

How CEOs See Today's Coronavirus

THE LEADERS OF NETFLIX, SNAP, COCA-COLA AND OTHER COMPANIES DISCUSS THE CHANGES OCCURRING DURING THE COVID-19 PANDEMIC

WASHINGTON

The Covid-19 pandemic and the resulting lockdowns are altering how businesses operate. Here is how some leaders of the world's biggest companies described in recent days the changes they are seeing.



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Snap Inc. CEO Evan Spiegel

"We believe that this will accelerate the digital transformation across many businesses, and that the heightened levels of activity we are seeing today will lead to a sustained uplift in the digital economy over time," Mr. Spiegel said.

back on history, and after 1918 flu came the roaring 20s. We got through it then, and we can get through it now. People are resilient."

TEXAS INSTRUMENTS INC. CEO RICHARD TEMPLETON

Mr. Templeton said Texas Instruments plans to keep chip production at its factories steady to be positioned for an economic recovery, given its experience in the 2008 financial crisis.

"With the benefit of hindsight, our customers overcorrected to the downside, and we then spent a year and a half chasing back up to support demand," he said of the last recession. With this crisis, "we want to ensure that we have the highest degree of optionality so that we can deal successfully with any outcome."

BLACKSTONE GROUP INC. PRESIDENT JONATHAN GRAY

"We're certainly not in the 'V' camp. We've been debating what the shape is," Mr. Gray told The Wall Street Journal. "I think it's an elongated recovery. That's why we're not rushing to invest."

LAS VEGAS SANDS CORP. CEO SHELDON ADELSON

Mr. Adelson said the casino operator is continuing with a \$2.2 billion capital investment plan for its Macau resorts, despite gambling revenue in the Chinese territory being down.

"Now is not the time to pause or slow down investment in Macau," Mr. Adelson said. "We see the opportunity and possess both the financial strength and the strategic commitment to make addi-

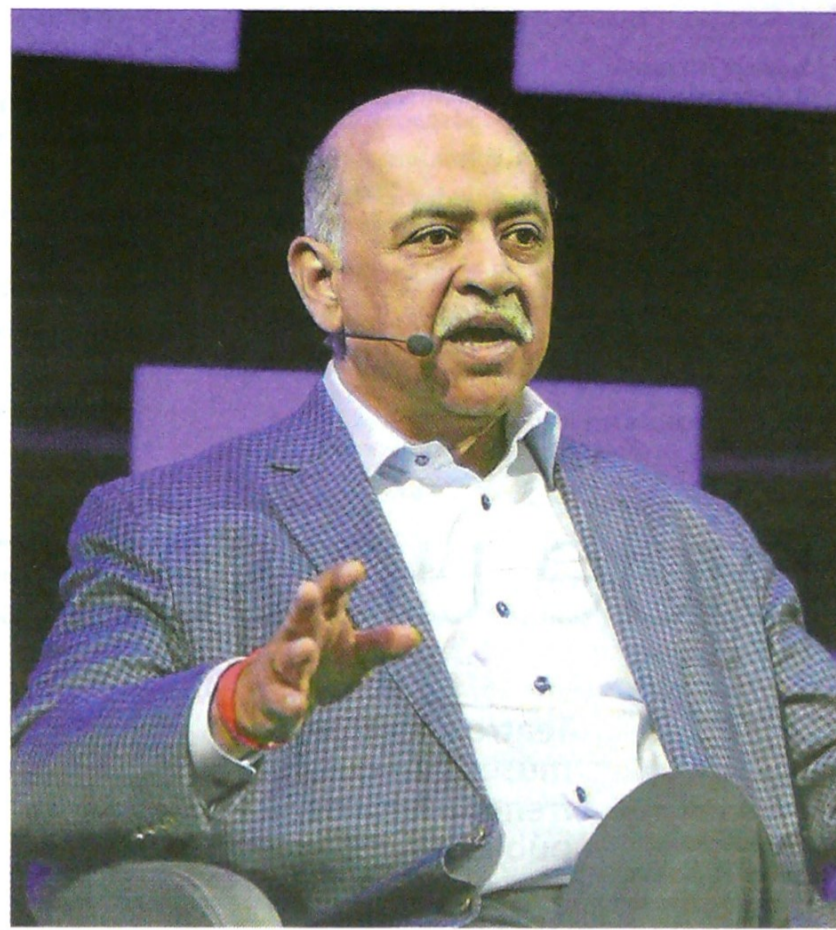


PHOTO: ANDY DAVIS/PRODUCTIONMANAGER FOR THE WALL STREET JOURNAL

onal investment. With our effort to accelerate investment in Macau, we intend to play a part in supporting the local economy in the short term, and ensure we are in the leading position to capture the eventual recovery in tourism spending."

DOMINO'S PIZZA INC. CEO RITCH ALLISON

"The restaurant industry is facing an existential crisis, and no one knows how many restaurants will survive, or what form the industry will take," Mr. Allison said. "We also don't know how consumer behaviors and purchasing patterns may evolve."

"I don't think consumers are going to snap right back to the old patterns and behaviors."

KIMBERLY-CLARK CORP. CEO MICHAEL HSU

"I don't think we ever felt like we would be arguing over epidemiological models, and we are. And we're working through—actually through 11 of them—and they all have different assumptions. While that makes it difficult for us to call the business for this purpose, I will tell you from an operating perspective, we are using those models to predict outcomes to drive scenario planning and contingency plans for all of our operations around the world," Mr. Hsu said.

CHIPOTLE MEXICAN GRILL INC. CEO BRIAN NICCOL

"You spend a lot of your time ensuring how you can execute your business in this environment in a safe way," Mr. Niccol said in an interview. "You look

AS PRICES PLUMMET, A HANDFUL OF COMPANIES AND CRUDE-DEPENDENT COUNTRIES ARE REAPING REWARDS

Some Oil Producers Have Secret Weapon in Hedging

WASHINGTON

Not all oil companies are equal when it comes to the pain of sharply lower crude prices. Some companies and national producers around the world bought insurance—in the form of hedging strategies—for just such a collapse.

This hedging tool kit allows some companies such as Hess Corp. HES 5.82% and Cairn Energy CRNCY -2.29% PLC and countries including Mexico to continue selling their crude at considerably higher prices when benchmark U.S. and global oil prices plummet.

Hedging isn't a cure-all. It is complex and expensive, but for some the strategies provide a bit of short-term comfort.

Hedging contracts lock in a price for a certain volume of oil that a company plans to deliver within a specific pe-

riod, often for as much as three years from the date of the contract. If market prices drop below the agreed-upon or "strike" price of such deals, a bank or other counterparty to the hedge agrees to cover the difference.

It can be a risky gambit because hedgers pay banks and oil companies to insulate their prices against market fluctuations—and they can lose money when prices jump.

As the Saudi-led Organization of the Petroleum Exporting Countries hashed out a historic deal with the U.S., Russia and other oil-producing nations this month, Mexico nearly scuttled the agreement, resisting OPEC's demands that it join in an emergency production cut.

Unlike other countries in the negotiations, America's neighbor to the south has pro-

fited handsomely from oil's pandemic-driven price rout.

The deal saw Riyadh, Moscow and Washington agree to lead a coalition of oil exporters in keeping 13% of global supply off the market. Mexico eventually decided to join in. Yet the pact, the biggest ever of its kind, has failed to spur a significant price rebound as the coronavirus pandemic saps oil demand.

On Friday, Brent crude oil was up 2% at \$21.77 a barrel and WTI futures are up 2.3% at \$16.89 a barrel in a volatile trading week. On Monday, U.S. oil to be delivered in May ended trading at negative \$37.63, after closing last Friday at \$18.27 a barrel. That effectively meant that sellers had to pay buyers to take barrels off their hands.

On Tuesday, the U.S. oil contract for delivery in June tumbled 43% to \$11.57 a barrel, its

lowest close in 21 years. Its record low is \$10.42 in data going back to 1983. Brent crude, the global benchmark price, has dropped 68%.

Mexico's hedging allows it to sell oil at \$49 a barrel. The trade, called the Hacienda Hedge, has been around since the 1990s, helping to insulate government budgets from commodity market fluctuations. In the past, the Mexican government has paid as much as \$1 billion a year in options negotiated with banks and oil companies. President Andrés Manuel López Obrador said Wednesday that the hedge would allow the country to reap a \$6.2 billion windfall.

"We protected the Ministry of Finance," he said. "We won't lose money due to the oil-price drop."

In recent years, Iraq's State Organization for Marketing of

Oil and the Abu Dhabi National Oil Co. in the United Arab Emirates have considered hedging but gave up on the idea after balking at the complexity and costs of the transactions and reviewing projections that suggested prices were headed for a steady rise, according to officials in these countries.

The practice is common among independent North American oil producers. These companies don't enjoy the financial cushion that most major oil companies have and typically rely on high prices to keep pumping.

A third of North American oil exploration and production is hedged at an implied sales price of \$52 a barrel, according to IHS Markit.

New York-based Hess Corp. says it has hedged about 80% of its oil production, most of it at



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COLUMN ON POLITICS, ECONOMICS
AND BUSINESS IN LATIN AMERICA AND
CANADA THAT APPEARS EVERY
MONDAY IN THE JOURNAL.

AMLO Tries to Capitalize on Coronavirus

The Fitch Ratings downgrade of Mexico's foreign-currency debt to BBB- last week surprised no one. The Mexican economy was already weak going into the Covid-19 pandemic because President Andrés Manuel López Obrador's economic agenda is antigrowth. His strategy for dealing with crumbling demand at home and abroad from the coronavirus is making things worse.

It's hard to know how sick Mexico is medically, because Covid-19 testing is very limited. But the economy is deathly ill. The World Bank forecasts a 6% contraction this year. The peso has fallen 22% against the dollar in the past two months, robbing millions of Mexicans of savings and purchasing power.

Only an ideologue like Mr. López Obrador could see this human tragedy as opportunity. He won election in July 2018 on a pledge to usher in a new era of socialism that he calls the Fourth Transformation. Now he's treating the pandemic-caused spike in unemployment, lost wages and business failures as a chance to advance his agenda.

In a press conference earlier this month AMLO, as the president is known, said that it would be "absurd" to stay the economic course of his predecessors. The virus, he added with a smirk, has accelerated "the collapse of the neoliberal model in the world," which "already doesn't work."

AMLO has the upper hand now. But here's betting that the market will have the last laugh. Sadly, by the time he's forced to acknowledge his folly, a generation of middle-class gains may be lost.

Covid-19 is an international challenge, and economists across the globe favor government efforts to soften the economic blow caused by stay-at-home edicts. No solution is perfect. One popular idea, to extend forgivable loans to employers who continue to pay employees, misses other operating costs. The Federal Reserve's aggressive bond-buying has been criticized for favoring corporate America over midsize firms that could face bankruptcy if shutdowns drag on.

Yet AMLO's insistence that aid to midsize and large businesses is a handout to corrupt elites is preposterous. As former Salvadoran Finance Minister Manuel Hinds has written, the virus is like a tsunami bearing down on a fishing village. The boats must be saved so that when the storm passes, the villagers can go back to work and earn their livelihoods.

Mr. López Obrador isn't interested in saving the boats. He frames government support to entrepreneurs as harmful to the poor because it would add to the

debt. That argument would be more persuasive if he weren't spending billions of dollars on his own pet projects while destroying wealth at the government-owned oil company Petróleos Mexicanos, a.k.a. Pemex.

Pemex was once a powerful oil company and the symbol of Mexican corporatism. Mr. López Obrador wants to make it so again. But the company is suffering the effects of the global oil glut and drowning in debt implicitly backed by the government. Pemex's outstanding debts top \$100 billion. It owes another \$10 billion to suppliers and has some \$77 billion in unfunded pension obligations.

Creating value ought to be job No. 1 at the company, but to do that it needs the flexibility to manage its portfolio of oil fields. This implies letting private investment bid on projects and exploit reserves where Mexico lacks the technology or the capital to do it on its own. Or Pemex could enter into joint ventures with other companies, which would provide know-how and money.

Some of this had been happening since Mexico opened its oil and gas resources to private investment via a 2013 constitutional reform. But the López Obrador government slammed on the brakes last year. In June it forced the cancellation of tenders for development of seven onshore areas. These areas, according to Natural Gas Intelligence, contain 392 million barrels of oil equivalent in "proved, probable and possible . . . hydrocarbon reserves" and 683 million barrels in "unrisks prospective resources" as of June 2018.

By closing down the auctions, AMLO gave up the opportunity to enhance the value of Pemex properties. But for this president, oil is a zero-sum game and inviting entrepreneurs to share in the profits is forfeiting Pemex resources, which he stresses are nonrenewable.

Meanwhile he's sinking \$8 billion into a new Pemex gasoline refinery in his home state of Tabasco, even though all six existing refineries have surplus capacity and lose money. If Pemex has a comparative advantage, it's in upstream crude production, not downstream refining. But that doesn't fit Mr. López Obrador's vision for Mexican autarky.

Last week Fitch further downgraded Pemex debt, which was already at junk status, and on Friday Moody's cut Pemex debt to junk. This means many institutional investors won't be allowed to hold the bonds.

High yields may already be anticipating a restructuring. AMLO doesn't like markets. But he should worry about markets that don't like him.

World

International Business Machines Corp. CEO Arvind Krishna

"It was a tough decision to withdraw guidance. But these are unprecedented times, and this quarter is not the time to declare that we have clarity—that does not benefit us, and it does not benefit you as investors and analysts," Mr. Krishna said.



PHOTO: WIN MCNAMEE/GETTY IMAGES

AT&T Inc. CEO Randall Stephenson

The pandemic will probably have "long-lasting implications for many things we used to take for granted, like how we congregate, work, travel, interact." But "[b]ottom line, we have very little visibility," Mr. Stephenson said.

"We bring in the smartest and the most genius economists in the world, and you can bring a dozen of them in, and the range of possible outcomes just for the second quarter of 2020 is unbelievably wide," he said.

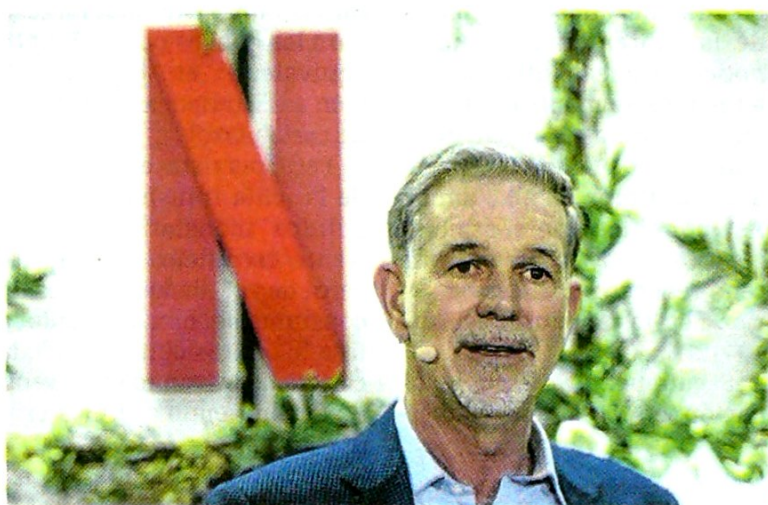


PHOTO: CHRISTOPHE ARCHAMBAULT/AGENCE FRANCE-PRESSE/GETTY IMAGES

Netflix Inc. CEO Reed Hastings

"We had an increase in subscriber growth in March. It's essentially a pull-forward at the rest of the year. So, our guess is that subs will be light in Q3 and Q4 relative to prior years because of that. "But we don't use the words guess and guesswork lightly. We use them because it's a bunch of us feeling the wind. And it's hard to say. But again, will internet entertainment be more and more important over the next five years? Nothing has changed in that," Mr. Hastings said.

Schlumberger Ltd. CEO Olivier Le Peuch

Despite the recent agreement by the world's largest oil producers to cut production, "Q2 is likely to be the most uncertain and disruptive quarter that the industry has ever seen," Mr. Le Peuch said.

"It will require a level of response and depth of resilience that have yet to be fully realized. The actions we have taken so far have been focused on those things we can control in protecting our business—with a clear priority on cash and liquidity—in an uncertain industry and global environment," Mr. Le Peuch said.

A WALL STREET JOURNAL ROUNDUP

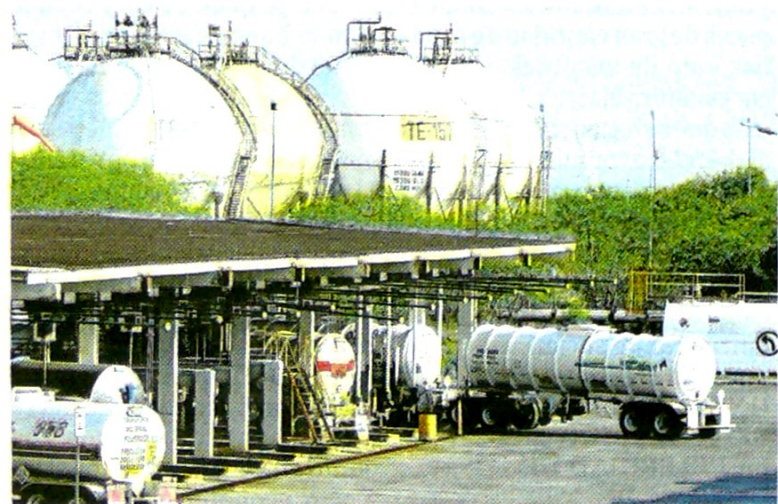


PHOTO: DANIEL BECERRIL/REUTERS
Mexico is able to sell oil at \$49 a barrel, well above the benchmarks.

\$55 per barrel for West Texas Intermediate, the main U.S. benchmark. That means the company will make a profit on most of the 200,000 barrels a day it plans to pump this year and will be able to fund its contribution to an 8-billion-barrel Guyana project led by Exxon Mobil Corp.

Thanks to its hedging program, spending cuts and a new loan, "our company is well positioned for this low-price en-

vironment," said Hess's Chief Executive John Hess in mid-March. "Our focus is on preserving cash and protecting our world-class investment opportunity in Guyana."

Laredo Petroleum Inc., of Tulsa, Okla., and SM Energy Co., of Denver, said they have their production hedged at WTI prices of \$59 a barrel and \$36 a barrel, respectively. Oil and gas independent Antero Resources hedges most of its production,

and recently said it would cut 13% of spending, while maintaining its output guidance in the U.S. and Canada.

Southwestern Energy Co. of Spring, Texas, another company with a significant hedging strategy, predicted recently that its oil production would increase by 25% this year.

In the North Sea, Cairn Energy says it will be able to maintain its output of up to 23,000 barrels a day after hedging its production at \$62 a barrel. Africa-focused Tullow Oil PLC said in January that it had hedged the equivalent of 45,000 barrels a day—more than half its expected output of 75,000 barrels a day this year, at a minimum of \$57.28 a barrel.

Now hedging is virtually unavailable to companies that are looking to mitigate losses from the price crash. "The downward shift in the curve and the increase in volatility will make it much more challenging to add hedges for the remainder of 2020," IHS said.

BY BENOIT FAUCON