming season have yet to be made. Unlike the professional leagues, which have one central commissioner and a relatively small number of teams, control of college athletic schedules is spread out among dozens of schools, presidents, and conferences. "It's harder to get consensus," says Patrick Crakes, a former Fox Sports executive who's now a consultant.

College football accounted for about $793 million in advertising at ESPN, ABC, and their related networks, estimates Standard Media Index, which tracks advertising spending. That's almost four times as much as their closest rival, Fox.

Big sponsors including AT&T Inc., Dr Pepper, and State Farm depend on college football for billions of ad impressions a year, says ISpot.tv. *College GameDay*, a program in which ESPN commentators travel from school to school each week, is a Saturday morning staple for many Americans. The network says it still plans to take that show on the road, though longtime host Lee Corso, who's 84, may appear from his house. Home Depot Inc., the main sponsor, says it will continue to be involved and looks at this as an "opportunity to engage with college football fans in new virtual ways."

ESPN and other networks are doing their best to persuade advertisers to stick around, moving spots from one sport or channel to another, says Sam Bloom, chief executive officer of Camelot Strategic Marketing & Media, which helps companies including TurboTax, Whole Foods Market, and 7-Eleven make ad decisions. "For some of our advertisers, it's forcing them to rethink," he says.

Chris Wujcik, vice president for client consulting and services at GMR Marketing in New Berlin, Wis., says sponsors are mostly in a wait-and-see position. If entire seasons are canceled, it will be difficult to find programs that reach audiences of a similar size. If top-tier games are replaced by less-followed matchups, the networks will probably offer their sponsors other perks such as digital ads or even signage in stadiums to compensate. "Everyone's going to be really creative with what they offer," says Wujcik, whose firm's clients include Hershey Co. and Nissan Motor Co.

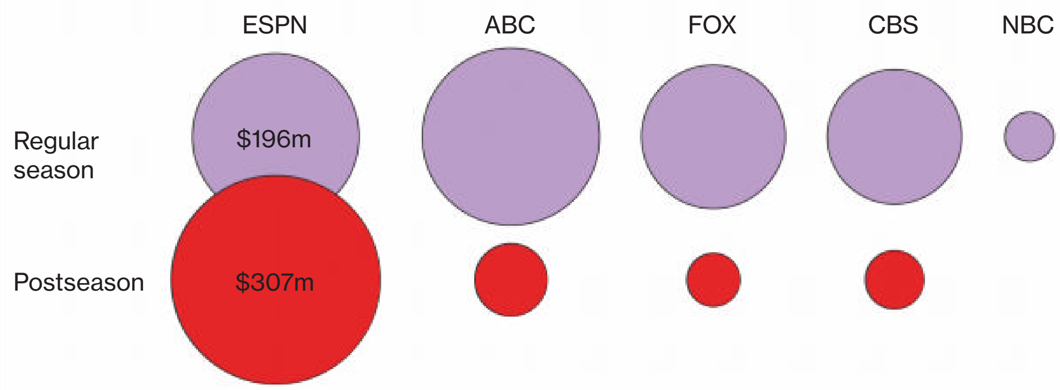
The loss of postseason games, such as the Rose Bowl and Sugar Bowl, which accounted for about a combined $345 million in ad revenue last year for ESPN and ABC, would be painful. ESPN was scheduled to air 39 bowl matches. One, the Celebration Bowl, has already been canceled.

The National Collegiate Athletic Association said it would resume discussions in August about whether some of its championships will still be played. "We all remain deeply concerned about the infection trend lines we see," NCAA President Mark Emmert said in a statement on July 24.

It's not only college play that's been disrupted. After losing two of the league's 26 teams when

Where Sports Advertisers Play

Ad revenue during the 2019-20 college football season



DATA: STANDARD MEDIA INDEX

players tested positive, Major League Soccer has continued to play in Orlando with no new cases since July 13. Major League Baseball, which is playing its games on the road, canceled several at the start of its season after players from the Miami Marlins tested positive.

ESPN's cable networks could see ad revenue fall this year by 12%, or $320 million, says Scott Robson, an analyst for S&P Global Market Intelligence. Much of that could come from college sports. "We're going to see similar declines at the rest of the programmers in this quarter and the current quarter," he says. "It's a big deal."

With a loss of revenue such as that, ESPN, which coped this year in part by furloughing workers and asking on-air talent to take 15% pay cuts, may resort to layoffs, Crakes says. Throughout the pandemic, cable TV companies have continued to collect monthly bills from customers and remit programming fees to the sports networks, even though live sports have been off the air. If ESPN and its sister channels can't deliver the contracted hours of live sports, cable operators could ask for some of that money back. Worse, cable customers, fed up with high monthly fees, may downsize to lower-priced TV packages or cancel service entirely. Those pay-TV subscriber fees are a big number for Disney: almost $10 billion from ESPN-related channels alone last year, or three times what its networks bring in from advertising. A recent UBS Securities survey found 14% of cable subscribers would likely cancel the service if college football didn't happen.

"This could accelerate cord-cutting," says Doug Perlman, who consults with leagues over media deals at his company, Sports Media Advisors LLC. "There will be more people who say, 'There's no college football. It's time for me to move on.'" *—Christopher Palmeri, with Lucas Shaw*

THE BOTTOM LINE Last season, more than half of all college football viewers tuned into an ESPN outlet. A reduced season could make it tough to get the audience size promised to advertisers.

● Emmert

STADIUM: MADDIE MEYER/GETTY IMAGES; EMMERT: DREW ANGERER/GETTY IMAGES

Green Acres for China's EVs

● Automakers are targeting drivers outside big cities for cheaper electric models

China buys more electric vehicles than any other country, and most sales occur in big cities such as Beijing and Shanghai. EV buyers there can afford to spend 300,000 yuan ($43,000) on a sedan like the Tesla Model 3.

Fang Yunzhou, chairman of one of Tesla Inc.'s local rivals, has a different customer in mind: a consumer who lives in a less affluent small city or even a farmer in the countryside. "Our goal is to provide a real product affordable for the whole market, rather than a rich kid's toy," he says.

Fang, 45, is the founder of Hozon New Energy Automobile Co., a 6-year-old EV maker backed by local governments in eastern China's Zhejiang province and one of a handful of companies that want to expand the market for EVs. Hozon is betting there's a path to profitability in selling inexpensive battery-powered autos in China's flyover territory. The price of Hozon's first SUV, the Nezha N01, starts at less than 67,000 yuan. In early July the company began delivery of another SUV, starting at about 140,000 yuan, that can travel more than 250 miles on a single charge.

Targeting drivers outside big cities could help Hozon survive the massive consolidation taking place in China's EV industry. As auto sales boomed in the mid-2010s, hundreds of EV makers hoped to become the country's answer to Elon Musk's Tesla. But demand started to falter even before the effects of Covid-19 hit the economy, because there was a reduction in government incentives in mid-2019. Only 11 of the country's EV makers succeeded in raising funds last year, among them WM Motor Technology Group, Li Auto, and Hozon,

Edited by
Dimitra Kessenides
and David Rocks

according to advisory company Automobility Ltd. Adding to the pressure, in January, Tesla began delivering EVs from its new Shanghai plant.

The coronavirus pandemic is making the situation even worse. Sales of new-energy vehicles dropped more than 37% in the first six months of 2020 after falling sharply in the second half of 2019.

Chinese President Xi Jinping's government is trying to boost the industry by helping automakers sell in areas they've usually overlooked. In July, Beijing announced an initiative involving 10 companies, including Hozon, to promote EV sales in villages, towns, and small cities with subsidies and other incentives such as preferential loans.

At a time when China's relations with the U.S. and other countries are deteriorating, EV makers including Hozon are part of a broader push by Xi to build Chinese alternatives to Western companies. "We must ensure key and core technologies are in our own hands and aspire to build strong domestic automobile brands," Xi said on July 23 while touring a facility of state-owned FAW Group, another automaker that's targeting prospective rural buyers.

More than 500 million people live in China's rural areas. Although their incomes generally are lower than those of city dwellers, some have cash to spend, according to China EV100, a think tank that focuses on EV development. In the countryside, residents own fewer than 150 cars per 1,000 people, about half that of residents in China's biggest cities, according to BloombergNEF. "There's a huge market for such vehicles in the rural market," says Xu Haidong, deputy chief engineer of the China Association of Automobile Manufacturers, a trade organization that's helping organize campaigns to encourage promoting electric-vehicle sales.

There are advantages to owning an EV in the countryside. Because most rural Chinese live in a house rather than a high-rise, an EV owner can simply plug the car into an ordinary outlet and doesn't need the charging infrastructure more common in big city apartment buildings. With the company offering a subsidy of as much as 7,000 yuan for buyers, a consumer can purchase an EV with as little as 18,000 yuan down—and farmers with a good credit history are eligible to drive away without any initial payment.

Even with this marketing push, challenges remain. Hozon, like the rest of its direct EV competitors, needs more capital. "This industry by nature requires huge investment in product development and manufacturing," says Charley Xu, managing director and partner at Boston Consulting Group in Shanghai.

Fang is moving ahead with a $428 million fundraising round announced on July 20, to be followed by an initial public offering, possibly in 2021. Rivals including NIO Inc. and Xpeng Motors already have had IPOs or big-name corporate investors such as Alibaba Group Holding Ltd. enabling them to more effectively compete against foreign automakers expanding into the market. Li Auto Inc. filed on July 24 for a Nasdaq listing to raise as much as $950 million, and WM Motor is considering a Shanghai IPO. Moreover, there's a limit to how far automakers can go with low-margin sales in less affluent parts of China, says Jing Yang, director for corporate research with Fitch Ratings in Shanghai. "This is a short-term remedy for the market weakness and for domestic brand EV makers to clear some inventory," she says. "They still have to work on the higher end. That's the ultimate trend for the development of EVs."

Fang argues that there's space in the market for an EV maker selling less expensive cars. All the attention within China on Tesla has helped educate consumers about the potential of EVs, he says. "There's such a huge population in China, and even if Tesla could sell 1 million cars a year here," Fang says, "that would still be only 1 million." —*Chunying Zhang and Bruce Einhorn, with Ying Tian*

THE BOTTOM LINE More than 500 million people live in China's rural areas. Given low car ownership rates among them, automakers see an opportunity to market affordable EVs outside big cities.

▼ China's annual passenger EV sales

Major cities*

Rest of the country

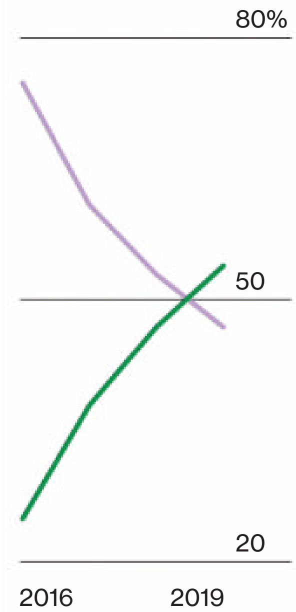


PHOTO ILLUSTRATION BY 731; PHOTOS: GETTY IMAGES (2); COURTESY HOZON (1). *19 OF CHINA'S LARGEST CITIES, COMMONLY DEFINED AS TIER 1 OR NEW TIER 1. DATA: BLOOMBERGNEF

Even Better Than a Convertible on a Sunny Day

● Munich startup Sono has developed a diminutive car that can be charged by solar panels embedded in its roof, doors, and hood

You can't say Laurin Hahn lacks drive. While still in high school, he founded what has since become the most popular dance club in Munich. Then, with no real engineering skills, he and a buddy set out to build a car powered by solar panels on its roof. Four years later they had a working prototype, so they formed a company to sell it. A few years on, when key investors declined to put in more money, the pair turned to crowdfunding. Within two months they'd raised €53 million ($62 million). "I guess I'm fairly ambitious, but the point of the car was to help the world," Hahn, now 26, says with a laugh. ▶

◀ Their company, Sono Motors—the name, Latin for "sound," is a riff on how quiet electric motors are—is developing a boxy, four-door hatchback covered in solar panels that are barely visible but can generate enough electricity to give the car more than 10 miles of range after a few hours in the sun. When it hits the market in about 18 months, the Sion, as it's called, will come in only one color: solar-cell black. The price, Hahn says, will be €25,500, making it competitive with Volkswagen AG's ID.3, an electric sedan that started selling in July for €35,000. The Sion can also be plugged in, but Hahn figures the solar panels will eliminate one of the primary concerns drivers have about e-vehicles: range anxiety. "You can run the car completely dry, leave it on the side of the road, and it'll recharge itself," he says—even on a cloudy day (though much more slowly). "The idea that I can't get stuck is extremely important."

The concept took root in Hahn's garage in 2012, when he and his friend Jona Christians bought and gutted an old Renault Twingo hatchback. The pair spent months affixing solar panels to the roof, doors, and hood. They ultimately pushed the car out into the sun to soak up some rays—and managed to drive just a few meters at a crawl. Hahn and Christians kept at it, with detours to local universities to hone their technical skills, though both eventually dropped out. Over time they made their Twingo street-legal, able to reach speeds and distances that might work for most commuters.

They brought in a third partner, Navina Pernsteiner, who was Hahn's roommate at the time, to handle marketing, and started a crowdfunding campaign that yielded €850,000. "Suddenly we were able to bring people on board," Hahn says. In 2018 they raised €5 million from venture capital firms, then started looking for about 10 times that to start production. But the talks fell through as investors suggested they abandon plans to make cars and instead license their technology.

Hahn and Christians didn't like that idea, so they again turned to crowdfunding, setting a goal of €50 million, which they soon exceeded as some 13,000 people each plunked down anywhere from €500 to the full purchase price to preorder a vehicle. (The company says those orders aren't binding and can be canceled for a full refund before deliveries start.) Today, Sono has about 100 employees—coders, engineers, designers, and a marketing team. National Electric Vehicle Sweden AB, the company that emerged from the bankruptcy of Saab, has signed on to manufacture the cars, which Hahn says is needed to ensure he can meet demand.

Skeptics say that even with the funding Sono has in hand, the company will have trouble turning its idea into a viable business. Matthias Schmidt, an electric-vehicle analyst in Berlin, says the car might prove useful for city dwellers who don't have off-street parking where they can charge a conventional EV. But as more charging stations spring up, he says, interest in the idea will likely wane. Markus Lienkamp, a professor of automotive technology at the Technical University of Munich, calls Sono "a nice marketing story and nothing more" and says he expects it to end up on the scrap heap, like a host of other e-vehicle startups that have struggled to compete with industry giants.

▲ The Sion's solar panels are made by Finnish solar tech company Valoe Oyj

Hahn says he doesn't expect to have trouble selling cars even as charging infrastructure expands. And he says he's familiar with Lienkamp, but Sono's expertise can be seen in the "numerous" patent applications the company has filed. "We've invited Professor Lienkamp for a test drive," he says.

Hahn acknowledges that his funding, which poured in last fall and winter, came just in time to help weather the worst of the coronavirus lockdowns. Most staff members are working remotely, though a handful have been going to a workshop where prototypes are being built. The team still needs to better integrate the unit that controls the power flow from the solar cells and eliminate hiccups in the drive train, which comes from supplier Continental AG. "We didn't have to stop production," Hahn says. "We didn't need to go to the state for wage support. We're liquid." —*Oliver Sachgau*

THE BOTTOM LINE Priced at about $30,000, the boxy, four-door Sion will compete with VW's new ID.3 electric sedan, but it will be available in only one color: solar-cell black.

● For more on the future of transportation, visit bloomberg.com/hyperdrive.

Charging

Adding Plugs Across America

EVgo Services LLC, the decade-old electric-vehicle charging network, has a simple strategy for building stations in the U.S.: Put them where people spend time (think suburban Whole Foods), and make juicing up fast. Chief Executive Officer Cathy Zoi talks about weathering the Covid-19 lockdown, preparing for electric pickup trucks, and the case for stimulus funds. —*Kyle Stock*

● CEO, EVgo ● Co-founder and executive chairman, Odyssey Energy Solutions ● Former partner, Silver Lake Kraftwerk, a venture between Soros Fund Management and Silver Lake Partners ● Former assistant secretary for energy efficiency and renewable energy, U.S. Department of Energy

What has the pandemic meant for EV charging in the U.S.?

We've had 25 new station openings, even with shelter-in-place. We're an essential service, which is a good sign that electrification is mainstreaming. Not only are gas stations essential, but charging stations are, too.

Your network is mostly in California?

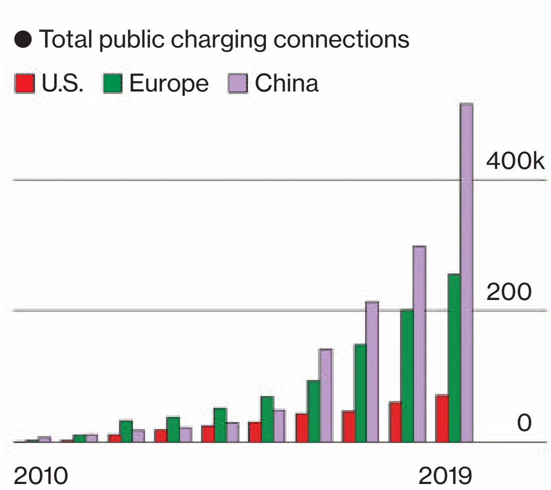
We're in 34 states, 66 metro areas. We like to build in urban places. Utilization is going to be higher where there are more EVs, but we're also building through public-private partnerships in places where there are not yet enough EVs to make it profitable—for example, hundreds of stations in rural Virginia. You need to stimulate demand for the purchase of EVs at the same time as you're building the charging infrastructure.

In those rural places, how long before it becomes profitable on its own?

It depends on a lot of things. We absolutely have to electrify the corridors. Interstates were a public good that had to be subsidized by the government. If we're going to have fast-charging stations everywhere, there are going to be some places that will require public support.

Ride-hailing is taking a hit in the pandemic. Does that change your model at all?

It doesn't change our model. No. 1, we think it will come back. No. 2, delivery is part of that. People are staying at home, but there's a lot of delivery happening. For us it's the same high usage. Get those delivery drivers to electrify, and they're going to have to charge away from home because that's what they do for a living.



Are you planning on more commercial EVs?

Absolutely. And medium- and heavy-duty trucks. We'll provide both access to our public network and what we call BTF—behind the fence—where we will build and operate for fleets their own charging infrastructure. They can have a depot that's complemented by the rest of our network.

In terms of federal stimulus, what might we see, depending on the election outcome in November?

The November outcome is obviously huge. Our estimate is that by 2025 we'll need close to 50,000 DC fast chargers on American roads and maybe 500,000 slower chargers. That's about a 10-times increase. What would be really nifty would be if we had a $10 billion piece of a stimulus package for public-private partnerships in EV charging. That should be complemented by some stimulus to make sure the EVs that get produced get bought. The thing you don't want to have is charging infrastructure that just sits idle.

Is pricing still too confusing for consumers?

I've been in the electricity business since I got out of graduate school, 30-some years. Nobody really understands what a kilowatt-hour is. Consumers want simplicity. We will happily explain our pricing to people, but most people just want to know that when they drive up to a charger that it's going to be on and they're probably going to spend somewhere between $7 and $12.

● *Interviews are edited for clarity and length.*

ZOI: AARON M. SPRECHER/BLOOMBERG. SION: COURTESY SONO MOTORS. DATA: BLOOMBERGNEF

Hedge Fund Fees

● Money managers are trying to offer better deals after years of mediocre performance

Hedge fund fees had already been shrinking before the coronavirus pandemic ripped through global markets. Now they're in terminal decline.

Long notorious for charging high fees, the $3 trillion industry runs portfolios generally open only to institutions and affluent individuals. Now it's going to extraordinary lengths to attract new money as the pandemic triggers losses and accelerates an investor exodus. Many of the world's most prominent managers have come to the stark realization that they need to upend the "2-and-20" fee model—that is, a 2% annual fee, plus a performance fee of 20% of profits—if they want to expand. For some smaller firms, the goal isn't growth. It's survival.

"The hedge fund industry is littered with the carcasses of small funds that never reached scale," says Andrew Beer, founder of New York-based Dynamic Beta Investments, whose firm seeks to outperform hedge funds with lower costs. "Fees in the industry are still twice what they should be."

Clients pulled more than $55 billion from hedge funds in the first half of 2020, the most in at least a decade, according to data tracker EVestment. Hundreds of firms shuttered in the first quarter, the fastest pace in more than four years. And the number of new launches slumped to near record lows.

Against this backdrop, some managers are signaling they're ready to waive fixed fees altogether. Selwood Asset Management, a $3.5 billion London-based hedge fund run by Sofiane Gharred, invited some new clients to invest without paying a performance fee until the fund hits a threshold known as the high-water mark (or the previous peak level in value). Selwood typically charges performance fees ranging from 13.5% to 30% for its main fund.

Meanwhile, Hayman Capital Management's Kyle Bass has proposed charging the traditional 20% incentive fee for his new fund only if the net return exceeds 100%. He's also offering to forgo annual management fees after an upfront 2% fee to cover initial costs. The catch is that investors need to stick with his bet on the collapse of the Hong Kong dollar for two years.

Paul Singer's Elliott Management Corp., which has been in business for 43 years, is offering some clients lower fees if they'll agree to lock up capital for longer. And Tony Chin, chief executive officer of Hong Kong-based Infini Capital Management, is

Edited by
Pat Regnier

Get Chopped

PHOTO ILLUSTRATION BY 731. TREE: GETTY IMAGES. CHAINSAW: SHUTTERSTOCK

offering to cover 100% of any losses, or what is called full-loss insurance. In exchange, the firm will charge half of the profits generated.

Standout returns in the 1990s, fueled by celebrity managers such as George Soros and Seth Klarman, helped hedge funds command exorbitant prices. One selling point was that the funds had the flexibility to pursue strategies other money managers couldn't. They might make big bets on assets declining in value as well as rising, or even make money on the market's volatility.

Hundreds of billions of dollars in assets flowed into the industry as returns flourished. The riches filled the coffers of hedge fund managers and created larger-than-life characters who splashed their fortunes on luxurious lifestyles, bought expensive artwork and sports teams, and funded political campaigns.

The gilded era began drawing to a close after the 2008 financial crisis. Returns slumped as central banks flooded the market with cheap money, upending traditional relationships between asset classes and economic data. Volatility fizzled, and many managers struggled to profit from betting against stocks as markets entered their longest bull run in history. In 2014 the largest U.S. pension fund decided to exit hedge funds altogether, a decision that was highly symbolic of the industry's decline. California Public Employees' Retirement System dumped $4 billion of such investments, citing complexity and costs.

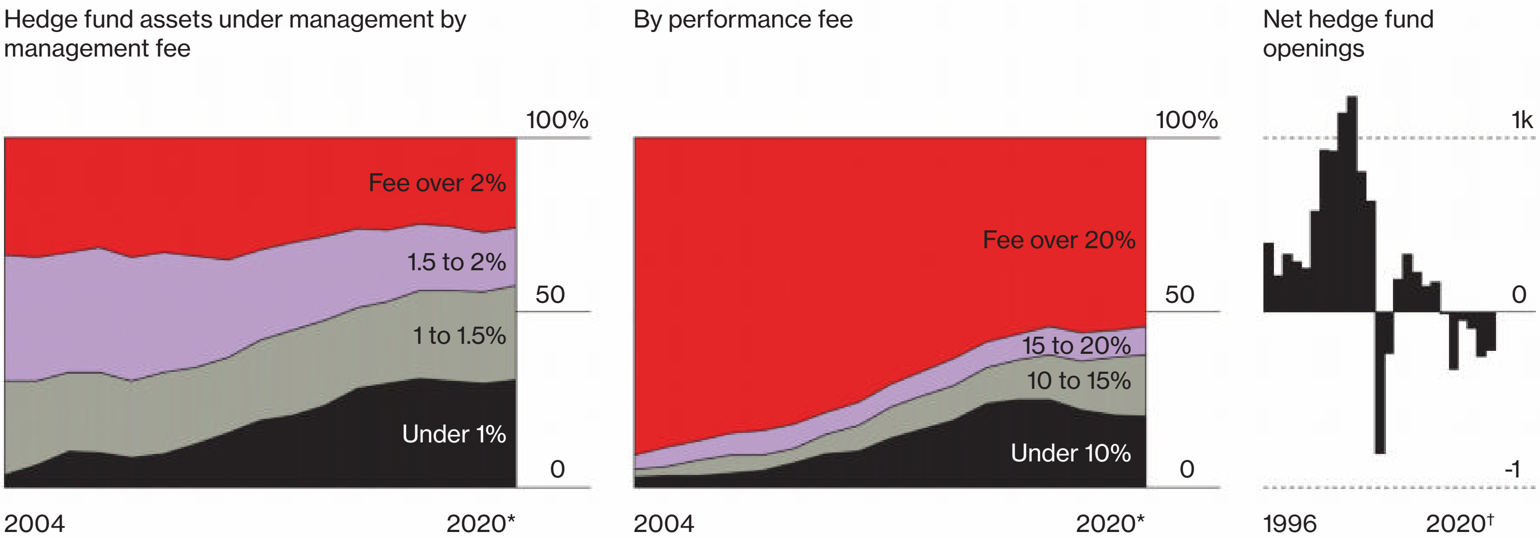
Over the past decade, hedge funds have produced less than a third of the annual returns of stocks. And in the first half of 2020, hedge funds lost 3.4%, slightly more than the decline in the S&P 500 with dividends included, another underwhelming performance for an indumstry that traditionally promised to protect, or hedge, against losses in bad times.

One of the industry's most influential consultants, Albourne Partners, has proposed a radical overhaul of the hedge fund compensation structure to align the interests of managers more closely with their investors. Under what Albourne dubs the "1-or-30" model, in a good year, fund managers would take 30% of returns and no annual fees. In a bad year, they would still be able to charge a 1% management fee that would be deducted from the following year's performance payout. That model is gradually gaining wider acceptance since Albourne first proposed it in 2016.

The industry continues to point to the enormous gains it's made for investors over the years. Hedge funds overall have generated almost $1.3 trillion ▶

"Fees in the industry are still twice what they should be"

As Hedge Funds Grow Less Profitable, Fewer Are Launched



*THROUGH JUNE. †THROUGH MARCH. DATA: EUREKAHEDGE, HFR

◀ in profits, according to LCH Investments. But here's a revealing detail: In an industry with more than 8,000 funds, the top 20 managers accounted for almost half of those profits.

Today, with returns in excess of benchmarks becoming more and more elusive, the managers who still make money are mostly the old guard sitting on billions of dollars in assets and adding hundreds of millions to their net worth every year. Bridgewater Associates founder Ray Dalio added $480 million to his net worth in 2019 even as the firm lost money in its flagship fund.

Things are more difficult for smaller money managers and new hedge funds, who can no longer count on gathering enough assets to break even. And then you have veterans such as Martin Taylor, who came out of retirement last year to start London-based Crake Asset Management. The manager, who generated a 6,400% cumulative return for investors from 1995 to 2015, didn't just count on his past performance to lure investors. He charged a fraction of the traditional fees: 0.5% in management fees and 10% in performance fees on the first half of the funds raised. The rest had to pay 1% for management and 12.5% for performance.

After raising $1.6 billion in 2019 for Europe's biggest hedge fund startup—more than he aimed for—Taylor lowered the fees even further. Then he closed the fund to new capital for two years. "Martin recognizes that the industry has changed," says Caron Bastianpillai, who allocates money to hedge funds at Notz Stucki & Cie. and invested in Taylor's new firm. "He has changed the norm."

At an annual hedge fund meetup in Monaco last year, most of the 450 delegates arriving in the nearby French city of Nice eschewed the €140 ($165) chopper ride to the sunny principality. The cost of a seven-minute flight over the French Riviera was hardly prohibitive—even taxis charge more than €100—but the attendees were too concerned about the optics.

Stuart MacDonald, one of the attendees who helps funds raise money as managing partner at Bride Valley Partners, says groups of managers at the event could be seen planning return journeys by bus. "Time was," MacDonald says, "you could barely see the sky in Monaco at hedge fund conference time, as chopper after whirling-bladed chopper brought the hedge fund glitterati in from Nice." —*Nishant Kumar, Hema Parmar, and Demetrios Pogkas*

THE BOTTOM LINE Hedge funds have produced less than one-third of the return of stocks over the past decade, which makes the traditional 2-and-20 fee model hard for investors to stomach.

Tesla Looms Over The S&P 500

● The company has the profits to qualify for the index and could be the biggest ever added

Beating the S&P 500 is notoriously difficult for fund managers. But simply replicating it as closely as possible isn't always a picnic, either—and Tesla Inc. has found a way to make it a little harder.

The market value of the electric car company currently stands at about $275 billion. That would make it one of the biggest companies in the S&P 500, except that it isn't a part of the index yet. The keepers of that list, S&P Dow Jones Indices, have a rule that new companies must have been profitable in their most recent quarter and over the past year before being added. With its latest earnings, Tesla just crossed that line.

The possible addition of the carmaker is a big event for managers of index mutual funds and exchange-traded funds. They're already hashing out strategies for one of the biggest potential trading challenges they've faced in years. Tesla would be the largest company in dollar terms ever added to the index, which managers of $11 trillion of investments either track religiously or use as a benchmark. At the current prices of Tesla and other stocks, managers of passive funds will have to sell about $35 billion to $40 billion of shares in the rest of the index's companies to make a hole big enough to fit purchases of Tesla shares, according to Gerry O'Reilly, a principal and portfolio manager at indexing giant Vanguard Group Inc. "Assuming it's going to be added, it'll be an all-hands-on-deck type of trading," he says.

There's no template to follow for Vanguard's two dozen U.S. traders—plus a team of analysts who work on keeping transaction costs down—when it comes to efficiently handling a stock as big and volatile as Tesla. Nor is it easy to predict the ripple effects in the overall market.

The shift in the index composition could be announced anytime. The addition theoretically could happen along with the departures of E*Trade Financial Corp. or Tiffany & Co., which are being acquired, or as part of a routine quarterly rebalancing in September.

Index funds may get as few as a couple days' notice of the switch. So they need to decide if they should start buying before the addition, the day the stock is to be added, or afterward. Picking which approach isn't as simple as it sounds. While Tesla's stock may be bid up by traders trying to take advantage of demand from indexers, other investors may treat it as what O'Reilly calls a "super liquidity event." That is, longtime Tesla shareholders who are looking to trim positions may try to get out when they know index funds have to buy. The two kinds of investors could cancel each other out. "There are all sorts of crosscurrents," O'Reilly says. He says he's confident Vanguard will be able to handle the switch without a major "tracking error"—that is, a dislocation between the performance of the index and the funds that follow it.

Like many things about Tesla Chief Executive Officer Elon Musk, his company's path into the S&P 500 is unconventional, which explains how Tesla became the gorilla in the room for the index fund crowd. Investors simply believed in the Tesla story enough to bid the share price into the stratosphere despite a record dotted with more quarterly losses than profits. The S&P 500 is weighted by market capitalization—with the most highly valued companies taking up the largest share of the index. If that were the only standard, Tesla would have qualified awhile ago. The threshold to be added is a market value of a little more than $8 billion.

The committee that decides the membership of the S&P 500 is keeping mum about when—or even if—it plans to add Tesla. "Companies who meet the eligibility requirements are not automatically added to the index," said a S&P Dow Jones Indices spokesman in an emailed statement. "They join a pool of other eligible candidates and are considered for inclusion when an opportunity presents itself, at which point the Index Committee takes several factors into account such as sector balance and size representation."

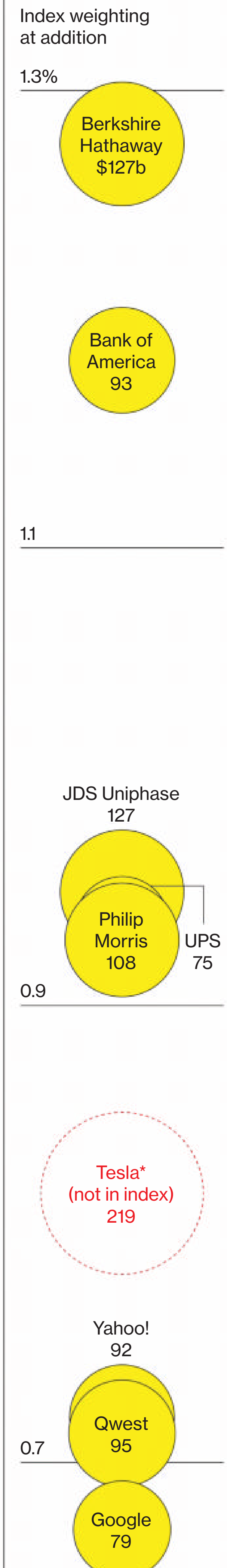
When figuring out how to weight companies in the index, the S&P adjusts their value to reflect the number of shares available for trading. Using that standard, Tesla would likely be the 16th-largest company in the S&P 500 if it were included now, with an index weight of about 0.8%—between Pfizer Inc. and Verizon Communications Inc. One of the largest additions to the benchmark in recent history occurred a decade ago with Warren Buffett's Berkshire Hathaway Inc., which at the time had an adjusted market value of $127 billion, far less than Tesla's today. But it represented a bigger weight in the index then.

While indexers strategize about how to handle this shake-up to the passive investment world, traders with a more active approach will be trying to figure out how to profit from price swings created by the potential announcement. "The trade would basically be buy Tesla, sell everything else, and you'd start to see that in the market," says Steve Sosnick, chief strategist at Interactive Brokers.

Still, it's possible that expectation is priced into Tesla's shares after a gain of as much as 293% this year. A working paper posted by the National Bureau of Economic Research in July titled "Does Joining the S&P 500 Index Hurt Firms?" found that stock pops linked to the announcement of index inclusion have gone away, and the lasting effect on price in recent years has been downward. Since Tesla reported its earnings, its shares have fallen 7.3%. "Firms included in the index perform extremely well in the year before they are included in the index," says René Stulz, a professor at Ohio State University and one of the paper's authors. "Our results would also imply that getting into the index would not lead to another boost in Tesla's stock price." —*Sarah Ponczek*

THE BOTTOM LINE If Tesla joins the S&P 500, managers of index funds are going to have to sell tens of billions of dollars of shares in other companies to make room.

▼ Largest additions to the S&P 500 since 1993 by value of shares available for public trading



*VALUE OF AVAILABLE SHARES AND ESTIMATED WEIGHTING AS OF JULY 28 CLOSE. DATA: S&P DOW JONES INDICES, BLOOMBERG

Whatever Happened To Value?

● An investment strategy that worked over decades has been in a long winter

What do you do when your money-management strategy, even one with a multidecade history of success, simply isn't having a good run? That's the problem facing value investors.

Their strategy can be summed up as bargain hunting. They buy stocks trading at low prices based on earnings or the underlying value of a business. Although this makes powerful intuitive sense—paying less should lead to gaining more—the Russell 1000 Value index has trailed its counterpart benchmark of high-priced growth stocks in nine of the past 11 years. Since the end of 2016, growth stocks have returned a cumulative 100%. Value stocks? Just 15%.

The weak performance of value is particularly challenging for asset managers who've adopted what's known as factor investing, also known as "smart beta." It's a hybrid of active and passive approaches. Managers don't try to select specific winning stocks, but they statistically tilt their portfolios to those with certain characteristics. Many of these funds lean toward value.

Consider the case of Dimensional Fund Advisors, a firm in Austin that pioneered factor investing. Its funds were inspired by the academic work of Eugene Fama, a University of Chicago economist who won a Nobel Prize in 2013, and Kenneth French of Dartmouth. David Booth, Dimensional's chairman and co-founder, was once Fama's research assistant, and Fama and French are both directors at Dimensional.

In a landmark 1992 paper, Fama and French found that value stocks as well as smaller companies appeared likely to outperform the market, based on data from 1963 through 1990. But a new paper published by the pair in January suggests the advantage of value investing has declined, though it hasn't disappeared. Why? One possible answer is a little counterintuitive: In the past, investors may have seen value stocks as unusually risky, so they built an extra discount into prices to account for that. When the companies did better than expected, the cheap prices gave investors an extra pop. But once value investing became mainstream, that discount may have gotten smaller, so the stocks had less room to rise.

Dimensional's U.S. Core Equity 1 fund, which favors value as well as other factors, has an annualized return of about 9% over the past five years. It trails its benchmark, the Russell 3000 Index, which earned an annualized return of almost 11%.

Booth is resolute that value still makes sense. He notes that even the best investments have lengthy dry periods, pointing to the long underperformance of stocks compared with Treasuries in the 1970s. "Markets are going to do what they do," he says. "But if you have a sensible idea that's backed up with a lot of good research, that's going to give you an edge over the long haul."

Dimensional says the value premium is still strong when looking beyond the U.S. "This reminds us of the importance of a globally diversified investment strategy when seeking drivers of expected return," says Wes Crill, a senior researcher at the firm.

Some market watchers say value may be about to have its moment. They're looking for the rebound from the Covid-19-induced hit to the economy. If things go better than expected, some of the most beaten-down companies could rally. In June strategists at Goldman Sachs Group Inc. and Morgan Stanley predicted the market would start to favor value.

Complicating this theory is the idea that the definition of value may be changing, making true value stocks harder to spot. "In the fastest-growing segments of the global economy, intangible assets are becoming the main value generators for a majority of companies and industries," JPMorgan Chase & Co. strategists, led by Dubravko Lakos-Bujas, wrote in a June 22 note to clients. Intangible assets include things such as patents, brand names, and other intellectual property. If these aren't properly measured, some stocks might appear more expensive than they are, and value investors may be missing the best opportunities.

Booth agrees that identifying value may change over time. "Undoubtedly there will be new wrinkles," he says. But he's sticking with the idea that paying less for stocks makes sense and that the long-run data still back that up.

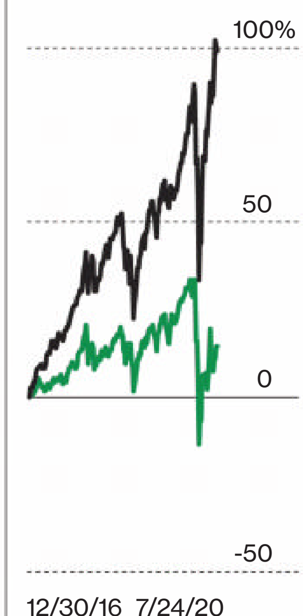
"The alternative is to believe in magic," he says. "Either you believe in science, or you believe in magic." *—Joanna Ossinger*

THE BOTTOM LINE Value investing has an impeccable academic pedigree, but changes in investors' thinking and the structure of the economy may have made it less effective in the U.S.

▼ Total return of Russell 1000 style index since 2016, weekly

Growth

Value



● Booth

The VCs Betting on Aging Consumers

● The over-65 population is growing fast, but Silcon Valley startups have been slow to tap it

Alan Patricof is entering what he calls the third chapter of his life. Like many people these days, the 85-year-old is spending a lot of time on Zoom. But he's also been using the time to make deals—four over the past few months.

Patricof's first chapter was when he founded a predecessor to today's Apax Partners, a private equity firm. His second was the venture capital shop Greycroft, launched in 2006. That firm made investments in companies such as the dating app Bumble and money transfer app Venmo. His new phase is Primetime Partners, a $32 million venture capital fund focused on products and services for an aging population.

Patricof and Abby Miller Levy, former president of Thrive Global, an employee wellness company in which Greycroft invested, hatched the idea for Primetime in November. For Patricof, the business is informed by personal experience. Eleven years ago his wife was diagnosed with Alzheimer's, a progressive disease that's most common among older people. "When you get into that position, you see what the problems are of older people and how to take care of them, and all the services they need—caregiving, nutrition, entertainment, technology, support in the home," he says.

The population of Americans age 65 and older has grown by a third since 2010, a faster increase than any other age group, the U.S. Census Bureau said in June. Still, entrepreneurs and investors often forget these consumers, says Joseph Coughlin, director of the MIT AgeLab and author of the 2017 book *The Longevity Economy*. Americans older than 50 have 70% of the buying power in the U.S., Coughlin writes in the book, and they're interested in new products beyond gadgets that take their blood pressure or track their pills. "While all those things are critical, there's a lot more to life than your meds," he says.

With the novel coronavirus, this demographic bulge has suddenly run into a generation-defining shock. The pandemic has changed how people interact with their friends and family. Doctors chat with patients via computer, and people are relying more on delivery apps for restaurant meals and groceries. Some of these services were built for millennials, but Coughlin says older Americans like them, too.

That should tell investors there's a big market waiting to be addressed. "The silver tsunami—aging—has been a bullet point on pretty much any VC's investment themes because of the sheer seismic shift in the demographics," Levy says. But, she says, venture funds have still been slow to move. "I think the reality is that when you don't understand the market that well, you're hesitant."

One problem is that marketing products exclusively for older users can put them off. "This is a generation that wishes to age by stealth," Coughlin says. "Putting a wearable on me that—although it may be stylish—basically says 'old man about to fall down' is not the way to get into my pocket."

Patricof and Levy had already made four investments with their own money before launching Primetime, and they intend to transfer the investments to the fund. Among them is Retireable, which offers financial planning. Unlike some online advisers who've focused on younger people, Retireable is geared to what it calls pre-retirees, helping with such questions as when to start collecting Social Security.

▲ Levy and Patricof

Patricof and Levy are also backing Carewell, a website that sells basic personal and health-care supplies and provides education on home care. Its target customer is the caregiver, who might be the child or spouse of someone who needs help with daily activities. "Our investors have been in that situation, and it rang true to what we're building," says Bianca Padilla, Carewell's co-founder and CEO.

Many of the founders Primetime is investing with are relatively young. But the firm plans to also seek out entrepreneurs in their 50s and 60s. "Maybe we'll make people look more carefully at people around them that are older and think about what they can do to make their lives better," Levy says. —*Michael Tobin*

THE BOTTOM LINE Americans over 50 have most of the buying power in the U.S. economy, and Patricof and Levy believe there's money to be made in services tailored to them.

BOOTH: ILANA PANICH-LINSMAN/REDUX. PATRICOF & LEVY: PHOTOGRAPH BY JUSTIN WEE FOR BLOOMBERG BUSINESSWEEK. DATA: COMPILED BY BLOOMBERG

The Coming Baby Deficit

The Covid-19 crisis may leave a lasting imprint on U.S. fertility trends, taking a toll on growth

Edited by Cristina Lindblad

Pandas and white rhinos aren't the only creatures that are unsuccessful at mating in captivity. The folk wisdom that humans will copulate when left with nothing else to do–dubbed the blackout babies theory–surfaces regularly in the immediate aftermath of disasters, but the baby boom never materializes.

The Covid-19 pandemic spawned predictions that stay-at-home orders would eventually deliver a baby bump. Yet far from having more children than usual, Americans are expecting fewer.

In bedrooms across the U.S., couples are making decisions that, in the aggregate, could prove as consequential for the long-term health of our economy as those taken by policymakers in Washington. Fewer children now means fewer consumers, workers, and taxpayers in the future. In other words, a smaller economy than otherwise–though also a smaller environmental footprint, which brings its own rewards.

Wolfgang Lutz, an Austrian demographer, warned in 2006 that European nations were at risk of falling into a "fertility trap" in which there are fewer women alive to have babies; smaller families become the social norm; and low population growth reduces economic growth, fostering a pessimism that further suppresses the birthrate. It appears that Denmark, among others, has taken Lutz's message to heart. A public service announcement urges older Danes, "Send your child on an active holiday and get a grandchild within nine months."

At the time Lutz raised the alarm, the U.S. seemed well clear of such a trap, with a total fertility rate of 2.1 children per woman, what demographers call the replacement rate, vs. 1.5 for the European Union. Now that the U.S. rate is below 1.7, that's no longer assured.

Unromantic as it sounds, planning a family is a numbers exercise that factors in the age of the would-be mother, access to affordable child care, college costs, income, and job security. Toss in a national health emergency and an economic crisis that invites comparisons to the Great Depression, and the benefits of parenthood no longer pencil out for many. The Guttmacher Institute surveyed about 2,000 American women in late April and early May and found that 34% wanted to delay pregnancy or have fewer children as a result of the pandemic. That outweighed the 17% who said they wanted children sooner or more of them.

In June the Brookings Institution released a study predicting the U.S. is headed for "a large, lasting baby bust." Its researchers forecast there will be 300,000 to 500,000 fewer children born in the U.S. in 2021 than there would have been absent the crisis, which amounts to a decrease of roughly 10% from 2019. That means the number of babies never born is likely to greatly exceed the number of Americans who've died from coronavirus, which is now about 150,000. The effect on population will be longer-lasting as well: Many of the babies who aren't being born would have lived into the 22nd century.

"A lot of people I know at work and friends are saying they don't want to have children until this is over," says Tori Marsh, director of research at GoodRx Inc., a price-comparison and coupon site for prescription drugs based in Santa Monica, Calif. Marsh, 29, postponed her wedding, which had been scheduled for November, because of the pandemic. "It is definitely pushing back the timeline" for babies, she says.

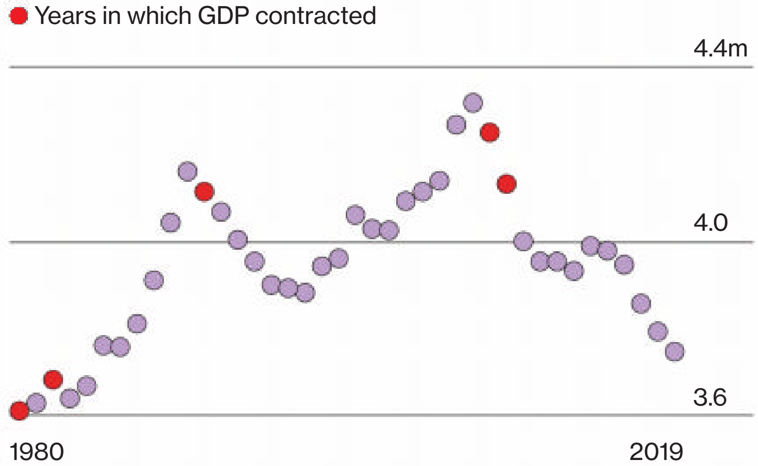
If couples fully make up for lost time by having more children later, this drop in the birthrate will end up being just a blip. But demographers predict that many, if not most, of the births that are delayed will never be made up. "There is this Panglossian narrative that delayed births will tend to recover, but statistically it doesn't happen," says Lyman Stone, chief information officer of Demographic Intelligence, a consulting firm whose clients have included Procter & Gamble and JPMorgan Chase.

Lack of time is the most important reason the birthrate is unlikely to revert back to trend once the pandemic is over. While young women will still have plenty of years to give birth to their desired number of children, older ones will need to space births more tightly to reach their targets in their remaining fertile years. Some will run out their biological clock waiting for baby-making conditions to improve. ▶

America's Fertility Has Declined

Annual U.S. births

● Years in which GDP contracted



STATISTICS

ILLUSTRATION BY DEREK ZHENG. DATA: NATIONAL CENTER FOR HEALTH

◀ "Every time that people decide to push back when they're going to have their first kid or their next kid, some proportion will end up not having the child at all," says Karen Guzzo, a sociology professor at Bowling Green State University and acting director of the Center for Family and Demographic Research. For couples who are already parents, says Guzzo, "the longer you wait to have your second or third child, the harder it is to, say, 'Oh, I'm ready to have babies again.' They say, 'You know what? My family's complete, I'm happy with what I have.' "

In the second half of the 20th century, the pattern in the U.S. and elsewhere was that fertility tended to fall during recessions and then bounce back when the economy recovered. Demographers expected that to happen after the 2007-09 recession, which at the time had been the deepest since the Depression. "People put off having children during the economic downturn and then catch up on fertility once economic conditions improve," Pew Research Center wrote in an October 2011 report.

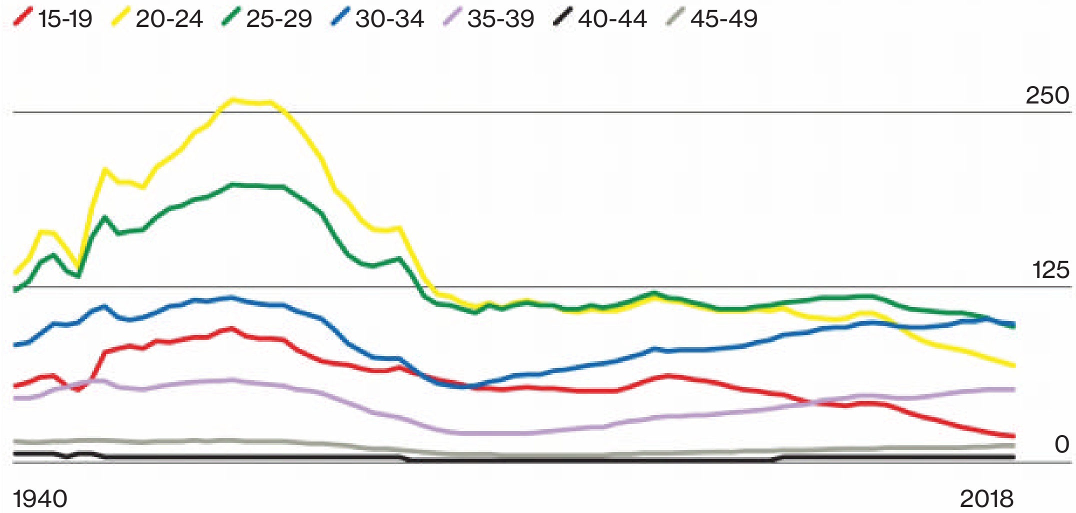
But the pattern broke. The post-recession rebound never came even as the U.S. economy staged the longest expansion on record. Birthrates for women in their 20s, which had dropped 25% or more during and shortly after the recession, kept falling, and they stayed flat for women in their 30s. "Had prerecessionary fertility patterns been sustained through 2019, there would have been 6.6 million more births, and nearly 3 million more women would have had their first child over the last 11 years," says Kenneth Johnson, a sociologist and demographer at the University of New Hampshire's Carsey School of Public Policy.

Early indicators point to the birthrate moving down another notch in this recession. The Wedding Report Inc. says its surveys show that slightly over 60% of weddings scheduled for 2020 have been postponed until later this year or 2021. That's bound to delay some couples from starting a family.

Also, when the pandemic broke out, birth control providers reported an increase in sales from people stocking up in case of shortages. Some sources have also seen a bump in demand for long-lasting forms of birth control. The Pill Club Holdings Inc. logged a 65% increase in June in new patient requests for Annovera, a vaginal ring that prevents pregnancy for up to a year. In the U.S., contraception has generally been available to those who need it, in contrast to the situation in poor and middle-income countries where disruptions in access to birth control may result in as many as 7 million unintended pregnancies in just half a year, according to an April estimate by the United Nations Population Fund.

Putting Off Babies

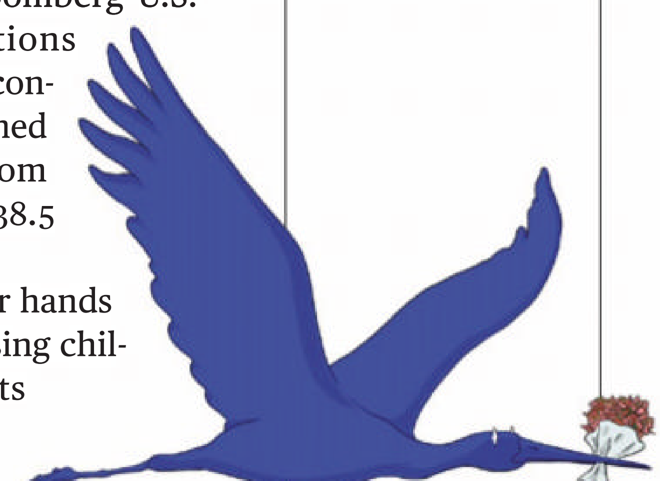
Births per 1,000 women, by age of mother



DATA: NATIONAL CENTER FOR HEALTH STATISTICS

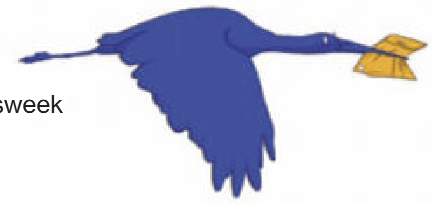
Planned Parenthood Federation of America Inc. has seen an increase in demand for abortion pills, according to Dr. Gillian Dean, senior director of medical services. She says several women have come to her for help to end "pregnancies that they would have wanted to continue were it not for the economic fallout of the pandemic."

With almost 18 million Americans out of work as of June, it's no wonder many couples might not be in the mood for procreating. Demographer Sergio DellaPergola has documented a tight statistical correlation between optimism and fertility in Israeli society. The Bloomberg U.S. National Economy Expectations Diffusion Index, which gauges consumers' economic outlook, crashed below 30 in April and May from 57 in February, recovering to 38.5 in July.



Not everyone will wring their hands at the thought of all those missing children. Some environmentalists may view the U.S. birth dearth as good for the planet. Each American consumer is responsible for about three times the amount of greenhouse gas emissions as a Chinese consumer, according to a 2019 report by the United Nations Environment Program. A 2017 study from Sweden's Lund University published in *Environmental Research Letters* found that having fewer children is the best thing that people in rich countries could do for the planet—far more effective than buying an electric car or refraining from air travel.

On the other hand, each child who's wanted but not born is some family's quiet tragedy. Surveys



such as the National Survey of Family Growth show that the average American woman wants two children or possibly three. Depending on how long it lasts, the Covid-19 crisis may compel many women not to fulfill that desire.

For the economy, fewer future workers will entail a bigger burden on each one to support future retirees. Every two-tenths decline in the total fertility rate (that is, two fewer children per 10 women) necessitates an increase in the Social Security payroll tax of about 0.4 percentage point, according to a table in the 2020 annual report of the trustees of the Social Security trust funds.

Slow or negative population growth tends to depress economic dynamism, some economists argue. In a research paper published in January, Charles Jones, a professor at Stanford University's Graduate School of Business, posits that so-called natalist policies, such as offering couples financial incentives to have more children, could spell "the difference between an Expanding Cosmos of exponential growth in both population and living standards and an Empty Planet, in which incomes stagnate and the population vanishes." It's worth noting that countries including Hungary, Poland, and more recently Russia have had little success in reversing declining fertility rates with subsidies.

Even when the pandemic is over, many of the factors that have pushed down fertility rates in the U.S. will remain in place. Those include the penalty to women's careers for having children and the high cost of child care, education, and health insurance. Child care is particularly salient for couples who already have one child, because they're more aware of how problematic it is, says Bowling Green's Guzzo: "In some states child care is more expensive than college." As important as child care is, pandemic-related federal aid given to the sector has been less than the sum given to Delta Air Lines Inc., University of Michigan economist Betsey Stevenson told *Politico Magazine*.

Any attempt to divine the future of fertility is complicated by the fact that there are different ways to measure it, and sometimes they contradict each other. One indicator that's pointing strongly negative is the number of births, which hit a 35-year low last year and is likely to be even lower this year. Another is the total fertility rate, which is a snapshot of the birthrates for women of all ages in a given year. It has fluctuated wildly over the past century. It was 3.31 at the end of World War I, fell to 2.15 during the Depression, rose to 3.68 in 1957, fell to 1.74 in 1976, then rose to 2.12 in 2007. At that time, just before the financial crisis, the U.S. rate was among the highest of the wealthy nations. A total fertility rate of about 2.1—the replacement rate—is what's required to stabilize the population over the long term. But the 2007 peak in fertility was short-lived. The rate fell in the last recession and kept going down after it, falling to 1.89 in 2011 and hitting 1.68 last year.

The fact that the total fertility rate has fluctuated widely suggests that there's at least a possibility its next move is up. That's what the Social Security trustees are banking on. Their 2020 annual report, which was prepared before the pandemic, makes an intermediate projection that the total fertility rate will rise to 1.95 by 2029 and then stay there through 2095, the end of the forecast period. In an emailed statement, Social Security Chief Actuary Stephen Goss cited the surveys that women want two or more children. That "suggests that the current reduction in the total fertility rate will not be permanent," he wrote.

Setting aside the current crisis, it's possible that today's twentysomething women intend to have babies at later ages than their mothers or older sisters did. If so, that wouldn't be reflected in today's low total fertility rate. The total fertility rate is a tricky concept. It's the number of children an imaginary woman would have over her lifetime if her likelihood of having a baby in each year of life matched what the birthrate is now for women of that age. (For example, at 16 she experiences the birthrate of today's 16-year-olds; at 38 she experiences the birthrate of today's 38-year-olds.)

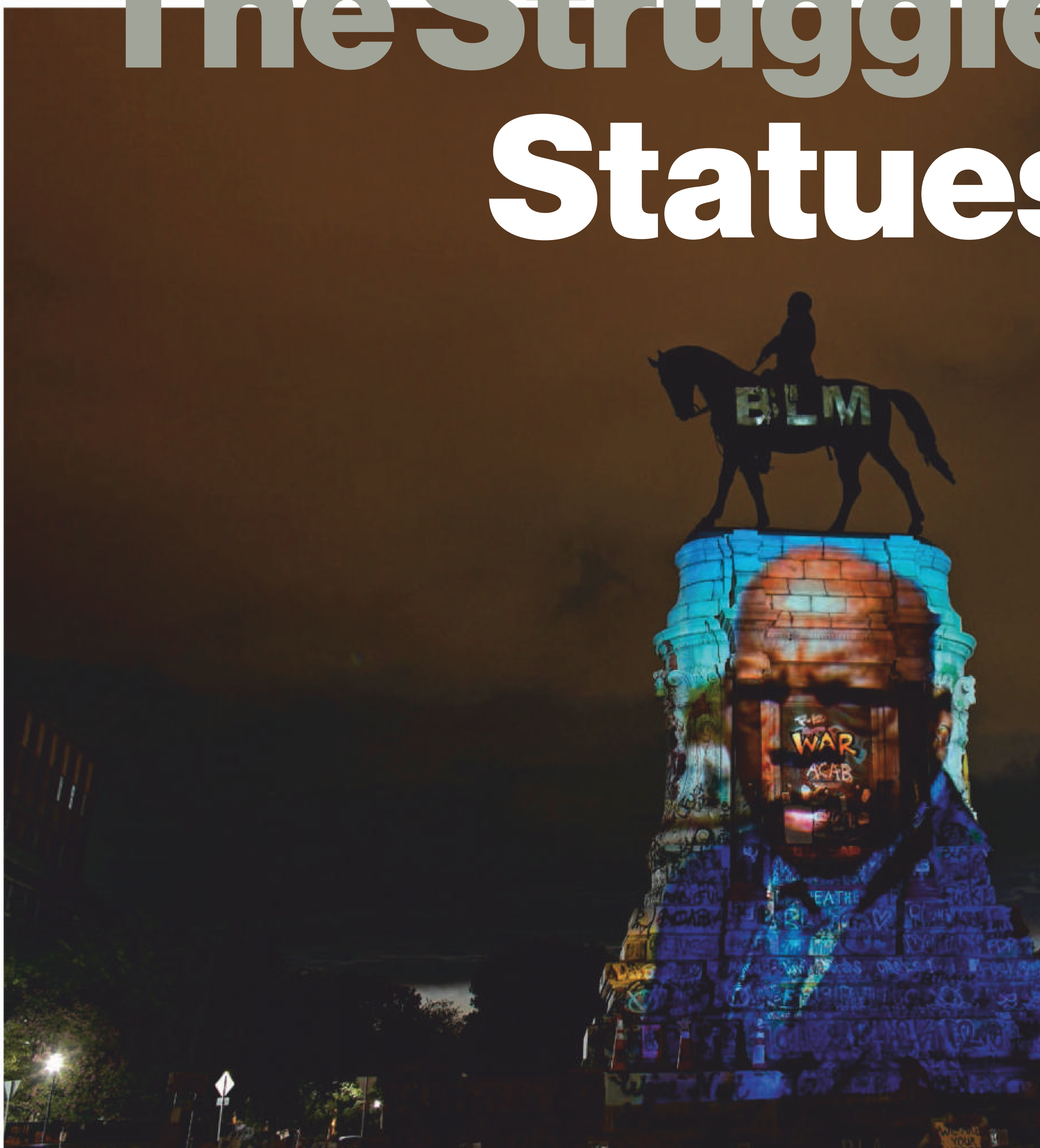
In contrast, the easier-to-understand completed fertility rate measures how many babies women actually have over their reproductive lives. That number has stayed high. Today's women who are 49 years old have had 2.1 children on average, which is a bit higher than the 49-year-olds of a few years ago.

Certainly women who are undergoing fertility treatments are as determined as ever to have children. Eva PenzeyMoog, 31, a user experience designer from Chicago, says some of the older women in her infertility support groups "are literally in a race against the clock to collect as many eggs as they can before they're gone." Julie Crist, 39, and Rachel Anderson, 31, of Bristol, Conn., who have a 19-month-old son, are trying for another child via in-vitro fertilization. "Sometimes we ask ourselves, 'What the heck are we doing?' The world is so weird," says Anderson. "You can call it naive. We want kids." —*Peter Coy, with Alexandre Tanzi and Maeve Sheehey*

THE BOTTOM LINE Because of the pandemic, half a million fewer babies may be born in the U.S. in 2021. And there's no guarantee the birthrate will bounce back after.

"A lot of people I know at work and friends are saying they don't want to have children until this is over"

The Struggle
Statues



● Trump seized on the monument protests to send federal agents into U.S. cities

Late in May, as protests over the police killing of George Floyd erupted across the U.S., a crowd in Birmingham, Ala., toppled a bronze statue of Charles Linn, a captain in the Confederate Navy and a notable banker in the city after the war. It was the first domino to fall: In the weeks that followed, demonstrators in dozens of cities set their sights on statues of Confederates and other historical figures, leaving a number of empty pedestals in their wake.

This did not escape the attention of President Trump. On June 26, he signed an executive order on protecting America's monuments and memorials. The document frames widespread unrest as a siege coordinated by a network of militant left-wing extremists. To make its case, the White House focused on examples of overcorrection, namely a statue of President Ulysses S. Grant that was toppled by protesters in San Francisco. (Grant, who led the Union Army that defeated the Confederacy and who smashed the original Ku Klux Klan, was the last president to own a slave.) With his poll numbers waning, Trump sensed an opportunity

Edited by Amanda Kolson Hurley

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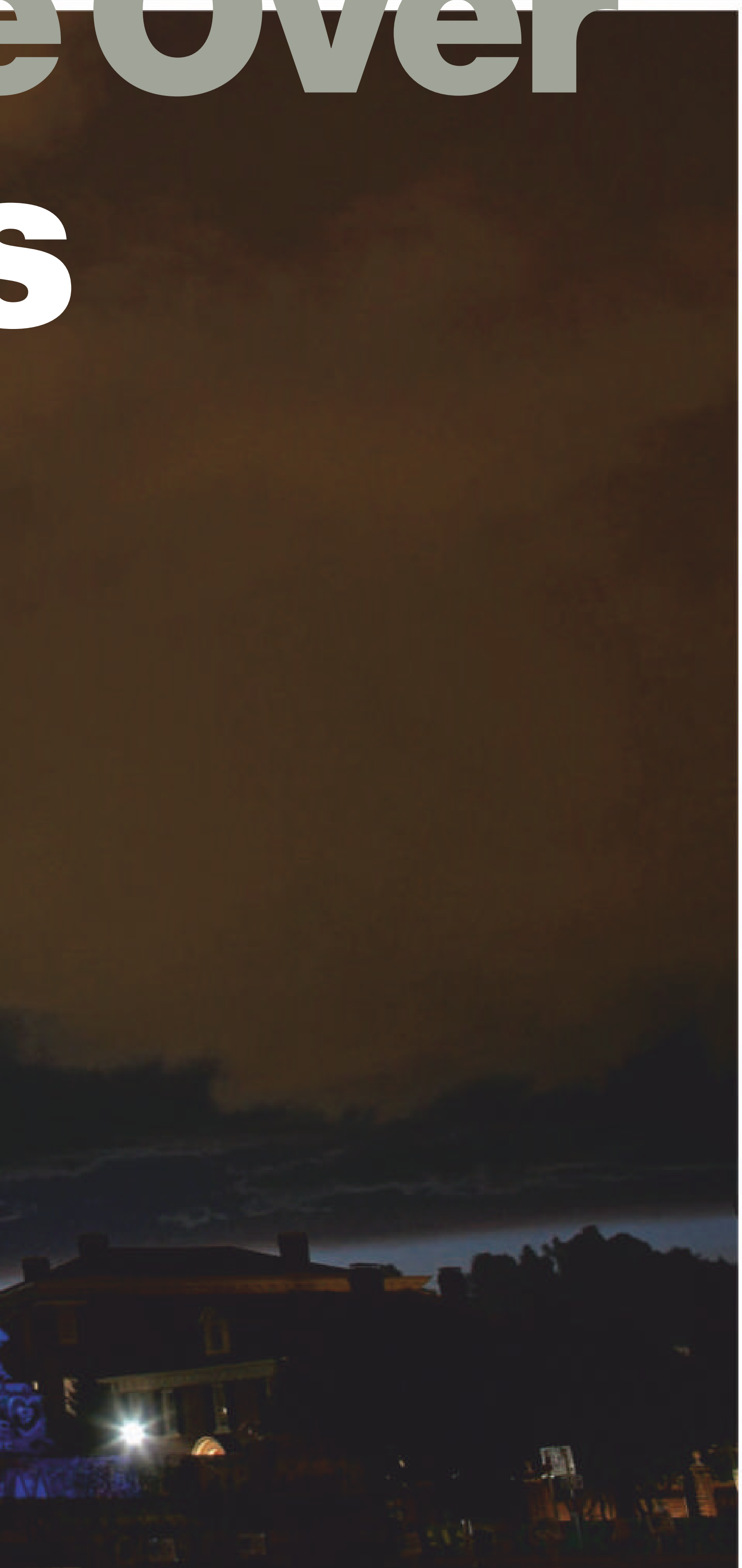


◀ Artist Dustin Klein projected an image of Representative John Lewis—the legendary civil rights leader who died on July 17—onto the Robert E. Lee Monument in Richmond on July 24

and rushed to the defense of America’s silent minority: its statues.

The executive order is at the heart of the crisis in Portland, Ore., where unidentified federal law enforcement agents scooped up protesters. Meanwhile, the U.S. House of Representatives, led by Democrats, voted on July 22 to remove sculptures of Confederate figures from the Capitol. All of which raises the question: When did statues become such a big deal?

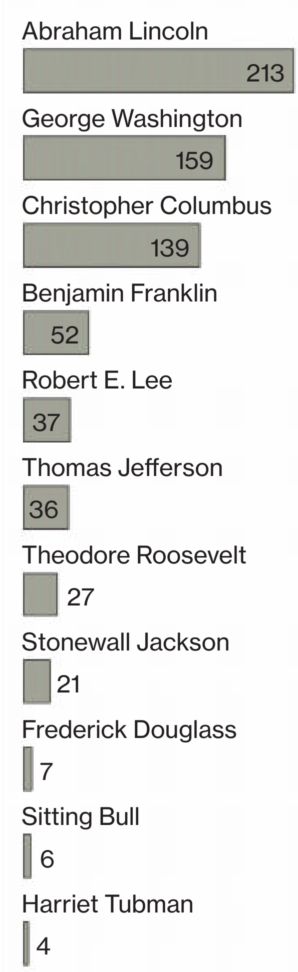
Perhaps it was inevitable that the Black Lives Matter protests would turn their attention to local monuments. According to the Southern Poverty Law Center, there are about 1,700 memorials to the Confederacy across the U.S., including schools, streets, and military bases named for its leaders. Many of the 700 or so physical Confederate memorials (equestrian statues, busts, plaques, and other monuments) occupy pride of place in the parks and plazas where protesters nationwide are staging actions. The rise of Jim Crow coincided with the City Beautiful movement in urban design, landing Confederate statuary at the center of urban-planning efforts across the South—Monument Avenue in Richmond, Va., being the prime example. Taken together, these memorials form a national infrastructure of Lost Cause ideology. By design, they’re hard to miss.

The movement to uproot these sculptures, a long game for the civil rights community, took on new urgency after the 2015 massacre of nine churchgoers at an historic Black church in Charleston, S.C. (The killer, Dylann Roof, sported a Confederate flag in photographs.) In the year that followed the Charleston attack, local and state authorities around the country removed or rededicated some 114 Confederate symbols, by the SPLC’s count. The movement has accelerated dramatically over the past two months: According to BeenVerified, a public records search engine, at least 104 Confederate symbols have been removed since Floyd’s death on May 25, almost as many as have come down in the past five years.

A frequent objection to removing Confederate monuments is that it erases history. But “most people don’t get their history from monuments,” says Patricia Davis, a cultural studies scholar and associate professor at Northeastern University in Boston. “What they get from them is a lesson in who has the power. The only reason we’re hearing about these monuments and talking about these things is because they’re being removed.”

The statue uprising has met resistance in state capitols, district courts, and above all, the White House. One administration strategy to combat statue violence is to build more of them. On July 3, Trump signed another executive order, this one authorizing a National Garden of American Heroes to celebrate the nation’s 250th anniversary in 2026. Like a Social Studies Hall of Fame, the garden will feature dozens of statues of incontrovertible icons (Betsy Ross, Jackie Robinson), as well as some questionable inductees and omissions (the late Supreme Court Justice Antonin Scalia is named, but Thurgood Marshall is not). Certainly the order includes some oddities: It forbids any modernist design and imagines leadership roles for the chairs of the National Endowments for the Arts and Humanities, agencies the administration has repeatedly tried to ▶

▼ Outdoor statues in the Smithsonian’s inventory of American sculpture



KHUE BUI. DATA: SMITHSONIAN INSTITUTION

◀ eliminate. On its face, though, a National Garden of American Heroes is a harmless, even treacly proposition—a salve, maybe, for Americans truly pained by images of tarnished equestrian bronzes.

But the June 26 directive is darker, and far more consequential. The executive order contains a provision enabling the secretary of the Department of Homeland Security to dispatch federal police forces "to assist with the protection of Federal monuments, memorials, statues, or property." Investing federal agencies, including the Department of Justice, with the power to summon federal police, even over objections from local and state governments, it serves as the statutory authority for Diligent Valor, the operation at a federal courthouse in Portland. (On July 29, DHS and Oregon Governor Kate Brown said they had agreed to a withdrawal plan.) Attorney General William Barr spent July 28 testifying before the House Judiciary Committee on the deployment, among other matters. At the hearing, Democratic Representative David Cicilline of Rhode Island said federal "officers are using abhorrent tactics" such as tear gas against peaceful protesters; Barr responded that such methods are needed "to disperse an unlawful assembly, and sometimes unfortunately peaceful protesters are affected as well."

Joe Biden's sizable lead in presidential preference polls suggests the *Statuedämmerung* is not high on the list of priorities among the voters Trump needs to win over. Ultimately, the president seems to misunderstand not just why but also how so many monuments are coming down. City and state lawmakers are responsible for removing more statues than angry crowds are: The prospect of demonstrators leveling memorials has spurred officials to follow through on past promises to remove the more odious ones.

Take Birmingham. The day after protesters pulled down the statue of Linn—on Jefferson Davis Day, a state holiday in Alabama—the mayor ordered that the nearby Confederate Soldiers & Sailors Monument be removed as well. Although images of toppled, graffiti-covered statues will no doubt be among the enduring visuals of this era, cranes are doing most of the work. —*Kriston Capps*

THE BOTTOM LINE Trump has become the statue-defender-in-chief, using monuments as a rationale for crackdowns and decreeing the creation of a national statue garden. So far, voters aren't biting.

Taking the Bar: Now Even More Stressful

● Many states are sticking with in-person exams despite Covid-19 risks

Britni Prybol graduated from law school in North Carolina in May, eager to start a career as a patent attorney. But she didn't take the state's bar exam held on July 28 and 29. The two-time cancer survivor, who's still getting hormonal chemotherapy treatment, feared that sitting in the same place for two days with hundreds of other test-takers would put her at risk of contracting the coronavirus and potentially spreading it to her husband and 7-year-old son.

"We keep thinking North Carolina will do the right thing," Prybol says, referring to calls to move the test online or offer temporary law licenses during the pandemic. "It's been so disheartening. It's made me question why I went to law school if this profession is going to treat its newest members this way."

A total of 23 states, including North Carolina, went ahead with in-person bar exams the last week of July, even as cases of Covid-19 rose across the country. At least eight states required test-takers to sign waivers agreeing not to sue if they're hospitalized from the disease. California, Illinois, New York, and other states have moved the test online, and several are tinkering with a provisional licensing system that would allow law school graduates to work as an attorney under supervision prior to passing the bar.

"Inept. Incompetent. Careless. Reckless. You know, they're not the ones whose lives will be put at risk"

"It's baffling and dispiriting that some states are defiant" about delaying their in-person exams, despite the clear health risks, says Daniel Rodriguez, a professor at the Northwestern University Pritzker School of Law. "It's been a real mess. The disconformity disserves us."

The state-by-state disarray affects roughly 45,000 recent graduates of U.S. law schools, who typically plan to take and pass the bar exam the summer after graduation so they can be licensed to practice law immediately. It's also raised questions about the value of the exam—which some see as an important vetting tool and others call outdated—and spurred a push for alternatives.

State licensing agencies are trying to strike a balance between ensuring that newly licensed lawyers are at least minimally competent and taking precautions to protect test-takers amid this year's unprecedented public-health concerns. They've adopted safety measures such as checking temperatures and increasing the distance between test-takers. Many administrators believe that in-person tests, with everyone in the same room at the same time, are the most secure and reduce the chances of cheating.

But critics say bar exam authorities were woefully unprepared for the pandemic. "There are a number of words I would use, and none of them are kind," says Donna Saadati-Soto, a Harvard Law School grad who's among those leading the push for "diploma privilege," an option to license law school grads that wouldn't require them to take and pass the bar. "Inept. Incompetent. Careless. Reckless. You know, they're not the ones whose lives will be put at risk" by taking in-person exams, she says. Saadati-Soto plans to take California's online exam in October.

The option of diploma privilege, long allowed in Wisconsin, has also been adopted in Oregon, Utah, Washington, and most recently Louisiana. Privilege advocates say the bar exam is outmoded and isn't a fair test of legal competency anyway, with an emphasis on arcane knowledge. They argue that the test process, which often requires weeks of preparation to pass, inherently discriminates against poorer candidates who cannot afford to take expensive prep courses or to put off earning income for a long period. These problems affect candidates of color disproportionately, they say.

Aaron Taylor, executive director of the AccessLex Center for Legal Education Excellence in Washington, D.C., a nonprofit that works to improve access to law school, says "chaotic" might be the word best used to describe how bar exams are being administered this year. "But I'm looking at this maybe as favorable chaos," he says, thinking that it might spur states to reconsider how, or even if, bar exams should be administered.

Many supporters of the exam agree the test could be made more relevant to practice. But they argue that it's a necessary gauge of an attorney's skill set and that without it industry standards would suffer, hurting clients and the public.

If states aren't going to scrap the exam altogether, privilege proponents argue, they should at least cancel in-person tests. Thirteen states plan to hold an in-person exam in September or October; at least 22 states are planning online exams from August through October; some states are offering multiple dates and modes of testing.

Officials in arguably the most important "Big Law" state, New York, rejected the diploma privilege idea—at least for 2020—but moved the test online (on a one-time basis, to be held on Oct. 5 and 6). A working group convened by Chief Judge Janet DiFiore acknowledged the "shortcomings" of a remote exam, according to the New York Court of Appeals, and consulted with security and other experts to find "proactive measures to ensure broad access, mitigate security risks, and establish a reliable grading methodology."

● States that held in-person bar exams in the last week of July

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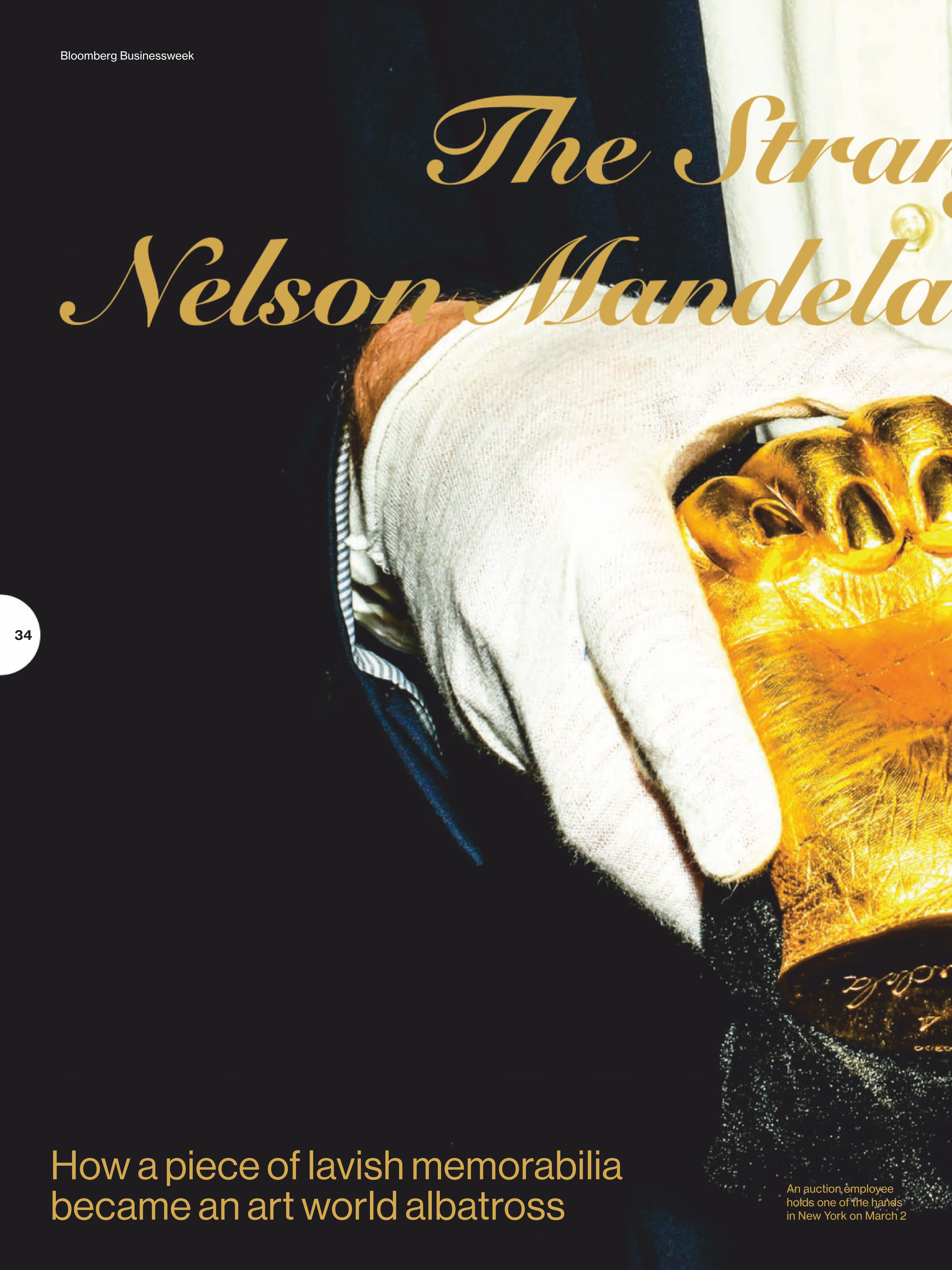
ILLUSTRATION BY NICHOLE SHINN

Smaller states have struggled with different issues. West Virginia, which expected fewer than 175 exam-takers for its two-day test at the Charleston Coliseum & Convention Center, hasn't asked applicants to sign waivers. But its policy on masks caused other concerns. Although test-takers were asked to bring them—and wear them if possible—they were also told they didn't need to wear them if it interfered with their ability to take the test, says West Virginia Judiciary spokeswoman Jennifer Bundy. The hall used is large enough to allow for extra distance between test-takers, she says.

For Prybol in North Carolina, hope for change—including perhaps allowing for an online test in addition to the in-person exam there, or a diploma privilege option—now hangs with the state legislature. She says several legislators have expressed sympathy with test-takers' plights and may be prepared to act. "We're hopeful," Prybol says, "but we know there are no promises." —*Sam Skolnik*

THE BOTTOM LINE As many states proceed with holding the bar exam in-person, law school graduates are worried about Covid-19—and some want to end the primacy of the test altogether.



The Stran
Nelson Mandela

How a piece of lavish memorabilia became an art world albatross

An auction employee holds one of the hands in New York on March 2

...ge Tale of ...'s Golden Hands

By Danielle Bochove
Photographs by Dolly Faibyshev

In May 2003, Nelson Mandela—former South African president, winner of the Nobel Peace Prize, and hero to millions—sat down at the dinner table of his house in Johannesburg and laid his right hand, palm side down, into a lump of cold dental putty. A team of technicians from the precision-casting division of Harmony Gold Mining Co. was present to supervise, and Mandela chatted amiably with them as they worked, pausing to sip coffee with his free hand.

The silicon-based putty had been chilled to make it harden more slowly, but the men had only six minutes of malleability to work with—time they used to get the material into every wrinkle and crease, almost perfectly capturing Mandela's fingerprints as well as the scars from his hard labor on Robben Island. Then they poured more on top to encase his knuckles and fingernails.

Harmony would use the molds from that day to create resin replicas, then a casting of Mandela's hand in 99.999% pure gold. This prototype was to be the first in a series: at least 27 gold hands, weighing 5.7 pounds to 8.8 pounds each, to mark the years of his imprisonment, followed by silver versions for each month, and finally thousands of bronze copies to mark each day. They would be sold to raise money for the Nelson Mandela Children's Fund, the charity to which he devoted much of his time in retirement—and serve as advertisements for Harmony's casting expertise in the process. Throughout the making of the moldings, Mandela was "amazingly helpful, patient, and funny, and he kept everyone entertained with stories," according to an account in the company newspaper, *Harmonise*.

That may well have been the happiest that Mandela ever felt about the project. Not long after the castings were made, he became concerned that too many people were profiting from "Mandela art," a cottage industry that included selling sketches he'd purportedly drawn and putting his face on dishes, teapots, and commemorative tchotchkes. After Mandela dispatched a team of lawyers to shut down the trade, Harmony stopped producing hands, leaving only a tiny initial batch. The project was largely forgotten.




Mandela sitting for the casting; Harmony employees making the hands; a prototype beside its mold; Mandela's fingerprint

Except, that is, by Malcolm Duncan. Then a 47-year-old auto parts entrepreneur, Duncan had met Mandela a few years before, during an event at a cancer clinic in the township of Soweto. Like many who came face to face with the legend, Duncan was overcome. "I couldn't talk, because he was so humble," he recalls. "I had such a lump in my throat." When Duncan learned about the hands, he had to have them. Not long after the castings, he managed to buy four gold examples; he'd wanted two more but couldn't get them before the project was shut down.

Duncan says he intended to make the hands the centerpiece of a collection of Mandela memorabilia, both for personal inspiration and to show to friends and family. He describes them as objects of reverence, near-supernatural totems of Mandela's legacy. Like secular versions of the supposed saintly relics that inspired pilgrimages in medieval Europe, the castings were the closest thing to a literal piece of South Africa's post-apartheid hero. Not unrelatedly, Duncan also figured they'd make a good investment.

None of that came to be. Instead, the castings became Duncan's proudest possessions but also a source of enduring distress, an almost too-neat illustration of the perils of getting what you wish for—and of the uncomfortable questions that arise when veneration meets commercial gain.

"I've been to hell and back with these hands," he says. "To hell and back."

Duncan, who has silver hair, thick black eyebrows, and a face that frequently breaks into an animated, puppyish grin, spent most of his childhood in Penge, a remote village where his father was an electrical engineer at an asbestos mine. He completed his military service—mandatory in those days for White South Africans—in 1977, entering the workforce as the apartheid system was beginning to buckle under the weight of internal protest and economic isolation.

It was also a time of rising international interest in African culture, a trend whose commercial potential wasn't lost on Duncan. In 1986, the same year Paul Simon released *Graceland*, Duncan flew to Miami with a suitcase full of masks, soapstone carvings, and wooden jewelry sourced from roadside vendors. Finding buyers was initially slow going; after weeks driving from state to state, he pulled into Los Angeles with only $43 to his name.

But Angelenos proved receptive to what he was selling, and within a week Duncan had unloaded all his items. He returned to South Africa with $4,000 in profit—hardly a fortune, but enough to help get him started. He ended up selling running boards for cars, importing them from a company in Indiana before setting up his own factory.

Duncan's admiration for Mandela was late blooming. Like many Whites of his generation, he'd been raised to view the African National Congress, the resistance movement and political party in which Mandela was a senior leader, as something like a terrorist organization—the opinion of the apartheid government, which convicted Mandela of "sabotage" in the infamous Rivonia Trial in 1964. But his grace when he was released from

"Why should I focus on what transpired, as long as things aren't stolen, as long as things are what they claim to be? That's all I care about. I do not want to know the details"

prison in 1990—pursuing reconciliation with his persecutors and laying the groundwork for a multiethnic democracy—changed Duncan's views, and by the time Mandela became president, he was a convert. When he happened to meet a bus driver who knew Mandela's private secretary, it seemed like fate. Duncan got to know the secretary and negotiated with her to help fund the Soweto clinic, which Mandela was also supporting, giving him the chance to meet his hero.

Duncan wasn't in attendance when the prototype hand went up for auction in June 2003. The sale went well, with an unidentified private buyer paying 425,000 rand, then about $46,000. Duncan made his move a few months later. The four hands he bought included a clenched fist symbolic of 1964 and a three-part set, corresponding to 1990, consisting of another fist, an outstretched hand, and a palm imprint. Unlike the prototype, they were hollow, like chocolate Easter bunnies, to prevent excess weight from deforming their shape over time. Half the 2.7 million rand that he says he paid was to be donated via Harmony to the Children's Fund, a condition that Duncan says won him Mandela's blessing. (The Children's Fund didn't respond to requests for comment, while the Nelson Mandela Foundation, which functions as the primary custodian of Mandela's legacy, didn't provide one before the deadline for this story.)

Duncan secured the hands in a bank vault, figuring he'd decide later how to display them. But attitudes about objects honoring the former president soon changed dramatically. In 2005, Mandela filed a suit against his former lawyer, Ismail Ayob, and Ross Calder, a publisher who'd worked with Ayob on what buyers assumed was officially sanctioned Mandela art, accusing them of exploiting his image. Mandela was 86 at the time, and the implication of the suit was clear: that the pair had been taking advantage of an increasingly frail legend. Later that same year, Mandela expanded his legal fight, going after dozens of companies selling similar paraphernalia. (The legal action against Ayob and Calder was never concluded; both denied wrongdoing.) The market for Mandela art collapsed.

For Duncan, this presented a problem. Not long after buying the hands he'd decided to relocate to Canada, spurred by a home invasion in which his 11-year-old son was held at gunpoint. He needed capital to set up an auto parts company there, and selling the hands seemed like an obvious way to obtain it. But the controversies around Mandela art meant buyers were scarce, and anyone willing to contemplate a purchase wanted proof that Mandela had authorized their casting and sale to Duncan—assurances, in other words, that he wasn't just another profiteer. Duncan couldn't offer any. He had no formal ownership papers, only metal plates that Harmony supplied and Calder signed. He had no way to get in touch with the ailing Mandela to clear things up, nor could he prove the hands were among only a few in existence. In 2015 he thought he was near a sale—to a Saudi family he says was willing to pay $27 million—only to have it fall apart when he couldn't produce the necessary paperwork.

With no buyer willing to write a check, Duncan was increasingly fearful that someone would steal the hands. At one point he painted them black—"I thought, if nobody knows they're gold, who's going to steal a hand," he says—and buried them under his garage in Calgary.

It took Duncan years to establish the hands' provenance to the standards expected by the international art market, just in time for a boom in a commodity that arguably has even less real-world utility than gold. In 2018 he met Len Schutzman, a former PepsiCo executive who was running a cryptocurrency startup in Waterloo, Ont., the home of the BlackBerry. The company, Arbitrade, had an unconventional pitch for investors: It would back every virtual coin it minted with physical gold. When Schutzman learned about the hands, he made Duncan an offer: $10 million for all four. The shiny appendages, Schutzman said, would become the centerpiece of an Arbitrade promotional tour and symbols of the gold-backed stability the company offered. A longer-run plan, of questionable taste even by crypto-world standards, would see the hands back a Mandela-themed digital currency.

Duncan loved the idea of putting the hands on tour. He wanted them to be seen, providing the same inspiration to others that he'd drawn from them over the years, but he didn't have a way to display them to the public himself. And Arbitrade seemed to be good for the money, paying about $5.8 million, according to legal filings, to take possession of two hands and pay for part of a third. The others would follow once the balance was settled.

But Arbitrade's dream of uniting crypto-enthusiasts and gold bugs was not to be, and the company ran into trouble in 2019. The hands Arbitrade had paid for went to one of its backers. Duncan was dejected. As an aesthetic matter, he'd always thought the four hands should be displayed as a set; ▶

Duncan during the New York auction

COURTESY MALCOLM DUNCAN (4)

◀ from a financial perspective, he was also certain they'd have more value sold all together. But there seemed to be no way that would happen. And then he got a call from Arlan Ettinger.

Guernsey's, the New York auction house Ettinger founded with his wife, Barbara Mintz, in 1975, has many of the trappings of the high-end art market: an Upper East Side address, a Rolodex of deep-pocketed buyers, and a lengthy catalog of prior sales. But it's a rather different animal than Sotheby's or Christie's. Instead of Picassos and Monets, Guernsey's specializes in memorabilia, with past auctions for items such as Jerry Garcia's guitar, a Rolls-Royce driven by Elizabeth Taylor, and, on one unusual occasion, a house owned by Rosa Parks. (Originally on a lot in Detroit, an artist had restored and disassembled it.)

Ettinger says he heard about the hands from a lawyer involved with Arbitrade and thought they were perfect for Guernsey's—especially if they could be reunited as a group. Duncan was supportive of the idea. So, he says, was the person who'd taken the other hands, an investor in Utah named Max Barber. (Barber didn't respond to requests for comment.) Guernsey's booked a room for the auction at Jazz at Lincoln Center in New York, and Duncan flew up from Austin, where he now lives, with his wife, Jacki. Ettinger informed him there were already two potential buyers. The auction, Duncan told me shortly before it began, could be a quick one.

Ettinger revealed the hands to the public on March 1, the day before they would go on the block. In person they were marvels. The black paint had long since been removed. Each was set in a box made from kiaat, a rare South African wood, and lit from above, shimmering under the stage lights in every imaginable shade of gold. The detail was extraordinary, capturing calluses, wrinkles, and bones with perfect clarity. But they also looked faintly creepy, like amputated souvenirs kept by a Bond villain. Not to mention lonely—except for Ettinger's team and a few security guards, the room was deserted.

When I asked whether he'd advertised the sale, Ettinger responded, with barely disguised irritation, that Guernsey's usually counts on journalists for that—a point his public-relations team had made by pushing for a "pre-auction" story that would stimulate "wide global interest." He also bristled when I asked if the past controversies around Mandela art, or Duncan's difficulties establishing that he'd bought the hands with Mandela's blessing, made him hesitant about selling them. "Meaningful" works, Ettinger said, rarely made it to his auction block without some drama, whether a divorce, a soured transaction, or a family feud. "Why should I focus on what transpired, as long as things aren't stolen, as long as things are what they claim to be?" He continued: "That's all I care about. I do not want to know the details."

As the day went on, only a few people turned up to view the hands. One was G. Lynn Thorpe, a lawyer and inventor—his latest project is a portable folding tray table—who was representing Barber. Thorpe took a philosophical view of the objects, describing himself as honored to be involved with a piece of Mandela history, especially as a Black man. "When Nelson Mandela went into jail, that was just a spike in all our hearts," he said. It was a shame, he added, that other historical figures hadn't cast their own digits in precious metal. "If Gandhi, for example, had had it done, if Jesus Christ had had it done, it'd be the holy grail."

Thorpe wasn't alone in ascribing profound meaning to the hands. Almost no public figure of the past 100 years attracts such unreserved adulation as Mandela, a degree of reverence usually reserved for deities or their offspring. Abby Goldman, an Upper West Side resident who stopped by the viewing toward the end of the day, couldn't make it through a sentence without choking up. "I don't know why I'm crying, but it's very emotional," she said. She lifted her own hand just above the imprint of Mandela's palm, as though imagining what it would be like to touch him. "He represents human rights and freedom and equality," she said. "In the current political climate it definitely resonates." Another onlooker, Brienna McClarin, had come during a break in her waitressing shift at a bar across the hall. "I'm getting chills," she said when she saw the hands. Neither of them, however, was about to put down $10 million or more—the number Duncan hoped to get for the set.

As the viewing closed, a Guernsey's staffer pulled on white gloves and carefully covered each hand in bubble wrap, tearing off lengths of tape with his teeth. For some reason he had only three black pouches, so the fourth hand was crammed into a FedEx envelope and loaded with the others into a sturdy suitcase. Ettinger wheeled it away.

The next morning, Duncan texted to say he was talking to a prospective buyer "from the Middle East. Might be massive." The auction was scheduled for that evening, with the hands still available for viewing until then. As the day wore on with few people turning up, Ettinger snapped that having a reporter and photographer "just sitting there" was scaring off business. He later apologized, pivoting to a story about an auction in which he'd sold the entire contents of an ocean liner.

At dinner in a restaurant a few floors down, Duncan seemed to be preparing himself for the possibility that the hands wouldn't sell. It might even be a blessing in disguise, he speculated. Why not buy back the whole set and find a celebrity endorser to give them the prominence they deserve? "You've got Bono who loves Mandela. You've got Elton John who loves Mandela," he said. "Why not Bill Clinton?"

With 30 minutes to go, the room finally started filling up.

"I knew it was a safe investment, but I admired Mandela passionately. If Mandela had asked me to go to war, without thinking I would have done what he asked"

A Guernsey's employee lifts one of the hands out of its bespoke box

Ettinger's aides took up their positions, with two deputies at desks prepared for phone and online bids. Thorpe was back, along with an Orthodox rabbi, numerous friends and associates of Barber, and Faye Wattleton, the former president of the Planned Parenthood Federation of America, who'd been helping Ettinger drum up buyers. "I had expected that there would be greater interest in them from wealthy African Americans I reached out to," Wattleton said. She noted it was difficult to understand the hands' impact without seeing them in the flesh, as it were. "What would you say if somebody called you up and asked, 'Would you give me $12 million for some gold hands of Nelson Mandela?'"

At 7:40 p.m., Ettinger asked everyone to take their seat. He opened at $12 million for all four hands. No takers. He dropped the ask to $10 million, then $8 million, then $7.5 million. "I'm not allowed to, nor should I, go any lower than that, so I'll hold another minute." Silence.

It was time for plan B: selling the hands one at a time, with the 1964 fist the first to go. This time Ettinger started at $4 million, quickly dropping from there. "3.5…3…2.5…2.25." One of his staff cut in to say he had a remote bid for $1 million, but Ettinger rejected it as too low. He soon withdrew the fist, though the same anonymous bidder agreed to pay $2.3 million for the impression of Mandela's palm. When the third hand came up, the staffer said he had a $1 million offer from the same buyer. Trying to push up the number, Ettinger turned to another aide with a potential buyer on the line.

"Susan, tell your bidder there are only two hands left."

"I'm supposed to tell you there are only two hands left."

"Tell him life is short."

"Arlan says 'life is short.'"

No luck. That hand, too, had to be withdrawn. The fourth went to the same buyer as the second, for $2.25 million. The whole auction was over in 15 minutes. In the front row, Jacki had her hand on Duncan's knee. "I hope he gets what he needs," she said softly.

The room began to empty out, but after a few minutes it became apparent that Ettinger wasn't finished. He was still on the phone, seemingly with the two-hand buyer. Suddenly he put down the receiver to make an announcement: The buyer had agreed to take the remaining hands, for a total of $9 million. Duncan's face lit up; Guernsey's staffers shook their heads in disbelief. Ettinger said he needed to sit down "before I collapse." The buyer wished to remain anonymous, Ettinger said, offering an unconvincing explanation of why this person would pay $9 million for all four when they'd been available at the start of the auction for $7.5 million. "To try to imagine what they're thinking is impossible," Ettinger offered. "You get into a mood, you get things happening. I can't say why."

Duncan and Jacki flew back to Austin the next day, assured by Guernsey's that the deal would be finalized soon. But then, nothing. Ettinger told Duncan the mystery buyer needed more time to gather the funds because of the financial turmoil of the coronavirus pandemic, and a May 1 deadline to make the transfer came and went.

A few days later, Duncan received an email from Ettinger with what seemed like great news: The buyer would be willing to throw in another $1 million if he could have some time to get the money together. Duncan was still optimistic. "Let's give him the benefit of the doubt," he said. "The buyer must really want it."

A week afterward there was still no sign of the cash, and Duncan was getting anxious. It all felt like déjà vu, a version of the check-is-in-the-mail assurances he'd received right before the Arbitrade deal fell through. He'd asked Ettinger repeatedly to connect him with the buyer directly, to no avail. He was starting to wonder, he said, whether there was really anyone on the other side of the phone at the auction. In a mid-July interview, Ettinger rejected that speculation, saying he'd been in regular contact with the buyer, who "was hit broadside, as many, many people have been, by the virus" and its effects. "The sale is still live," he said. "We're hoping for the best and remain optimistic."

Despite Duncan's difficulty closing a deal, and his insistence that the hands deserve to be seen by as many people as possible, he says he has no plans to donate them to a museum or charity. For one thing, he's counting on the cash to expand his latest venture, a company that converts shipping containers into off-grid shelters for disaster zones. And he says he sees no contradiction between admiring Mandela and seeking a profit from selling the hands—as even the most dedicated collector might, if the opportunity arose. "I knew it was a safe investment, but I admired Mandela passionately," he said of his purchase. "If Mandela had asked me to go to war, without thinking I would have done what he asked."

Meanwhile, Duncan is still convinced that his big score is on its way. Like a rubber ball, he's unsquashable. In June he said that an old friend had put him in touch with a possible buyer in Italy, in case the Guernsey's sale never happens. What did he know about this new lead? "Absolutely nothing." He'd been on a conference call with someone who said he was representing the Italian, but no more than that. "We expect a call from him any day now." B —*With Michael Cohen*

Japan's Next Top Comic Book Artist

The country's premier manga creator is ending Attack on Titan, a blockbuster series about man-eating behemoths. The pressure is on his publisher to find a new gargantuan thing

By Joshua Hunt
Illustration by Mojo Wang

ONE DAY LAST JULY, HAJIME ISAYAMA SPENT A MORNING strolling through a chic modern art gallery on the 52nd floor of the Mori Tower, which looms over Tokyo's upscale Roppongi neighborhood. The gallery walls, which have since been adorned with paintings by Jean-Michel Basquiat, were lined with original artwork from the manuscript pages for a bestselling *manga,* or comic book, Isayama's *Shingeki no Kyojin* (*Attack on Titan*). The exhibition commemorated the 10th anniversary of this gory epic, which is set in a world dominated by flayed, vascular, man-eating behemoths, tall as the Mori Tower itself, who terrorize walled-off cities where humanity has taken refuge. In the decade since *Titan* was first printed in *Bessatsu Shonen Magazine*, its antagonists have left their gigantic footprints all over Japan's popular culture. The country's largest publisher, Kodansha Ltd., has issued about 100 million copies of its 31 serialized volumes. The animated television adaptation is an international hit that has in turn generated a live-action film franchise, several video games, and merchandise including toys, tote bags, and limited-edition packaging for a popular Japanese laundry detergent.

At the exhibition, Isayama draped his wiry frame in a plain hooded sweatshirt, and he wore a medical mask to disguise himself from the fans who've made him by far the most successful manga artist of his generation. But the mask only accentuated his distinctive hair, which hangs down the sides of his face like angular black drapes. At 33, he's achieved a level of fame at home that would be unfathomable for a comic book artist in America. Practically everyone in Japan reads comics, whether serialized in weekly or monthly manga magazines such as *Shonen Jump* or collected in volumes called *tankobon*. The artists, who typically both illustrate and write, are venerated as auteurs.

Isayama peered over the shoulders of the high school students, housewives, and salarymen attending the exhibition, drinking in their unfiltered chatter. The conversations weren't unlike the fan discourse surrounding *Game of Thrones*, in their focus on plot twists, shocking deaths,

Isayama and Kawakubo

and gruesome set pieces. The two works share a particular tendency to kill off their protagonists. Both have also, at their heights, been industries unto themselves.

"Back when the series first got picked up, there were constant news reports that Kodansha was seriously in the red," Isayama said. "I had no idea how long any of this was going to last." Instead of becoming a casualty of Kodansha's financial woes, though, *Attack on Titan* turned out to be the publisher's answer. When an animated TV adaptation was introduced in 2013, sales of the comic soared, lifting Kodansha's sales for the first time in 18 years and returning it to profitability.

A comic this successful might be expected to run for 100 volumes or more—one of Isayama's favorites as a child was *JoJo's Bizarre Adventure*, which came out the year he was born and remains in print as its creator, Hirohiko Araki, periodically reinvents his protagonist. Isayama, though, has decided he's run out of story to tell. His manga and anime TV series will complete their final story arc sometime in the coming year.

Kodansha will be left with a very large financial hole to fill. *Attack on Titan* has for years insulated the publisher against industry trends that it will have to confront head-on. Domestic revenue from sales of print manga volumes, which comprise almost half of Japan's $12 billion-a-year book market, plunged to an all-time low in 2017 and fell a further 5% in 2018, according to Japan's National Publishers Association. (Revenue jumped 5% in the first half of 2019, the most recent period for which figures are available, but only because of an industrywide price hike.) Sales of digital comics have been an exception, climbing steadily in recent years and getting a boost this spring, when many Japanese bookstores were closed to halt the spread of Covid-19. But rampant piracy and lower prices make digital manga less profitable than traditional paper comics.

The pressure on Kodansha is all the more intense because it coincides with a moment of great opportunity. Demand for adaptation-friendly storylines is higher than ever, the result of a fierce fight between Netflix Inc. and Hulu LLC to become global leaders in anime streaming. In 2017, Netflix shook up the industry by luring Taiki Sakurai away from Production I.G Inc., the studio responsible for one of the most successful animes of all-time, *Ghost in the Shell*. Sakurai's first Netflix series was *Devilman Crybaby*, based on Kodansha's surrealist manga *Devilman*, from 1972.

But Kodansha and its rivals must do more than simply mine their back catalogs if they're to thrive. Japanese manga publishers receive only a modest share of licensing income, so for them anime serves primarily as comic book ads. Unlike Marvel and DC, which retain great control over the worlds their company artists and writers invent, Japanese comics publishers work in a system that defers to the creator.

"The author has almost absolute control in Japan," says Jason DeMarco, who's been licensing anime for Turner Broadcasting System Inc.-owned Cartoon Network Inc. for more than two decades. "That's totally different from U.S. publishing, where it's like, 'Thanks for creating Spider-Man—now get the f--- out of here, so we can make a lot of money off of Spider-Man.' "

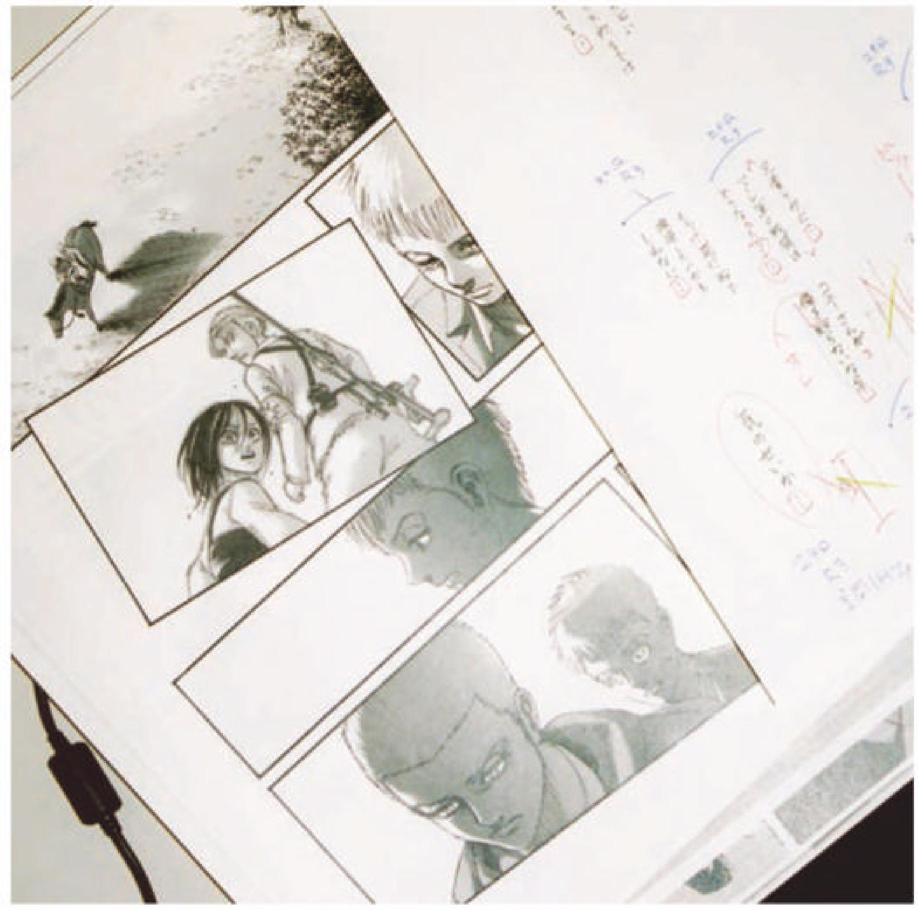
WHEN I MET ISAYAMA AT KODANSHA'S TOKYO headquarters in January, the deference accorded to successful manga creators was evident: The artist, who works from an apartment near his home, was greeted with deep bows and bags filled with gifts. Erika Kato, a licensing manager in the international rights department, thanked him profusely for agreeing to be interviewed, which he rarely does these days. Isayama was dressed casually, in blue jeans and a hoodie, like a man who works from home. His sleepy countenance and frequent yawns suggested he was doing little else there.

On my way to the interview, I'd picked up a copy of Isayama's most recent tankobon, whose cover advertised a forthcoming *Attack on Titan* ride at Universal Studios Japan. Kodansha had helped arrange a string of licensing and advertising partnerships to help end the series with a bang. Each of these—including the Mori Tower exhibition, which generated about $2.5 million in ticket sales—depended on Isayama's approval. "These kinds of commercial opportunities aren't going to last forever, so I don't turn my back on them," he said. "It's nice to think that the world of *Attack on Titan* will continue on just a little bit longer."

He was keenly aware that he was securing his artistic legacy, too. "I was a big fan of *Game of Thrones*, so I can relate to the feelings of those fans who were disappointed with how the series ended," he said. "But when I'm drawing, I'm expressing my own feelings, and I think as long as I'm doing that, my fans will be able to accept whatever ending I come up with for them." He's already decided how the narrative will conclude, but knowing where he's headed hasn't saved him from agonizing at times over how to get there. *Attack on Titan* is a multifaceted epic, with dozens of characters wrapped up in intersecting plotlines. Competing mythologies and histories, and even alternate dimensions, complicate a text marked by political, strategic, and social intrigue and themes of betrayal, revenge, and resurrection.

Kodansha's finances and identity depend on having at least one tentpole blockbuster series aimed at adults. Its two biggest rivals rely on slightly different models: Shogakukan Inc. supplements its original titles by licensing popular video game characters such as Nintendo Co.-owned Pikachu, of *Pokémon* fame, and Sega's Sonic the Hedgehog, for children's comics. Shueisha Inc. focuses on original youth-oriented hits, such as *Dragon Ball*, *One Piece*, and *My Hero Academia*.

Kodansha's approach traces to the 1980 introduction of *Young Magazine*, a biweekly packed with about 300 pages of serialized comics. The books were aimed at young adult men, who were increasingly flush with disposable income as Japan entered an economic bubble. In 1982, *Young* began publishing Katsuhiro Otomo's cyberpunk classic *Akira*, which



Two panels from *Attack on Titan* Volume 29

chronicles a violent confrontation between psychics, biker gangs, and the military in a post-apocalyptic "neo-Tokyo" of 2019. The magazine's circulation soon surged to more than a million readers, prompting Kodansha to start issuing standalone *Akira* tankobon. When the series wrapped up in 1990, its six volumes collectively formed a graphic novel of more than 2,000 pages; millions of copies have sold worldwide. The film adaptation brought in $49 million in global box office receipts and an additional $30 million in VHS sales after its 1988 theatrical release and became one of the most influential science fiction films of all time.

One of the people influenced by *Akira* was Masamune Shiro, who would prove to be Kodansha's next wunderkind. His seminal manga, *Ghost in the Shell*, was serialized in *Young Magazine* from early 1989 to late 1990, and it, too, got its own tankobon, anime film, and English-language edition. Groundbreaking, commercially successful comics come along only so often, though, and Kodansha hit a dry spell just as Japan's bubble years came to an end. By 2002 the company's sales had fallen low enough to drag it into the red for the first time since World War II.

The Isayama era began before the decade was out, but here Kodansha was lucky: *Attack on Titan* came to the publisher only after Shueisha passed. In 2006, Isayama called Kodansha to request a meeting, reaching an editor named Shintaro Kawakubo. He saw enough potential in Isayama that he gave the fledgling artist homework assignments to improve his illustration skills. "I asked him to practice redrawing action sequences from *Hajime no Ippo*," Kawakubo says, referring to ▶

PHOTOGRAPH BY MOTOYUKI DAIFU FOR BLOOMBERG BUSINESSWEEK. MANGA: COURTESY KODANSHA

◀ a popular boxing manga. "And since he wasn't good at drawing clean lines, I had him redraw scenes from romance manga."

As a storyteller, though, Isayama was a natural. The comic seemed, at a glance, to be a niche story, with a unique setting that would appeal to "comic book geeks," Kawakubo says. But "looking deeper, it had all the makings of a mainstream hit." More than most artists, Isayama seemed able—and willing—to view his characters from a marketing perspective as well as an artistic one. He knew how to leave readers wanting more—how to keep them coming back issue after issue with plot twists and cliffhangers, almost as though he was writing for TV.

Also from *Attack on Titan* Volume 29

Kawakubo traces this sensibility to Isayama's move to Tokyo from rural Oita prefecture. "He thought deeply about what readers wanted from him, because failing to deliver would mean returning to work a day job until his next series came along," Kawakubo says. "Because of that mindset, he's become an author who is capable of thinking like a manga editor or an anime producer."

IN 1996, DEMARCO AND SEAN AKINS, TWO CREATIVE directors at the Cartoon Network, were charged with filling a new block of after-school programming. They came up with *Toonami*, a four-hour show that reflected their off-kilter tastes. It mixed Hanna-Barbera cartoons such as *Birdman* with older anime like *Voltron* and *Robotech*, which could be licensed for virtually nothing—more or less the budget DeMarco and Akins set out with. After *Toonami* did well in its first months, their boss tossed them some pocket money for more anime.

"*Dragon Ball Z* was one we knew about, because we had watched bootleg VHS tapes that we rented from a Japanese home video store here in Atlanta," DeMarco said when we met at the Georgia offices of Adult Swim, Cartoon Network's late-night programming block. When they added it to their lineup in 1998, major distributors such as Bandai Co. and Funimation Productions LLC started coming to him with pitches for other shows. Eventually *Toonami* moved to Adult Swim, where it introduced American viewers to iconic manga characters such as Sailor Moon before dwindling ratings led to its cancellation in 2008.

DeMarco is now vice president and creative director of Adult Swim. Sitting in a conference room named for Astro Boy, wearing jeans and a black T-shirt with a faded image from a horror manga by Junji Ito, he looked like a linebacker who'd gone on vacation in Japan and never come home. He told me about the Cartoon Network's decision to bring back *Toonami* in 2012. The revival began as a one-time April Fool's Day nostalgia trip for die-hard fans, but when it got tremendous ratings and social media attention, DeMarco decided to make it permanent.

To fill the block he turned to his contacts at Funimation, who showed him a teaser trailer for the *Attack on Titan* anime it was seeking to distribute. "It was literally just an image of the titan coming over the wall," DeMarco told me. "When we saw that we were, like, 'Hell yeah!' We didn't even read the comic, we just said, 'Yeah, we're interested in this.' I'm a big horror fan, and the idea of a skinless, giant humanoid eating people—you don't have to work hard to sell me on that."

Toonami began including *Attack on Titan* in May 2014, seven months after the first season concluded in Japan. It was an immediate hit, bringing in about 1.3 million viewers in its midnight time slot. "You're talking about a crazy Japanese show that's drawing as big an audience as *Family Guy*, which is one of the biggest hit cartoons in the U.S. in the last 20 years," DeMarco said. "That's about as mainstream as anime can get in the U.S."

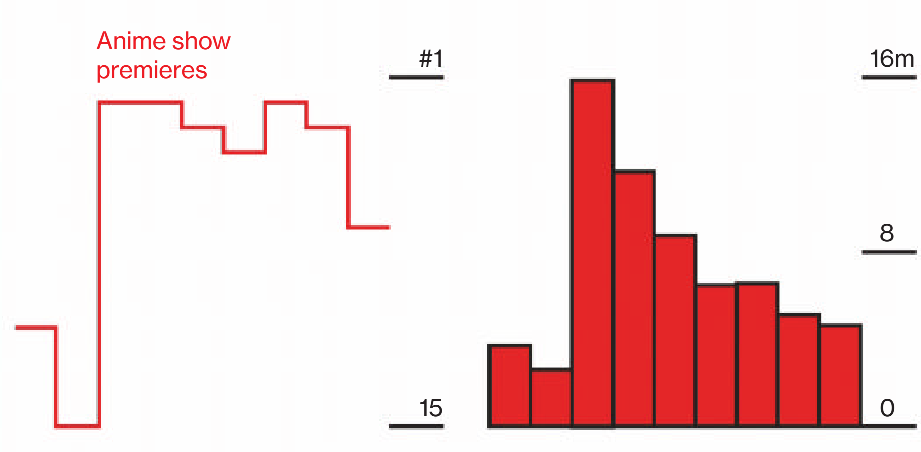
The show's success helped tilt the U.S.'s entire comic book market to the East. From 2015 to 2018, Barnes & Noble Inc. doubled the shelf space it devoted to manga and began holding "Manga Mondays" sales events. That helped *Attack on Titan*, which had fewer than a million English-language copies in print at the end of 2014, approximately triple its print run within a year. Some 4 million copies have now been issued, plus almost 1 million downloads of the digital edition. The windfall caught everyone involved with the show off guard. They hadn't planned for another season, leaving fans to wait until 2017 for another.

Around the time the anime returned, Netflix Japan dropped what DeMarco calls a "money bomb" on the market. Netflix hasn't said exactly how much cash it invested, but its chief content officer, Ted Sarandos, told analysts late that year that it planned to spend a significant chunk of its $8 billion original-content budget on anime. Greg Peters, Netflix's chief product officer, attributes the company's interest in part to how well anime works with streaming technology: "If you

TITANIC SALES

Sales rank of *Attack on Titan* among manga series

Volumes sold



“The idea of a skinless, giant humanoid eating people—you don’t have to work hard to sell me on that”

take something like anime, which is superefficient from an encoding perspective, we can now provide an amazing quality video experience for anime titles on mobile.” This mobile-friendliness dovetails neatly with the genre’s target market.

Netflix’s hunt has taken a two-pronged approach. One is the old-fashioned route of forging partnerships with production companies and acquiring licenses, including one for a reboot of Kodansha’s *Ghost in the Shell*. The other is producing its own anime in-house; Netflix’s first original anime series, *Eden*, is scheduled to premiere before the end of the year.

The second path is tremendously risky for producers, however. Original anime films of the kind done by Hayao Miyazaki (*Princess Mononoke*, *Spirited Away*) can take years and tens of millions of dollars to produce, and they come without the built-in audience of a successful manga. Nao Azuma, a spokeswoman for Netflix Japan, says finding talent also has been a challenge. “It’s a very new type of platform and so it takes convincing,” she says. “We’re hoping that the content we’re producing is inspirational for creators and gives them some sense of what’s possible here.”

For now, the incentives favor licensing. Walt Disney Co.-owned Hulu is also in the game, armed with an exclusive first-look partnership with Funimation that gives it access to all the most important players in anime. The result has been to push up the price for everyone hoping to acquire manga properties.

DeMarco says all this activity is a good thing for creators—and by extension publishers—even if it’s made his job harder. He’s been trying to innovate; for one recent deal, he skipped the middleman and went directly to Shogakukan to acquire the rights to *Uzumaki*, a manga by Junji Ito about a town cursed by spiral shapes (found on boys who’ve transformed into snails and women whose hair has come alive). Adult Swim agreed to fund the project from scratch. DeMarco describes it as more of a labor of love than a paradigm shift. Producing original anime takes so much time, he says, “that we’d have to shut down for three years in order to have enough shows ready to fill a whole *Toonami* block.” It was worth it to DeMarco this time, though, if only for the chance to work with a manga artist he reveres.

Manga publishers, for their part, are mindful that there are limits to how much they can rely on anime. Two editors I spoke with at a Kodansha rival, who requested anonymity discussing confidential business arrangements, pointed out that these deals aren’t necessarily a dependable source of revenue. “In the end, the pie gets sliced up so many ways that a publisher might get nothing out of it aside from a boost in comic book sales,” one said.

If anime is driving Kodansha as it hunts for the next *Attack on Titan*, Kawakubo, who’s charged with leading the search, isn’t letting on. The process he describes for recruiting new talent remains basically unchanged after decades: Editors seek out published artists whose work they like, as well as newcomers scouted at Japan’s manga trade schools or in contests the company holds, and try to foster great work.

A hit comic, Kawakubo says, can’t be engineered—“the magic is either there or it isn’t.” It starts the way *Titan* did, with telling a good story. “If you make a manga that’s not worth reading, no one will want to make it into an anime series,” he says. “And if you’re focused from the start on what might make a good anime, or what the next trend might be, you’ll never make anything worthwhile.”

IN THE SPRING OF 2018, I MET WITH SHINZO KEIGO AT A coffeehouse in the west Tokyo suburbs, not far from Studio Ghibli, the shop where Miyazaki has been producing masterpieces since 1985. Like Isayama, Keigo is 33, but his path to becoming a professional manga artist was more typical. Starting in 2008 he published seven comics with Shogakukan, including a few indie hits that were made into films or TV programs. It was creatively fulfilling, but yeoman’s work for a modest wage.

I’d first spoken with Keigo a few weeks before, as he was promoting a live-action TV show based on his most recent work for Shogakukan, *Tokyo Alien Brothers*, which chronicles the adventures of two slacker extraterrestrials sent to investigate life on Earth. It was envisioned, he told me over coffee, as a kind of “reverse version of the Christopher Nolan film *Interstellar*,” and it sold well enough across three standalone volumes to catch the attention of producers at Nippon Television Network Corp., which aired a live-action adaptation of the manga in the summer of 2018.

Keigo was doing well enough at Shogakukan that he might have carved out a long career there, producing respected, adaptable hits that complemented to the company’s robust Pikachu business. But shortly after we met, he announced that Kodansha would publish his next series, *Nora and the Weeds*, about a police detective and a mysterious girl who reminds him of his dead daughter. “Working with Shogakukan was nice,” Keigo told me the next time I saw him. “But Kodansha is the kind of place you dream of being as a manga artist.”

After landing at one of the company’s second-tier magazines, he’s gone on to do well, publishing a few *Nora and the Weeds* tankobon and selling the translation rights to a publisher in France, where he has a following. Still, he didn’t have any illusions of becoming the next Isayama.

Then again, Isayama never imagined such a thing when he began drawing *Attack on Titan* while working a part-time job at an internet cafe. And although he’s giving up his series now, he isn’t necessarily giving up his stature. The next Hajime Isayama could well be Hajime Isayama. “I’ve actually floated about five different ideas for new serialized manga, but so far they’ve come to nothing,” he said. “I think I’d like to try doing a more realistic manga, but I haven’t yet been able to produce a manuscript that’s up to my own standards.” Ⓑ

COURTESY KODANSHA. DATA: ORICON

The Pitch The Product

Luckin became a $4 billion business by promising that Chinese would drink more coffee if they could buy it more easily and cheaply than at Starbucks. Then it faked hundreds of millions in sales

By Selina Wang and Matthew Campbell
Photograph by Steven John Miner

Say a new company promises to achieve a goal so ambitious it's eluded a more established competitor for two decades. Say that goal is to sell lots of coffee in China, a nation of resolute and happy tea drinkers, and the competitor it promises to defeat is Starbucks Corp. The way it's going to do so is by offering lower-priced coffee, primarily for takeout and delivery. Because there will be an app, the startup can call itself a tech company and boast about being a disruptive force. And because investors like apps and disruption, some won't even notice that the coffee isn't great.

Some venture capitalists lost interest after they sampled what the company, Luckin Coffee Inc., was selling. But within a year of its founding in 2017, one of the biggest VC firms in China, Joy Capital, as well as the Singapore sovereign wealth fund GIC, had put serious money behind Luckin, valuing it at $1 billion. Luckin opened 5,000 locations in Beijing, Shanghai, and other cities across China and last year reported sales of as much as $200 million a quarter. Its success drew in big international investors such as BlackRock Inc. and support from banks including Credit Suisse Group AG. Luckin went public in the U.S. in May 2019, raising $561 million. Company executives flooded the Nasdaq stock exchange stage on the big day; some wore barista aprons. Confetti fluttered past their smiling faces.

Last July, Joy Capital's managing partner, Liu Erhai, walked onto another stage, this time at a tech conference in Hong Kong. In New York, Luckin was valued at more than $4 billion. Liu came with the requisite triumphal marketing video and slide deck highlighting the company's plan to operate 10,000 locations by the end of 2021. Then he looked up from his tablet. "It's unbelievable," he said in heavily accented English. "So how can they achieve astonishing performance within a short period?"

Turns out that wasn't just a rhetorical question. Some six months later, Luckin would be caught engaging in massive fraud.

The most prominent man behind the plan to beat Starbucks in China was Lu Zhengyao, Luckin's chairman and co-founder. He's about 51 years old and stout, with a buzz cut and gap-toothed smile. Like many entrepreneurs of his generation, he's an opportunist, moving from one industry to the next. He started, as many did, as a bureaucrat (in a municipal government in Hebei province, outside Beijing), then joined the booming private sector in the 1990s. First he traded gear in the expanding telecommunications industry. Then he sold insurance in the expanding auto industry. In 2007 he founded Car Inc. to provide rentals to the increasing number of Chinese drivers.

Lu became known for blitzscaling companies. At Car, he raised hundreds of millions of dollars from international investors, then used the money to undercut the competition and grab market share. With that kind of strategy it didn't take ▶

PROP STYLIST: LIZ MYDLOWSKI

◀ long for Car to become China's largest rental provider. In 2013 it confirmed its dominance in a complex deal with Hertz Corp., which bought roughly a 20% stake in the company and merged its own mainland operations into it. Car went public on the Hong Kong exchange in 2014. But by 2016, Hertz had sold the bulk of its holdings. Lu didn't respond to recent requests for comment amid a collapse in Car's share price.

In late 2017, Lu invited a group of journalists to the Beijing offices of Ucar Inc., a ride-hailing service he'd spun off from Car. There he introduced Jenny Qian, a longtime executive with Car. Qian told the group that her long workdays had turned her into a coffee fanatic—and convinced her that more Chinese would become fanatical about coffee, too, if only it were more affordable and more convenient than it was at that other coffee chain. Qian would become chief executive officer at Luckin, a new venture whose goal, she said, was to "defeat Starbucks" in the world's most populous country.

Persuading Chinese consumers to drink more coffee—or any at all—has proved a frustrating pursuit. Starbucks has been trying ever since it opened its first cafe in Beijing in 1999. Now it operates more than 4,000. But in 2018 annual per capita coffee consumption in China had reached just about six cups, compared with more than 200 cups in Taiwan and 388 in the U.S. Plenty of people would regard those numbers as proof there would be no easy or fast way to change Chinese preferences. Luckin regarded those numbers as evidence that there was plenty of opportunity for growth, citing them in its own prospectus ahead of its initial public offering.

Starbucks had prospered in China by selling much more than just coffee and offering a comfortable place outside the home or office to meet friends or study. Luckin did the opposite: Most of its locations are more like kiosks, with little or no seating. Orders have to be placed and paid for with Luckin's app. That was supposed to allow the company to save on rent and minimize labor costs. It even announced plans for a "smart vending machine" that would eliminate the need for stores or staff altogether.

Luckin's real advantage, though, was supposed to be affordability. Its app constantly pushes freebies and discounts to customers, making it difficult to know exactly what it charges. But it's definitely far cheaper than Starbucks, where a grande latte goes for about 32 yuan ($4.57). That kind of discounting requires a lot of cash—more than what Luckin was saving on headcount and real estate. In 2018, Luckin disclosures show, its operating expenses were almost triple its sales.

That same year, Starbucks formed a partnership with Alibaba Group Holding Ltd., giving it instant access to the retailer's huge delivery network. Later it introduced a ministore format called Starbucks Now designed for speedy takeout and delivery. So in some ways Luckin was changing, or at least anticipating, what Chinese customers wanted.

In early 2019, Luckin hired investment banker Reinout Schakel to be its chief financial officer; he was the only senior executive who wasn't Chinese, and he was responsible for dealing with Western investors. Luckin wasn't profitable, and wasn't sure when it would be. The business plan was to spend more to keep expanding and offering discounts to increase brand awareness, as Luckin described in its IPO prospectus.

Schakel's former employer, Credit Suisse, led the effort to take Luckin public in the U.S., along with Morgan Stanley and two Chinese banks. Bank of America Corp. was slated to be one of the underwriters, but it withdrew from the deal late in the process after Luckin executives disagreed with its method for valuing the coffee chain. A spokeswoman for the bank declined to comment. "We have done what most people do in 15 or 20 years," Schakel boasted before trading began on May 17. After the opening bell, the price of Luckin's shares jumped almost 50% from the $17 offer price.

Carson Block watched Luckin's rising share price with skepticism. Block is a short seller whose firm, Muddy Waters Research, came to prominence a decade ago by exposing fraud at Sino-Forest Corp., a Chinese timber operator that had gone public in Canada. Now Block wondered if he'd found another problem company. In the fall of 2019, Luckin reported an almost sixfold increase in quarterly sales. Block suspected some of Luckin's sales weren't real.

But proving that would be expensive. He'd have to hire a significant number of on-the-ground researchers to monitor stores, an investment he wasn't keen on making. Then in late 2019, Block says, a fund manager contacted him with an unusual proposal. The manager was overseeing a probe into Luckin's operations and preparing a research report, but said he didn't want to bear the fallout that might come from the company's backers for publishing it. Would Muddy Waters release it instead?

In January, just before the novel coronavirus began roiling China's economy, Luckin's stock reached $50 a share, almost triple its offer price. On the last day of the month, Muddy Waters shorted the stock and went public with the report it had received.

The 89-page document was remarkable. It purported to be the work of more than 1,000 investigators who monitored sales and foot traffic at Luckin locations, gathering more than 25,000 receipts from customers and providing a

"My style may have been too aggressive and the company may have grown too fast"

Lu celebrates in New York after the company's IPO

ZHENGYAO LU: VICTOR J. BLUE/BLOOMBERG

detailed analysis of customer behavior. The investigators had even recorded video of some transactions. The report claimed that Luckin was inflating the number of items sold per day by 69% in the third quarter of 2019 and 88% in the fourth. Since all orders are placed through its app, each has a sequential pickup number. But Luckin, the document said, seemed to be intentionally skipping numbers during the day to give the appearance of higher volume. It also concluded that the average cost of items sold was lower than the company had reported. In other words, Luckin looked like a fraud.

Block identified the author only as "someone who has a lot of resources and who I respect in this space." (According to people familiar with the situation, the document was created by a Hong Kong-based firm called Snow Lake Capital Ltd. A representative for Snow Lake declined to comment.)

Luckin denied the allegations. Its stock price plunged immediately after the report came out, but it recovered most of the loss in February, even as the coronavirus was spreading.

But beyond the public's view, Luckin was also under scrutiny. As auditors from accounting firm EY reviewed Luckin's 2019 accounts, they found evidence that some managers had been fabricating transactions. In a later statement, EY said these supposed sales had inflated the company's income, costs, and expenses for nine months in 2019. On April 2, Luckin said that Chief Operating Officer Jian Liu and some subordinates might have faked more than $300 million in revenue, more than a quarter's worth of reported sales. Now, the company said, a special committee would conduct an internal investigation.

For a brief moment, it seemed Luckin would try to grow its way out of trouble. It continued opening stores—as many as 10 per day—as co-founder Lu tried to make amends. In a May 20 statement, he said that "my style may have been too aggressive and the company may have grown too fast, which has led to many problems." But, he continued, "I by no means set out to deceive investors." Luckin declined to comment beyond its previous statements. Liu, of Joy Capital, declined to be interviewed.

Accounting scandals have been a feature of Chinese capitalism for decades, many of them attracting little notice outside the country. Luckin, however, is different. It's not a huge company, but it's a prominent one that attracted ostensibly sophisticated Western investors eager to buy into what they thought was one of China's most robust consumer brands. And its collapse comes at a time when China is trying to make sure its businesses, already hampered by rising tensions with the West, can still access foreign capital. According to people familiar with the matter, who asked to remain anonymous because they aren't permitted to speak publicly, Vice Premier Liu He has personally asked for an investigation into the scandal, expressing concern about its impact on investor confidence. The national securities regulator did not reply to a request for comment. Chinese media has reported that Lu could face criminal charges. Beijing regulators have also offered to cooperate with the U.S. Securities and Exchange Commission.

If Luckin survives, it will be in greatly diminished form. Its shares will be delisted from Nasdaq; for now they're trading at less than $3 apiece. Shareholder suits are expected. Qian was fired as CEO in May, and shareholders ousted Lu as chairman in July. Qian hasn't spoken publicly and couldn't be reached. Lu didn't respond to requests for comment. Schakel, who hasn't been accused of involvement in the fraud, remains at the company.

The more important consequences could be for the Chinese economy as a whole, and especially for mainland companies hoping to tap U.S. capital markets to fund growth. Luckin "refreshes the story that Chinese equities are dangerous," says Paul Gillis, an accounting expert at Peking University's Guanghua School of Management. And, he says, the example of misconduct could make it easier to kick other Chinese companies off U.S. exchanges. In May the Senate overwhelmingly approved a bill that would require Chinese companies with U.S. listings to submit to scrutiny by the Public Company Accounting Oversight Board, a body created in response to the collapse of Enron. As California Representative Brad Sherman, a Democrat, said when he introduced a corresponding measure in the House: "Had this legislation already been signed into law, U.S. investors in Luckin Coffee likely would have avoided billions of dollars in losses."

A representative for Muddy Waters declined to comment on its profit from Luckin's fall. Block argues that until U.S. regulators are able to enforce rules for Chinese companies—which the Chinese government says would violate its sovereignty—high-profile frauds will continue. In China, he says, exaggerating performance is often the only way to raise capital, a consequence of being "the most cutthroat business environment on Earth."

But he places much of the blame for scandals like Luckin's on the U.S. investors who choose to believe stories of ever-faster growth. "I don't blame drug dealers for people's addictions. I blame people who get caught up in them more," Block says. "We have a thirst for fairy tales from China." B

—*With Cathy Chan, Jinshan Hong, Melissa Karsh, Crystal Tse, Daniela Wei, and Steven Yang*

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Eight Shocking Things I Never Knew Until I Worked On a Private Jet

From sex parties to celebrity hysterics, the sky's the limit for bad behavior on these small planes. *By Brandon Presser*
Illustrations by Jaci Kessler Lubliner

August 3, 2020

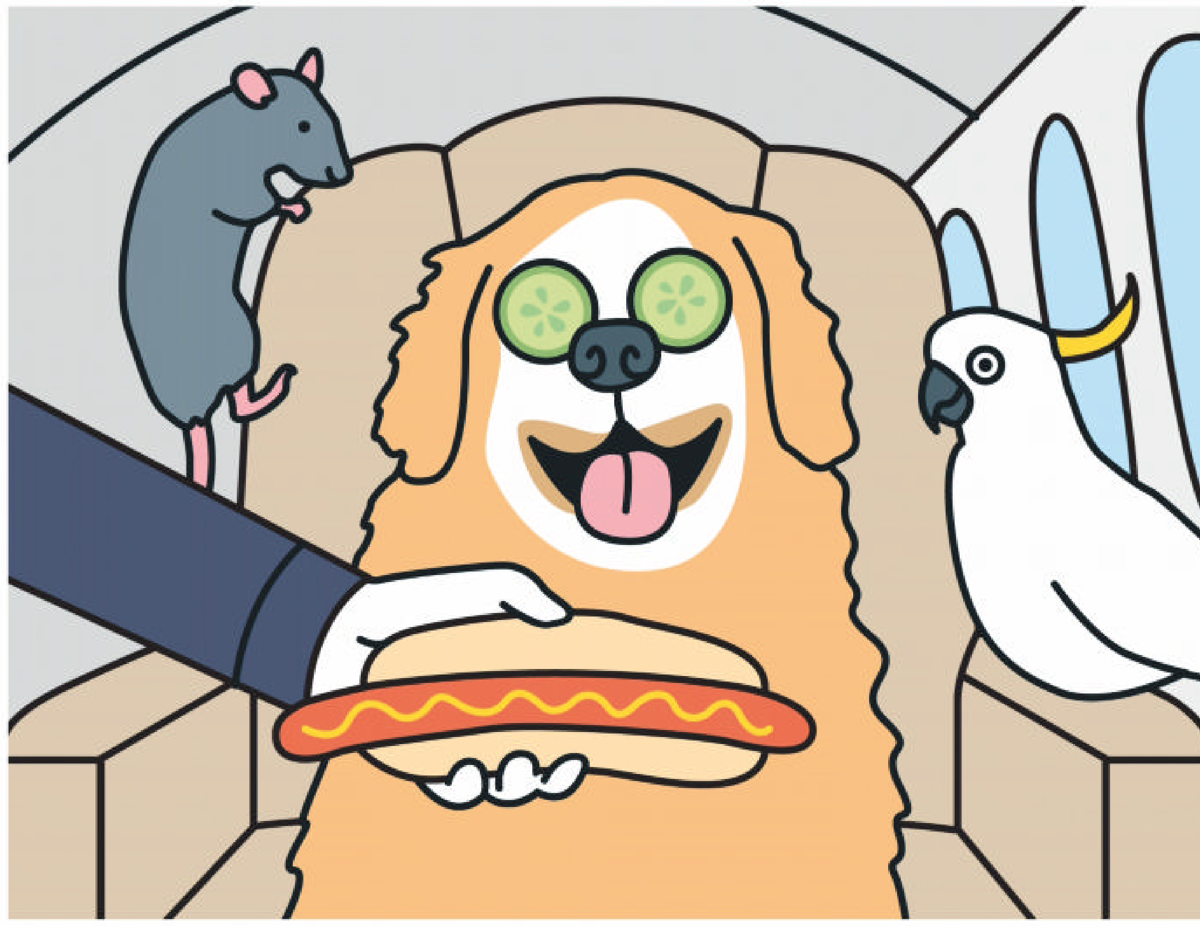
Edited by
Chris Rovzar

Businessweek.com

For those who can afford it, private aviation is an easy way to bypass the epic lines at TSA, stale food court sandwiches, and those armrest-hogging seatmates. It also buys an elusive treasure: extra hours in the day. Sunrise yoga in Los Angeles, lunch in Napa, a show in Vegas—it's all doable when the sky isn't the limit. As insiders say, "Jets aren't aircraft, they're time machines."

These flying miracles became more accessible after the 2008 recession, when membership clubs began offering UberPool-like sharing schemes. Dallas-based JetSuite led the pack. Its SuiteKey program is similar to a debit account for airfare; the more you deposit, the deeper your discount. Of its 900 members, at least 50 have invested $1 million.

Although the pandemic spurred JetSuite's parent company to file for Chapter 11 in April, the furloughed staff is hopeful of a resurgence. That includes me: Right before lockdowns arrested the global travel industry, I spent a week on JetSuite's team, coordinating requests for Bitcoin billionaires, searing steaks in the sky—did you know pilots wear oxygen masks when the food is being cooked?—and cleaning up shockingly soiled cabins. Here's a behind-the-scenes look at life on a private jet.



1 Pets are the true VIPs of the sky ...

Accommodating pets is one of JetSuite's most common special requests and a main reason people fly private, according to guest services director Anaselia Galli, who recently arranged transport for a rare feline–an African serval–estimated to be worth more than $10,000. Its owner (not Carol Baskin) couldn't fathom flying commercial, as her "giraffe cat" wouldn't have enough space to stretch her 2-foot-long legs.

Once, a couple even sent their pet private while they flew commercial. "The head of a large hedge fund was being relocated and paid $175,000 to charter a brand-new Gulfstream G450 to move his dog and its nanny while the owner and his wife flew British Airways," says Privé Jets co-founder Isaac Grimberg, who often places his clients aboard JetSuite planes.

Among the frequent-flying canines I booked with JetSuite were Muffin, a 200-pound, codependent goldendoodle who must–at all times–have one paw on her owner, and Mr. Wigglesworth, a golden retriever whose regular cross-country flights to a specialty oncologist have all but ensured that he'll outlive us all. At 112 (that's dog years, of course), he's still kicking.

One couple sent their cat to a different type of doctor–a cloning specialist, who included a basket of identical kittens on a return flight months later.

Most impressive, however, was a family moving to Hawaii with their airborne ark of animals: 15 cats, 8 dogs, 5 parrots, and 6 ferrets. (Whenever feathered creatures are onboard, the staff lay down tarps to catch their mid-flight droppings. It's all very meta.)

Pigs may not fly on JetSuite's books (yet), but sometimes ponies do–a pair of them! The single-most talked-about pet the team has seen is... a rat. For years, Bob the Rat's owner traveled with her rodent, cradling him in her arms or letting him scamper around in a laundry hamper full of her clothes. The one time Bob's human went on holiday without him, she had a vet babysit. "She called me extremely concerned that Bob didn't look well in one of his pictures," Galli recalls. "She was right–Bob died a week later." We'll let you guess who spent an hour and half on rattieratz.com–yes, that's a real thing–helping her client choose a new pet.

❷ ... But animals aren't the only ones making a mess

Pet accidents require planes to be shut down upon landing for deep cleaning—which results in substantial fines for the owners. But besides dogs, it's kids who make the biggest onboard messes. On more than one occasion, they've gone full Picasso, drawing with markers all over the seats and walls. The cost of replacing all that ruined leather and paneling? Easily $25,000.

Certain foods that stain are banned unless explicitly requested—chocolate, soy sauce, and dark berries among them. The crew also uses Jedi mind tricks to subtly steer passengers toward white wine or clear spirits when they're choosing alcoholic beverages.

That didn't stop a certain Silicon Valley founder from routinely laying plates of sushi across the floor, then standing on his seat, cabernet in hand, and maniacally pouring soy sauce from up high. (Worse, he would always insist on eating the entire meal while lying down, for reasons nobody understood.) A recent major devaluation of his business means he probably won't be flying private anymore. According to one account manager, this type of behavior is hardly unusual among the tech set: "Most startup bros quickly get ugly with their new money, being very aggressive and demanding."

The most legendary biohazard on record occurred during a flight to Las Vegas. "According to the pilots, the two passengers on board got wasted and just [defecated] all over the vessel, smearing it everywhere," Galli says. If pet plop usually comes with a $1,000 cleaning fee, imagine the bill for the human variety. The instance has haunted the team ever since—"the plane's serial number is 250, but we've called it 'Poo-50' internally for years."

❸ Beware the Friday flight to Vegas

Poo-50 is just the tip of the landfill: Vegas-bound travelers are frequently drunk, debauched, or downright rude. "One high roller in the gaming world always demanded to smoke on the aircraft," says Amy Caris, manager of in-flight operations. When warned by pilots, he'd retort, "'You're going to turn around, sit in the cockpit, and fly the f---ing plane,'" Caris says. Eventually, MGM agreed to fumigate his jet after every flight.

Vegas attracts the crew's most detested customers, such as a cast member of *Vanderpump Rules* who mistreated so many assistants that his account manager never spoke to the same one twice. A certain HGTV duo also ranks on the staff's list of deplorables for their incessant rudeness and fighting. "One time they completely wrecked a luxury van because it wasn't a Mercedes-Benz Sprinter," the account manager says.

With West Coast pro athletes, the Sin City pregame gets especially messy. Eric Dufay, director of charter sales, says "they'll start with two bottles of Hennessy and a handle of Patrón," then engage in prelanding push-ups to "get their buff on" before hitting the dance floor. Often it simply results in pints of puke.

"Mile-high club" shenanigans happen on the return legs, when a plus-one suddenly joins the passenger manifest. (Once it was plus-five.) But affairs aren't limited to Vegas. "It's not uncommon for our membership to have two accounts—one for their wife, and a second for their 'other wife,'" a manager says. "And when I say it's not uncommon, I mean it's very, extremely not uncommon." Surprisingly, the smaller planes are where more passengers indulge in soft-core porn scenes—and not in the Legacy 650s with a retractable privacy curtain. ▶

4 The real divas are personal assistants

Cabin attendant Amber Zdrakas is quick to point out that celebs are usually well-behaved—especially singers. "When you work a concert tour, you become part of the entourage," she says. Sometimes she gets invited backstage or, even better, serenaded on board. The duties can be less glamorous, too: She once chauffeured a forgotten teddy bear to an ultrafamous (but very appreciative) pop star's hotel room.

Hands down, everyone's most-loved celebrity is a certain big-deal sitcom actor who's genuinely down-to-earth and always knows her pilots' names. Her personal assistant, however, makes the JetSuite team want to bang their head against their desk.

As a general rule, famous flyers are very well liked. It's their PAs who evoke constant dread—they're usually in their early 30s and seem constantly upset, says Zdrakas, who adds that "85% of the time they're making the situation way worse than it has to be."

Case in point: PAs' demands don't often sync up to their VIPs' actual needs, Zdrakas says. Hyperspecific items on riders—such as allowing only blue hydrangeas on the plane or having a disco ball hanging when they board—are always honored. But many of them, especially requests that cabin crew not make direct eye contact or speak to their guests, are routinely off-base.

Dietary considerations are the biggest quagmire. Zdrakas constantly receives strict instructions from assistants to provide carb-free meals—only to have the boss show up asking for a pizza. And one gluten-phobic singer-actor will reliably scarf down a burger, fries, and ranch dip—as long as his health-conscious wife isn't there to see.

5 Luggage gets pushed to the limit

There's no predicting what flyers will try to bring on board. The team once dropped a client in middle-of-nowhere Arizona only to pick him up a week later with a 300-pound elk. Getting it on the plane required on-site butchery and creative packing—elk antlers are huge!

Then there are shopping addicts who use jets instead of FedEx, filling them with goods for their second and third homes. "A couple heading to their villa in Cabo completely filled the aircraft with TVs, blenders, irons, microwaves, and even coat hangers," says pilot Andrew Adair. "High-tech TVs I get, but you can definitely buy hangers in Mexico." Another pair tried to fly from St. Tropez with more Louis Vuitton merch than could fit on the plane. "We had to tell them to pick their favorites and ship the rest," says Dufay, the charter sales head.

6 Food, not fuel, is the most wasteful aspect of private flying

If fuel consumption is private aviation's most egregious offense, food waste is its most surreptitious one, as companies strive to accommodate every dietary whim. International safety rules expressly forbid the arrival of most food items upon landing in the U.S., which means that all the provisions stocked to anticipate picky clients' sudden desires end up incinerated. Most meals come from caterer Air Culinaire Worldwide, whose lock on in-flight dining allows it to charge $18 for a single lemon.

Enter JetSuite's favorite game: "Guess the bill." Everyone makes a bet based on the departure airport and the day's menu—say, two oatmeals, fresh orange juice, four muffins, and bloody mary mix, leaving from a hub with easy procurement, Los Angeles. My guess: $100. Correct answer: $360. Let's try another: breakfast and lunch for nine flying across the Pacific. $3,000? Nope: $6,800. And expect to pay 10 times the rack rate for a bottle of Dom. Dufay has never seen a bill go higher than $10,000, but at his former job there were rumors of five-digit foodstuffs for a Middle Eastern royal family—and all they'd end up eating were the potato chips. As for the leftovers? They end up in flames.

Cooking aboard a Legacy 650 is a feat unto itself. Caris taught me to sear steaks on the bottom of the galley oven (rather than in a pan) to compensate for its low-power safety settings. To avoid food odors in the passenger cabin, the ventilation dumps out in the cockpit. "It would probably freak clients out to know that pilots often wear oxygen masks when I'm cooking," she says with a laugh.

7 Staff will play the role of problem-solving superhero—and therapist

Remember that scene in *The Devil Wears Prada* when Meryl Streep's character asks her assistant (Anne Hathaway) to fly her back to New York through a hurricane? "I totally would have gotten Miranda Priestly home," Galli asserts. She's hired superstretch limos and charter buses with beds to shuttle grounded travelers, bought space heaters to defrost a plane's batteries, even footed five-figure fees to change a VIP family's connecting commercial flight.

Turbulence is another issue. Zdrakas uses her maternal instincts—literal handholding—to calm certain hysterical passengers. But that wasn't enough for a former *SNL* star whom Adair considers to be JetSuite's most terrified flyer. On one bumpy flight, he says, "he removed all of his clothing and white-knuckled it on the floor, chugging vodka."

Weather-related flight adjustments are most common when flying in or out of New York City. Yet Aspen is a more stressful place for pilots to land, with its single runway and nouveau riche midwinter demand. The headache pays; Aspen-goers are among JetSuite's wealthiest members. Take one family of six, who travels with their nanny every March from Mexico City. "They never bring luggage," Dufay says. "They just buy all-new ski gear, then ditch it in their vacation home when they leave." They also rent five Hummers. "No one drives them," Dufay adds. "They just like the way they look in the driveway."

8 Fat invoices, slim margins

During my week on staff, we organized a daytrip from Burbank to Napa for oenophiles and connected a flyer with his megayacht in the Caribbean. My most expensive itinerary, between Los Angeles and Kona, left an aircraft idle for eight days and cost $180,000—half of what another colleague made booking a weeklong holiday to Tahiti. But profits don't come easy in this volatile industry. "One bad week could sink a company," says President Stephanie Chung.

Something as simple as fixing a coffee maker requires grounding the plane—and a whopping $30,000. Monthly Wi-Fi charges run into the deep five figures. And outfitting an aircraft with silverware, bedding, and electronics exceeds $100,000. (Much of it gets stolen.)

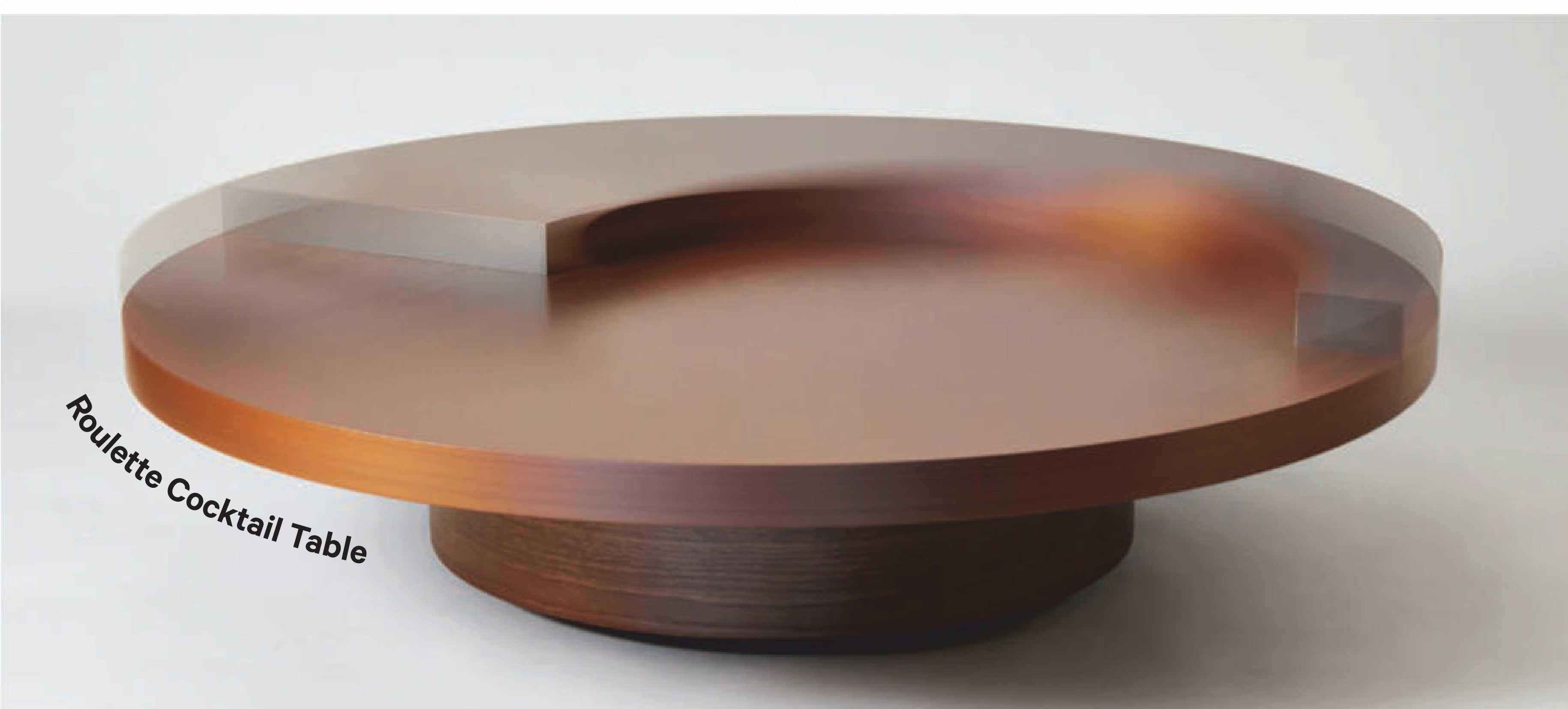
Another issue that makes the staff squish their stress balls? Donald Trump. Weather and mechanical issues are the main causes for delays and cancellations, which evolve into costly repositioning of flights or empty legs. But the president's chronic tardiness—far worse than other heads of state—is the third-worst hindrance to on-time departures, with Air Force One shutting down massive swaths of airspace for long stretches. Even time machines have limits.

You Say You Want a Revolution ...

... in decor? The latest designs emphasize versatility with chairs that rotate, tables that turn, and shelves that swivel. *By Monica Khemsurov Photographs by Sarah Anne Ward*

Add a colorful twist to cheese plates and cake decorating with this 7-pound tabletop twirler. Made from concrete and mineral pigment, its race of ¼-inch ball bearings provides strength and smooth stability for any number of uses. *$275; comingsoonnewyork.com*

Designed by Gianfranco Frattini as the Modello 823 in 1963, this swiveling bookcase has been recently reissued. At 48 inches tall, it has two self-lubricating bushings that allow the top tray to also rotate independently of the shelves. *$8,950; poltronafrau.com*



Maintain a semblance of social distancing with a table that's 60 inches in diameter. Made of walnut with brass accenting, the revolving top has two levels that can accommodate a range of seating around it, whether on a sofa or the floor. *Price on request; hollyhunt.com*

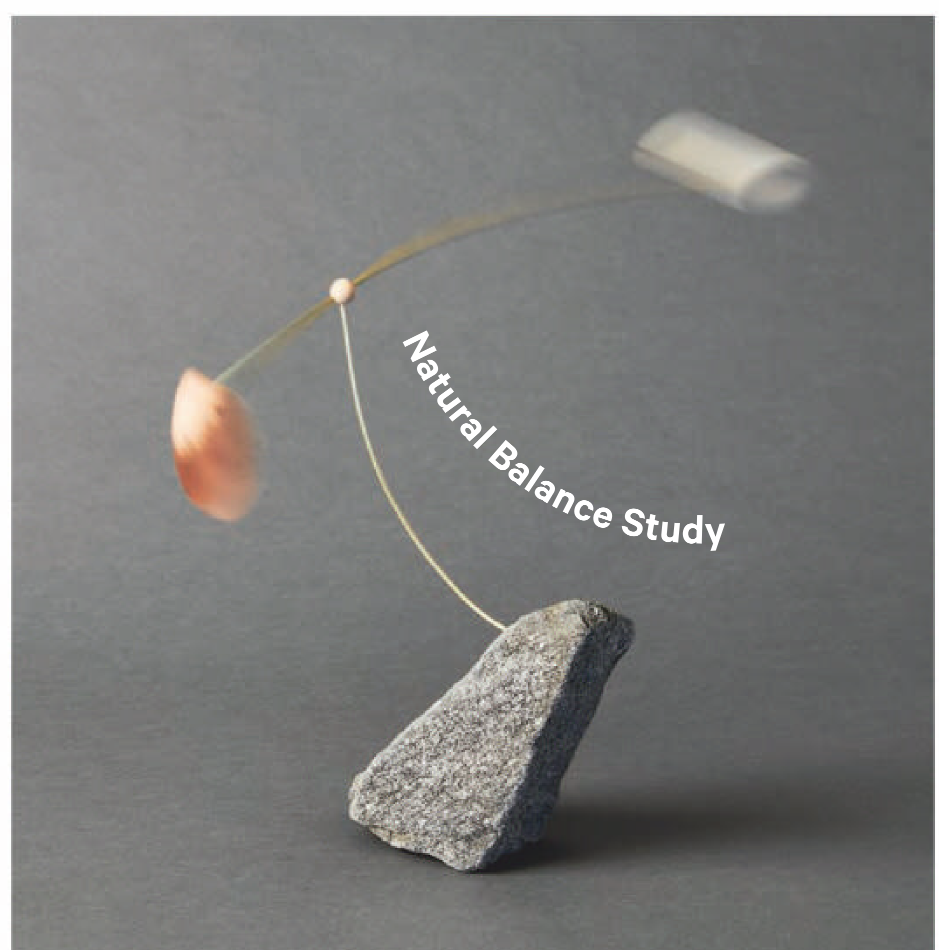
Pop Chair

In 2003, Orior Furniture founder Brian McGuigan designed a seat inspired by Arne Jacobsen's iconic Egg chair. This year, McGuigan's son, Ciaran, Orior's creative director, brings it back in velvet on a rotating chrome base. *$5,300; oriorfurniture.com*

Richer Side Table

Elegantly minimal and contemporary, Rodolfo Dordoni's rotating side table offers an open-storage space between its upper and lower discs. Inside, it's further enhanced by a tray, veneered in brushed larch wood, that spins. *$7,570; minottiny.com*

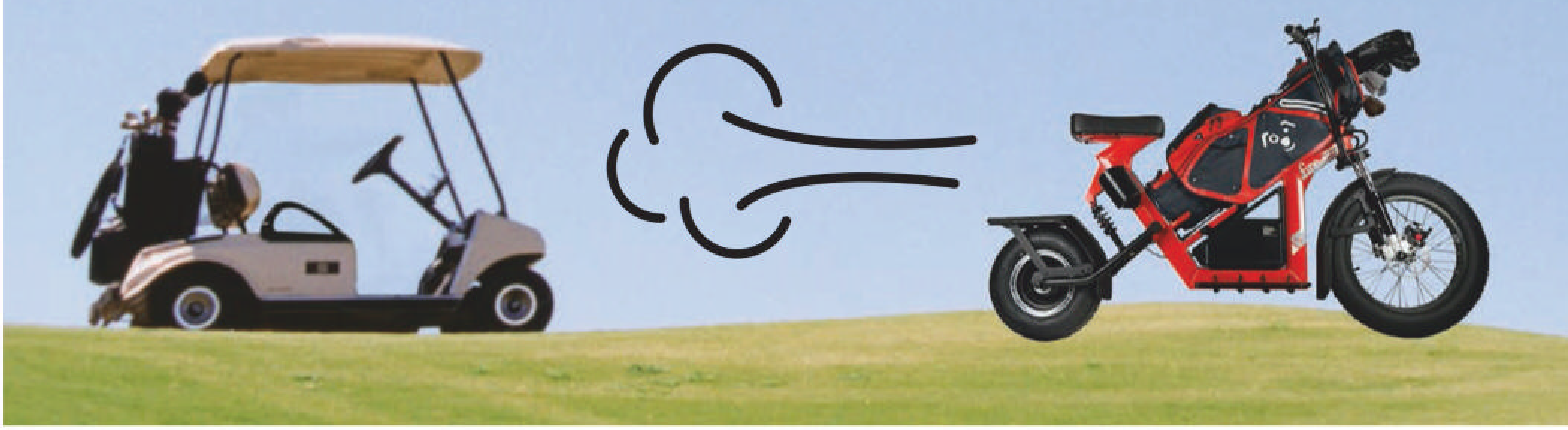
Natural Balance Study



This 13-inch-tall sculpture is a physics lesson disguised as desktop accoutrement. A thin arm extends from a rock and connects to another in rotational suspension, creating a delicate balance with spare materials and forms. *$550; ladiesandgentlemenstudio.com*

Lightning Round

The Finn Cycle promises 18 holes in two hours or less. But is the game ready for it? *By Michael Croley*



Even before the global coronavirus pandemic steamrolled leisure activities, the golf industry was brainstorming ways to entice younger players to the game. Whether arcade simulators to enhance teaching or par-3 courses that emphasize play over score, courses have been grasping at just about anything to add more fun to the sport—and to make it go a bit quicker.

At first glance the Finn Cycle seems an unlikely bet. Billed as a faster alternative to golf carts, the two-wheeled electric bike-slash-club-carrier looks more like the puttering mopeds I saw as a boy in Seoul than a breakthrough for a sport dominated by wealthy old men. Its unique design allows you to strap your bag to the crossbar, which you straddle as you scoot off to your next lie. So you know it's really for golf, the kickstand is shaped to look like the head of a driver.

The bike is the brainchild of Rick Reimers, the 67-year-old chief executive officer of Sun Mountain Sports. He's long been consumed with finding efficient ways to get around the course: His Sun Mountain golf bags were the first to feature a two-pronged stand; the company also popularized the three-wheeled pushcart. His impetus for the bike, which he views as hip and edgy, was simple: "Golf is too slow and too boring, and it needs to change." On the Finn, he says, you can complete 18-hole rounds in less than two hours instead of the usual four.

The concept got an unexpected boost this spring when golf emerged as one of the social activities that can be enjoyed amid a pandemic, because players can keep a safe distance from one another. A high-profile change to club rules was that only one player at a time can use each golf cart. The Finn, which can't hold more than one person, was suddenly apropos.

Graham Gilmore has 16 bikes at his Pine Needles Resort in Southern Pines, N.C., and says they've allowed him to meet demand: Regular foursomes usually take two carts to get around the course; now they need four. The Finn, he says, helps keep cart supply flowing and social distancing possible.

I prefer to walk the course, but I couldn't resist the chance to test out a Finn near my home in Ohio. Its low profile makes it easy to get on and off, and the strapped clubs are nestled onto the handlebars, which stabilize the center of gravity and make it almost impossible to jackknife and topple over.

A thumb-operated "throttle" rests on the right side of the handlebar, and on the left side is a brake. The bike is also lightweight enough, at 92 pounds including the lithium battery, to drive directly onto a green without damaging the course the way a traditional cart does. With a top speed of 15 mph, it feels as much like a motorcycle as a golf cart does a Ferrari.

The main problem? Although the Finn can increase your pace of play by allowing everyone to roam quickly and independently, those gains are negated when the course is busy or if you run into a group that won't let yours play through. Brian Jorgenson of Nashville Golf & Athletic Club told me he's had to learn when to let golfers out on the bike because of how fast they play. Pine Needles' Gilmore has restricted their use to early morning or late evening.

There's also the issue of its appearance. During my test, some curious groundskeepers peppered me with questions about this novelty. Younger people were interested, but I kept picturing the patriarch of a blue-blooded family trying to clamber onto one of these. It felt like a lost scene from *Caddyshack*.

Then again, the Finn isn't necessarily for current golfers, it's for future ones who may not know it yet. I tend to agree with Doug Davis, who has four at his course in West Lafayette, Ohio: "People enjoy it as an alternative, but it won't be for everyone."

I'm holding out hope that the Finn spurs courses to get creative with tee times, maybe even having lunch-hour "Finn lightning rounds" to lure more golfers and maximize margins. We'd still have enough time for a postround hot dog.

SCOOTER: COURTESY FINN SCOOTERS. GOLF CART: GETTY IMAGES

Top One Off

The Nyht decanter cleverly nestles tumbler and tipple together. *Photograph by Janelle Jones*

Shopping for 1.75-liter bottles to limit trips to the liquor store may make practical sense, but you don't have to give up on style when dispensing a dram. At only 4.7 inches high and 3.3 inches wide, Norlan's Nyht whiskey decanter ($330 including tumbler, as shown) is a compact, elegant treat. Designed by Iceland's Sruli Recht, the frosted vessel has a capacity of roughly 8.5 ounces—about three drinks—so you'll want to refill it regularly as a tasteful upgrade for your nightly nip.

THE COMPETITION

• Best known for wine glasses, Austrian company Riedel has in recent years moved into spirit-specific glassware. Its $199 Neat spirits set includes a 34-ounce crystal decanter and two rocks glasses.

• Copper detailing on the cap and the bulbous bottom of Tom Dixon's Tank whiskey decanter ($150) give off the look of a sophisticated drinker's vessel. But at a capacity of 1 liter, it could double as a substantial piece of lab gear.

• Most decanters are made with clear crystal to show off the spirit inside. The art deco-influenced Vinyl whiskey decanter ($395) from venerable Portuguese manufacturer Vista Alegre keeps its contents a surprise behind a black exterior.

THE CASE

Norlan first made its mark on Kickstarter five years ago with a smartly engineered whiskey glass that can aerate the spirit for maximum aromatic impact. The Nyht, its latest invention, is mouth-blown and finished by a team of Czech master glassmiths. The design is inspired by tumbler-topped water carafes you might put on your nightstand, but unlike the loose jangling that accompanies the routine, Nyht's glass sits snugly because of the clever ring etched into the top. As the name suggests, it's ideal for a nightcap, but it works just as well for afternoons in the backyard. Or even morning—hey, no judgments here. *$330; norlanglass.com*

The Jackpot Of a Smaller Deal

By Brooke Sutherland

The smaller takeover is usually the smarter one, especially in the embattled oil and gas industry.

ILLUSTRATION BY GEORGE WYLESOL

Chevron Corp. announced on July 20 that it was acquiring Noble Energy Inc. for about $5 billion. It was the first major takeover launched in the sector since the coronavirus pandemic triggered a severe erosion in demand and unprecedented volatility in crude prices. The deal value swells to about $13 billion once Noble's $8 billion or so in net debt is included.

That's a far cry from the $50 billion purchase of Anadarko Petroleum Corp. that Chevron pursued last year. Chevron ultimately walked away and ceded the takeover to Occidental Petroleum Corp. Noble is a more digestible version of Anadarko and brings Chevron complementary assets in the Permian Basin, a key U.S. shale patch. Chevron will also add acreage in the Denver-Julesburg Basin of Colorado and the Eastern Mediterranean.

Perhaps most important for investors, Chevron is buying Noble on the cheap. It's offering 0.1191 shares for each share of Noble, which works out to about $10.38, based on trading values leading up to the deal's announcement. That's well below both Noble's pre-pandemic valuation and the $14 analysts on average have been expecting the stock to reach over the next year.

All told, the purchase will make a fairly minor dent in Chevron's robust balance sheet. Occidental, by contrast, had to rely on expensive financing from Warren Buffett to outbid Chevron. Buffett's cash also allowed Occidental to keep the stock component of its Anadarko bid below the threshold that would have triggered a shareholder vote, much to the chagrin of investors who were hoping to derail a deal they saw as irresponsible. Occidental is now saddled with debt and under increasing pressure to prove the Anadarko takeover can still pay off in a depressed oil environment. The company's shares are down about 60% this year, which is one of the worst performances on the S&P 500 Energy index. Chevron's stock has declined a comparably moderate 25%.

On a call to discuss the Chevron deal, Noble Chief Executive Officer Dave Stover said the company had reviewed other merger possibilities. That Noble sold itself at such a bargain price suggests there wasn't a lot of competition. Not many oil and gas companies have the financial wherewithal to even consider major acquisitions right now. Royal Dutch Shell Plc cut its dividend for the first time since World War II earlier this year, and analysts have speculated BP Plc may follow suit. Stover highlighted the appeal of Chevron's stock as an "attractive currency" and the opportunity for Noble shareholders to benefit from its dividend, but other possible sellers may prefer to ride out the oil rout for as long as they can in the hopes of higher prices and more buyers. **B**

—Sutherland writes about mergers and industrial companies for Bloomberg Opinion

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