Todd Zenger, STRAT 6070, 6.1 - Strategy and Capital Markets- Contrasting Perspectives on Value Creation

Our topic in this lecture is the influencive capital markets on strategy, and to talk a little bit about the tension and conflict that exists between capital markets and managers or strategists at time, and see if we can understand that relationship a little more carefully and deeply, because it has a profound effect upon firms efforts to compose strategy in an effective way. As we've talked about, the object of strategy is to sustain value creation and effective corporations have pulled together, corporate theories that are guiding their ongoing growth, but of course, those who compose these theories are not in a position in almost all instances to pursue those on their own, instead they need to go out and financing to pursue those especially if you're a large corporation, you may have a multitude of investors and thus any given manager that's running an entity, running a corporation typically has only a minority stake of ownership in the corporation they operate. We want to think a little bit about this tension that might exist between other investors or the capital markets at large, and those managers who run and operate and try to compose strategies that perpetuate value creation for these corporations. Let me just begin with a quick illustration of this tension that can exist, the CEO of PepsiCo throughout much of of the 2010 was Indra Nooyi, and she faced enormous pressure to adopt a very different strategy than the one that she had carved out and really those before her head carved out as well. PepsiCo as you know, is this company that not only sells beverages, but also snacks and before this, they had also been in restaurants in a much bigger way, although that business had been spun off. Nelson Peltz comes along, takes a big ownership position, well, not big, several, a few percentage points of ownership of the corporation and starts aggressively pushing the board and marketing this to shareholders, that this company should be broken up into two separate businesses of snack foods business and a beverage business and this was a strategy that Indra Nooyi completely disagreed with and this was a very, very public battle that played out eventually, they reached a truce when one of the investors in the fund that Peltz manages was placed on the board of PepsiCo, but there was this very active tension over what the direction of this corporation should be and a battle played out between shareholders, in this case a specific shareholder and those who supported him and management in the particularly the CEO of this corporation, and that's not altogether unfamiliar terrain, this plays out in many, many corporations, this battle between Nelson Peltz and the management of PepsiCo highlights a broader tension, which is, who should we in some sense put in charge of the corporation? Should we essentially hire CEOs whose job it is to essentially understand what capital markets want and placate them, do everything that you can to maximize current share price or instead is the job of the CEO to understand and envision new possibilities for value creation, compose corporate theories, that whose value may be unseen by these capital markets. Thumb your nose at the capital markets and go off and pursue those obviously, there's not always this tension, but occasionally there is that tension, and we want to a little bit deeper here and in this conversation, talk about when that tensions most likely to exist and how good strategic leaders address it. Let me give you another illustration, so some years ago, 2009, this is a post lewd to a case that some of you may have already done on Kraft or on Cadbury, but subsequent to that case, Kraft decides to purchase Cadbury and investors in Kraft don't like it immediately, the market's reaction is negative to that announcement. Warren Buffett, big investor opposes that deal, nonetheless, the deal goes through. Well, is that good strategy, is that bad strategy? Should the CEO of Kraft be listening to Warren Buffett or was this the right move? when is it the right move? This story of Kraft doesn't just end with Warren Buffett. Some years later, after these two companies have been integrated for a number of years, Warren Buffett's still a shareholder in Kraft, two additional activist shareholders, Nelson Peltz, who we already talked about, as well as this gentleman, William Ackman, take stock positions in this company and start pressuring the company to break itself apart. Not quite along Cadbury historic Kraft lines, but somewhat correlated with that same division that previously existed, pushing them to create a global snacks business and a separate lower growth grocery business with things like Oscar Meyer and Kraft, macaroni cheese and that's slower growth category. The market has its own opinion about whether this is a good move or not. This is an analyst who comments on the perspective spin off of the snacks business, in our opinion, Kraft's motivation leans more toward unlocking, higher multiple for the faster growing snack business that was being unappreciated when combined with the more mature North American grocery brands. The story is look, these two businesses are bundled together and the market is just not correctly evaluating them and if we can break these two apart, then the market will correctly see the underlying value that's in these two businesses. Another comment on this, this is actually not from an analyst but from a columnist at the Wall Street Journal who says, Hedge fun noodge, Bill Ackman, again, he says activist investor made a tidy sum on the breakup of Fortune Brands and on his effort to shake up JC Penny, and now appears he has struck gold again with Kraft. Ackman's Pershing Square capitals among the pushy craft investors who had pushed for a split up for the parent company of Oreos, Velveeta and Oscar Meyer reported our Deal Journal colleagues, Kraft yesterday announced plans to do just that in an effort to unlock value in the company's stock price. Then it has this interesting parenthetical comment, where's all this locked up value held? There's analysts acknowledges that there is this unleashing of value that they anticipate and but he then asking where is this locked up value held? Why is it, in some sense no way to state this, why is it that the capital markets aren't correctly valuing this company when it's combined, is it literally just an issue of they can't figure out what this company's worth or is there something more substantive that by breaking it apart, better or different decisions may be maybe made. All of these narrative bring to light this fundamental question about who is in charge of Kraft strategy or who should be in charge of Kraft strategy? Should it be the CEO or should it be the investors? Or more precisely, should it be the CEO constantly listening to investors doing what the investors want? Or should it be the CEO doing what they think, well in the long run, maximize the value of this enterprise and so there is this tension, what is the best path to value creation? Is it constantly to listen to capital markets and do what they suggest or is it to pursue one's own particular vision? The answer, this is not entirely obvious, my best case for both of the arguments, so the argument for you should listen to capital markets is very much ingrained in the finance literature and I'm going to exaggerate this a little bit but the fundamental assumption is that managers are villainous, maybe a strong term, but they're rather lazy, they're deceitful, that they're greedy, they have their own personal incentives that they have an interest in pursuing that may not align with what the capital markets. The assumption about capital markets is that they're highly efficient and void of incentive problems and so if you just listen to what these capital markets are telling you will maximize the value of your enterprise, then we will cause corporations to elevate their value in the long run. The fundamental assumption is that what we've got is what economics call a moral hazard problem, what we need to d o is to fix the incentives so that the personal interest of the CEO is entirely focused on delighting the capital markets that is doing, taking those decisions that will elevate share price because in doing so this will cause them to make optimal decisions, and so this would suggest in changing incentives schemes, pushing them to be entirely transparent about their decision making and pushing them to maximally disclose information. So one of the reasons you might want to break corporations apart is so that each and every part of the corporation is beholden to this capital market that is going to push them to optimize the value of their enterprise. When you build these large corporations, things become less transparent, you can't create the same incentives for these individual managers to optimize their decision making because they don't have a direct read on that, which the capital markets think is optimal for them to do. But if you break these companies apart, then now you've got lots of little separate companies, all of which have very strong incentives to do that which the capital markets would inspire them to do. The other story in some senses, is exactly the flip of this. It's not quite that, so I'll change the labels here. But here the assumption is that, managers are well-intention, they're creative, they're searching. This is the strategic management spin on this. The problem lies in the fact that capital markets are embedded with actors that are themselves somewhat myopic, lazy and that there are all kinds of incentive problems that exist in these capital markets. Thus the real problem is, what the economics calls a moral hazard problem, but it's really an adverse selection problem. These are managers trying to put their best corporate theories out. Their great ideas and visions about how to create value, but they're up against capital markets with groups of investors that are short-sighted, unable to see the inherent value of these virtuous strategies and corporate theories that they are attempting to compose. Therefore, what the strategy game and side wants, is to go find patient money, that's going to allow them to unimpeded, pursue their corporate theories that they deemed to be value creating. Those are the caricature of the two sides of this debate. Let me go back then to the finance story and give you a little bit of background as to why that might be a particularly compelling path. That is what you need to do, is to get managers focused on listening to the market. Well, there's a lot of evidence that suggests that markets are quite wise. That they are quite efficient, and that they do have the capacity to provide pretty good advice about that, which would be an optimal investment. There's remarkable accuracy, even though there may not be experts up and down at every spot in the capital markets. It only takes perhaps a few to get these capital markets to be efficient and to prod and push managers to make the best decisions. That there really is this wisdom in crowds, that if you have a bunch of independent individuals, some of whom are experts and they're independent, they've private information, that there really is this very efficient aggregation that occurs. The picture of the cow here is just an illustration of this. I've never done this at a local county fair, but there are people that claim to be really good at picking the weight of a cow before it stands on that scale? Well, as it turns out, even better than the best expert in picking weights, is if you just ask the crowd to guess the weight and take the average of their guess. That ends up being more accurate than some expert that you pick. Again, this notion that the crowd is quite wise, the aggregation of their information ends up delivering a tremendous amount of accuracy. One other illustration of this, when the Challenger falls from the sky on January 28th, 1986, immediately the markets react to this. What we see across the top here is a table and these are different suppliers to the NASA Challenger spacecraft Morton Thiokol, Lockheed, Marina and Rockwell International. Almost immediately, all of these stocks take a bit of a dive, on average, 2-3 percent. However, one stock, Morton Thiokol, takes a large dive and ultimately Morton Thiokol proves to have been the cause of that disaster, these O-rings that failed. NASA undertakes a six-month effort to figure out what it is that it happened and who was responsible, ultimately they decide that it was Morton Thiokol. But, almost instantly in the markets, they correctly predicted what the source of that disaster was. Markets are remarkably efficient. They are in some sense clear void in this sense in being able to really aggregate information quite effectively. All of which might suggest that what you ought to do as a manager is listen to these very wise markets in making decisions about where to move. What then is strategy from a finance perspective? Is you need to fix CEO incentives so that they respond to what the capital markets say, and if you do this, then CEOs will choose high-quality strategies. If you fail to do this, then managers will adopt low-quality, self-serving strategies. One of my favorite examples of this, this is Armand Hammer, long-running CEO and chairman of Occidental Petroleum, who uses corporate funds to go out and buy the company that makes Armand Hammer baking soda because he thought it was a cute, clever spin on his name. He uses it to go by racing horses. He uses corporate funds to build this museum, which was built on one of the most valuable pieces of real estate in Los Angeles, the corner of Wilshire and Westwood, to a build museum that housed his personal art collection as well as some of the corporation's art collection that they collected and a huge portrait of him. As you walked into this facility, clearly a CEO who is not looking after the interests of shareholders and as a consequence, destroyed tremendous amount of value for those shareholders. It was a failure to keep that CEO inline with the right incentives that causes this value destruction. From a strategy perspective, we've already talked about this in prior lectures. The job of the CEO is to compose a corporate theory and use that theory to guide and assemble and make decisions about what this corporation should be. Managers seek to create valuable strategies and yet they confront an information problem in capital markets. These capital markets are composed by actors who have their own personal incentives and their own greed and personal interests at stake. Quality of strategy choices are compromised by this information problem, that these managers have these great visions that they're trying to convey to the capital markets, but capital markets don't necessarily have incentives themselves to dig in deeply. There's an effort cost problem associated with understanding those strategies and expanding the effort, and analysis to understand them even, and often it's not even an effort problem, it's just these visionaries, the Steve Jobs of the world just sees the world in a different way. CEO's face this challenge, how do I convince the capital markets that I've got a great vision? Of course, this is a very different economic problem than the moral hazard problem, that was reflected in the Armand Hammer story. Here, this is an adverse selection problem and the prototypical adverse selection problem that's talked about in economics is the used car market. The problem in the used car market is that buyers can't ascertain which used cars are high quality and low quality. As a consequence of this, you're pushed to have to use average qualities statistics to establish price. Well, that means if I've got a good used car, with relatively good quality, great repair record, whatever it might be, I have an incentive to withhold that car from the market and instead, if I have a lemon and I look at that average price from Kelley Blue Book, I'm more inclined to sell my car because it's less than that price. Over time, in response to this, sellers have incentives to sell lemons. High-quality goods get withheld from the market until the market's fully composed of lemons. Buyers then have to assume that all goods are lemons and accordingly discount. This is the classic information problem, adverse selection problem that operates in markets. Of course, there are lots of potential solutions around this, you can try to verify quality and certify and all kinds of things that happen in different markets. But this kind of adverse selection problem also operates in the market for firms. Let me give you one broad example of this. This will have occurred before some of your times, and for others you live through this the-dot com boom that happens at the late 1990s on into 2001. There were a large number of Internet companies that go public between this time period, 95 to 2000. There was, at the time really a sense in which all you needed was a website and some strategic story. Few companies had revenues at the time and hits to websites was really the only measurable performance indicator. If you had a business that was generating more hits to your website, this would elevate your values significantly. If you didn't, then it would dampen your value. Hence firms listen to their investors. They developed strategies that generated hits to the website. The result was, an abundance of strategic lemons, this proved to be not a very good indicator of underlying value, but it was all that they had at the time. They thought, and the result was worthless strategies that the market initially seemed to like. These stock prices went up, and then they came crashing down. There is this fundamental information problem that exists in capital markets. In addition to this motivation problem that finance tends to anchor on, there is this information problem about what's good and what's bad quality that operates as well. The lemons problem in markets for strategy operates as follows. Strategies are also costly for capital markets to evaluate, but strategies systematically vary in the scope of these costs. As a strategist, I can either choose a strategy that's easy to assess or one that's difficult to assess. Think about this in the context of Nelson Peltz and Indra Nooyi. Indra Nooyi wanted to pursue what she thought was a value maximizing strategy, by keeping these businesses together. Nelson Peltz wants these things broken apart. At least part of the motivation, it seems is that by making them separate, the capital markets could more efficiently evaluate them. You saw this same narrative in the Kraft Cadbury example as well. In selecting therefore, a strategy, managers have a simultaneously choosing the quality. That is, is this a good strategy that I think is going to maximize value, but they're also in choosing that strategy, also choosing something about how difficult it is for this strategy to be evaluated. Therefore, in selecting this strategy, managers are choosing in some instances between future returns, and the extent of this information problem that they're imposing on capital markets. Do I pursue a strategy that's going to minimize the information problem, the information accumulation costs that capital markets have to incur or do I go pursue a strategy that actually is going to impose all kinds of information problem on the capital markets, but it's what I truly think is going to optimally, generate the most value for this corporation in the long run. All the conversation to this point, leads up to what I call, the uniqueness paradox. The nature of this paradox is that managers as they compose strategy, face two important dimensions. One is the quality of that strategy, where quality is the future returns that it's going to generate, if it's allowed to be pursued. The other is the ease with which that strategy can be evaluated by capital markets. Clearly, what you'd like to be able is to choose a strategy that's right here. There's type 1 strategy that is high in quality and very easy for the capital markets to figure out. Clearly, this type 4 strategy is one to avoid. Its low in quality and also really difficult for the market to evaluate. The challenge is that most strategies fall along this axis. Therefore you're having to face this paradox between, should I choose what I think is a high-quality strategy, but one which is going to be very difficult for the market to evaluate, or should I instead choose a strategy that is lesser in quality by my estimation, but I know the market can easily figure it out. This is often the tension that a CEO faces. They'd love to do this, but the challenge here is most truly valuable strategies are unique, as we've talked about, they're rare, difficult, and not only to articulate, but certainly difficult for others to evaluate as well. This tension typically arises. If high-quality strategies are generally hard to assess, then this paradox emerges. Let me give you an example where this is particularly visible and captured well in an analyst comments. Monsanto is its pivots from being a chemical company, into a company that's focused on agricultural biotech. They are developing seeds that are resistant to herbicides or to insecticide. You can plant these seeds, spray for insects or spray for weeds, have the plant thrive and have the insects or weeds perish. As they're beginning this agriculture biotechnology business at the time, they're also heavily into just standard crop chemicals. They have also started a pharmaceutical company that ultimately becomes quite successful, generating the blockbuster drug Celebrex that others manufacture, but they were responsible for inventing and developing. At the time, the analysts that were trying to evaluate Monsanto and this new strategy were very challenged, because the problem was analysts tend to focus on different types of industries. There are these sell-side analysts that focus on AG chemical industry or the chemical industries generally. There are other analysts that focus on the pharmaceutical industry. When you are this company, that's a compilation of multiple types of business, this requires that you are covered by either a jack of all trades, someone that can evaluate all these businesses, or you have to have separate analyst analyzing individual parts of your company, and therefore you're more costly to evaluate. Here's a quote from an analyst from PaineWebber, in 1999, who's trying to evaluate this Monsanto's security. At a time they call themselves a Life Sciences company, this compilation of they called Life Sciences Businesses, this analyst comment is, "The Life Sciences experiment is not working. Proper analysis of Monsanto requires expertise in three industries. I noted pharmacy, AG chem, AG biotech. Unfortunately, on Wall Street, particularly on the sell side, these separate industries are analyzed individually because of the complexity of each. At PaineWebber, collaboration among analysts brings together expertise in each area. We can attest to the challenges, though, making this effort pay off: just coordinating a simple thing like work schedules requires lots of effort while we're willing to pay the price that will make the process work, it is a process not likely to be adopted by Wall Street on a widespread basis. Therefore, Monsanto will probably have to change its structure to be more properly analyzed and valued." This is a remarkable statement. It's certainly captures the essence of what many in lots of industries had felt for a long period of time. Just to recap what this analyst is saying is, Monsanto is this compilation of three separate industries that are separately analyzed. It's really tough for us to get together and coordinate the analysis of Monsanto just for getting us to coordinate our lunch breaks so that we're in the office at the right time and we can talk to each other. We at PaineWebber are willing to do this, were noble and great, but we don't think all the other analysts on Wall Street are going to do this. Therefore, Monsanto really needs to break itself apart because this is too much work for us and the rest of Wall Street. That's essentially the message. This isn't the tail wagging the dog because it takes a little bit more effort on our part to figure you out. You should change your strategy so it's easier for us to figure you out. Many companies have faced and talk about and complain about the same paradox or challenge. Just to give you a quick read on a couple of other illustrations, Aetna was in health care as well as financial services. Aetna claimed that its total valuation would be doubled if all of the divisions were independently and correctly valued. I don't know if that's accurate, it probably certainly isn't, but it speaks to the fact that they faced the same challenge of different analysts focused on different lines of business and not correctly aggregating its true value. I talked in a previous lecture about AT&T. This is the same problem that AT&T was talking about. This company Indresco complained about a similar challenge. It's difficult to describe what Indresco does says an analyst. The hodgepodge of businesses it owns bothers wall street. Financial analysts can't categorize Indresco. Indresco's crisis is defining what it is. Again, a very similar narrative. Sometimes the response is to take these companies private. Here, Georgia-Pacific's assets had been under performing the broader S&P 500 index, partly because it was an awkward mix of assets that are difficult to value together. Some of its consumer products such as tissues are sold in high margin niches that deserve a relatively high share-price multiple. Other activities such as selling bundled products or in a volatile sector where investors are beginning to worry about the effects of a downturn in the US housing market. The combination means an otherwise strong company has been trading at a significant discount to the sum of its parts at a time when potential buyers have lots of cash and borrowing is cheap. Coke, big private enterprise goes in, purchases Georgia-Pacific, precisely because it sees it being undervalued because the analysts are unwilling or weren't willing to dig in and figure out what the different parts of this business were and to aggregate it as they characterized it appropriately. In some instances, a CEO like Jeff Bezos acknowledges this issue quite directly. He says, "We're willing to think long term. We start with the customer and think backward. And, very importantly, we are willing to be misunderstood for long periods of time.' While it's hard to believe that right now, Amazon has had a remarkable run, huge value creation. It was a money losing operation for a very long period of time.

Many analysts were pushing this company to change its strategy and the only reason arguably that it was able to pursue this longer-term vision, despite pressure from investors was Jeff Bezos was a huge shareholder and really didn't face the same diluted ownership that most large corporations faced. What types of strategies are costly to analyze? Two are obvious. One is companies that are diversified, as we talked about, these are businesses that are in different lines of business. They may be businesses that they see related in some particular way. If the analysts are divided up along particular industry lines and you cross those industry lines, it elevates the cost of a sell-side analysts business in covering that more complex business. The other is, if you are just doing something weird or unusual, it could be an unusual combination of businesses or it could just be an unusual strategy that you are pursuing. The more unusual it is, the more difficult it is to evaluate and figure out whether that's a good strategy or not. It's either complexity or it's some unique assemblage of businesses or assets, or just a unique strategy that you are pursuing altogether. Of course, there are actors in capital markets that are supposed to solve this problem. Analysts in some sense opposed to solve this problem. They're supposed to provide us as individual investors, a third party verification, telling us what makes sense to purchase, what doesn't make sense to purchase. They're providing performance forecasts and giving us buy and sell advice. However, these analysts incentives, as we talked about in the Monsanto illustration, also have their own set of incentives. The buyers aren't directly paying for analysis. If I'm buying a security, I don't pay you to deliver me a service. So there's some distorted incentives that exist there. There's also a public goods problem. If I'm a security analyst, it's easier for me to ride on the coattails of others that have dug in and done some analysis. I don't get directly paid for digging in necessarily. I mean, there certainly are some incentives, but there is clearly an incentive problem that exists for the security analysts as well. Analysts are themselves to use an economic term, effort averse. They prefer easily analyzed strategies over difficult to analyze strategies, all else equal if they can generate the same amount of return for their firm. Pursuing an easy to analyze strategy relative to a difficult analyzed firm or equity or strategy, they'll prefer the easier one. Is there any empirical evidence of this uniqueness paradox? Some years ago, a couple of colleagues and I decided to undertake a large sample study looking at all publicly traded firms in the US capital markets. We looked at these questions. Do costly-to-analyze strategies receive reduced analyst coverage? That is, do analysts tend to shy away from firms that are more diversified or are pursuing more unique strategies., controlling as best you can for all other factors that might influence and drive them to increase coverage. If they're bigger companies, you're going to get more analysts coverage, they're more volatile. There are a variety of factors that might influence what level of coverage you might get. Controlling for all those effects, if you're bigger, if you're more diversified or you're pursuing them were unique strategy, do you get less coverage? Secondly, does the amount of coverage a firm receives influence its valuation? Others have answered the second question. We also look at it as well, but that answer is definitely yes. So the critical questions are these first two. The results of that study were that we found very strong evidence that when strategies are more diverse, that is, when they're pursuing a broader array of businesses, that there's less analysis performed, that is, you get fewer analysts covering the firm. As a result of that there's a valuation discount. We also found that when firms are more unique in the strategies that they pursue, they also receive less analysts coverage. There are fewer analysts that cover them. It also is the case that there is more effort required to analyze these firms. That is, if you take up a portfolio of firms pursuing unique or complex strategies, you as an analyst are able to cover fewer other firms. It just requires more effort on your part. We get at somewhat the mechanism that's going on here. They shy away from these firms because it requires more of their time and this limits their capacity to cover other firms. We also see that firms receive a premium from being unique. It's not that being unique is a bad thing, but it's a discounted premium. That is, there is a sense in which because they get less analyst coverage, their share price is lower than it would be, but for this reduction in coverage. Just graphically we see that Tobin's Q here on the left, y-axis is a measure of market value. We see that as a firm becomes more unique in its strategy there along the x-axis, that blue line is increasing, so unique, this is good. However, analyst coverage is declining, you see. You also see that the number of analysts is declining as uniqueness increases, you also see that as uniqueness increases again, the effort level that's required to cover that security is increasing. Given this paradox and this empirical evidence supporting it, how should managers trying to maximize the value of their enterprise respond? One solution would be just thumb your nose at the market, do what you think is value creating in the long run and of course, your capacity to do that is contingent on your ability to thwart the efforts of the Nelson pulses of the world if indeed you think that's not the right strategy. Or to go out and find investors that will support your theory. I should say again, just to remind people, this is not to say that Nelson Peltz often isn't directing exactly the right thing for these corporations. But sometimes, and part of the challenge of being investors as well as a manager is knowing when those sometimes are, sometimes it's more valuable to thumb your nose at the market doggedly pursue the strategy that you think makes the most sense. Think Steve Jobs and Apple. Option 2 might be to just compromise your strategy. Throw your towel in and say "Look, I know that it's true that breaking up this company, simplifying its analysis, think of the Monsanto example, do what this investor says will indeed elevate our value in the short run when we're pretty confident is true. We saw lots of illustrations of that being advocated. So let's just compromise on quality, do what we know is going to move the market in the short run." Option 3 is you could try to increase information disclosure. If it is fundamentally an information problem, then, maybe it's coming out with a better way to market your strategy, maybe there has been a trend toward your ability to pay for analysis so you don't get the right kind of analysis in the market, maybe I can go pay to have it done. In fact, it's the case that most are good, but not most, depends on the year, but in many years, well over a third of all businesses don't have a single analysts that's covering them. Well, maybe we can go ahead and pay someone to provide that analysis, and that kind of service exists. For a while, there was a trend that for firms to issue tracking stocks, these were securities that traded on the performance of a division within their business as a way to force the hand of analysts to dig in and cover different parts of the business. Or again, you can go find patient money. There is some indication that high information costs strategies migrate to private equity. We see these new ventures go to venture capital. You're going and making your pitch to a single or set of syndicated investors who are going to sit down with you and try to deeply understand your business model. Or this is the story of Georgia-Pacific being misunderstood by capital markets. Koch Industries, private business purchases them because they see it as undervalued by the capital markets. In fact, you could make a very strong case that over the last 25 years that conglomerates have not really disappeared, these public conglomerates, public corporations that were compilations of businesses and very different lines of business appear to have disappeared, but all they've done is re-emerged as private equity firms. These private equity firms are compilations of completely unrelated businesses, but somehow they have been able to manage this information problem that allows them to be in these disparate businesses and yet still gather really good information, create very good incentives for the managers running them to create value. Some concluding thoughts. Managers routinely face a paradox in strategy choice. They face this paradox between observability, making my strategy easy to understand, and the quality of that strategy. Capital markets unfortunately may discourage precisely those strategies which we would hope they encourage. We've talked at some length about the fact that uniqueness is this most important word in strategy and yet capital markets may be discouraging that attribute that is most essential to value creation, because uniqueness involves a larger information problem. Efforts to motivate managers to respond to shareholders can in some instances actually discourage the pursuit of the most valuable strategies, perhaps making them, in some instances, less responsive to capital markets, more responsive to what's the most valuable thing to do in order to maximize the long-term value of this corporation. Maybe the right kinds of incentives that you're trying to compose. CEOs should probably clearly not be pandering to [inaudible] Wharton-trained securities analysts. These are not the geniuses in all probability, but how that balance gets struck is really the issue we're talking about here. Private equity historically been justified as a way to solve a moral hazard problem, that is, by taking firms private we create managers who have very high-powered incentives to look after the value of the enterprise that they're operating. That part of the story may be true, but I would argue that I think a primary benefit of private equity may be in solving this adverse selection problem. That is, how do you create financing for these high-quality strategies that are getting underfunded in public equity markets. Finally, that some degree of management insulation from shareholders short-term pressure at least, may be desirable to the pursuit of these more visionary, long-term corporate theories that we've spent some time talking about. Thank you.