Twilight eclipse parents guide

By KRISTA RAY August 21, 2017 | 01:49 EDT Stocks quote in this article: GM, XOM, F, WMT, BRK. A, AAPL, MCK The last eclipse in the U.S. was February 26, 1979. What has changed in the U.S. since then? The differences from 1979 to today are staggering in categories such as GDP, average salary, petrol price and even the most popular song. The five largest companies in 1979? Today? Walmart (WMT) Berkshire Hathaway (BRK. A) , Apple (AAPL) , Exxon Mobile, McKesson (MCK) . Watch More with TheStreet: Get an email alert every time I write an article for Real Money. Click +Follow Meat next to the line of this article. Despite the promise of no stimulus president until November 3rd, there is no sign yet of the kind of associated sales that led to this deep correction. Salesforce, Amgen and Honeywell will take DJIA forward. CAG, its recent gains hang on bulk and can rise to $50 area, according to its charts and indicators. It's an approach to the long side of biotech stock. That's what the CEO of AMSC is discussing, and China is discussing the challenges. Real Money's message boards are strictly for the clear change of investment ideas among registered users. Any discussions or topics that are outside this topic or do not support this goal will be removed at the discretion of the site's moderators. Malicious, insensitive or threatening comments are not tolerated and deleted. Thank you for your cooperation. If you have any questions, please contact us here. Credit: Clayton Wells/Getty Images If you're feeling a little down today because the total solar eclipse of 2017 is over, you're not alone. While millions of Americans from coast to coast were lucky enough to experience the eclipse in totality, millions tasted only a partial eclipse, or were left out of the fun by the weather or simply stranded at work. But, don't worry, in just seven short years there is another eclipse of the title of the United States, april 8, 2024.Related:Sarah Jessica Parker The Most Surprising Reaction to the Total Solar Eclipse This Was the next North American eclipse not from west to east, but rather from south to northeast, starting in Durango, Mexico and ending in Fredericton, Canada, by crossing cities along the way. It will give a whole new group of sky watchers a chance to experience this amazing celesging event. And, of course, the United States is not the only place where this wonderful solar event occurs. A total solar eclipse occurs every 18 months on Earth — there will be seven over the next decade. It's a very dramatic, wonderful and beautiful event. Said. Whether it's just a few short minutes, usually, integrity before it ends. After it's over, you can't wait to see it. Just can't wait to start planning for the next big American eclipse (and why should you do it?), then keep scrolling and check out a few of the places that will go through the 2024 event. Credit: Sean Pavone/iStockphoto/Getty Images Alamo, San Antonio, will see a 99.9% partial eclipse. This may sound good enough, but it really has to be in integrity. Visit the Alamo and then go to the northwest area of the city for integrity. Advertising Ad Credit: Sean Pavone/iStockphoto/Getty Images keeps Austin weird - and that will be perfect for total solar eclipse. Integrity within the city limits will last about 1 minute and 50 seconds. Credit: iStockphoto/Getty Images Waco is as close as the middle line of the eclipse path, and you will see a total of about 4 minutes and 13 seconds. Ad Credit: iStockphoto/Getty Images Dallas will see integrity in about 3 minutes and 45 seconds (and fort worth will also see integrity, though for less time). Credit: Brian Miller / LIFE Images Collection / Getty Images Fun for cities eclipses: All people, together, are going through something very big. But to feel whole with the universe, think about getting away from it all. The Ouachita National Forest is right in the middle of the road and the center of the forest will gain 4 minutes and 16 seconds of totality. Make sure you're in an opening for this. Credit: Getty Images Ozark National Forest is located in the further north part of the road, close to ouachita. Advertising Advertising Credit: Clayton Wells/Getty Images Little Rock will take a total of about 2 minutes and 36 seconds. Credit: Danita Delimont/Gallo Images/Getty Images We are not sure if Mark Twain has ever witnessed a total eclipse, but we are confident that something big would have been written about it if he had. Credit: iStockphoto/Getty Images See the Garden of the Gods in shawnee national forest for 3 minutes and integrity in about 22 seconds. Advertising Credit: iStockphoto/Getty Images Bloomington charming town is almost directly in the center of the road, and integrity will take more than 4 minutes. Credit: John J. Miller/Getty Images Indianapolis will take about 3 minutes and 48 seconds. Credit: iStockphoto/Getty Images Lake Erie is almost completely on the way. Think anywhere on the coast for a relaxing eclipse trip. Advertising Credit: Douglas Sacha/Getty Images Cleveland will take about 3 minutes and 48 seconds. Credit: Douglas Sacha/Getty Images Whether you're in Ohio, Pennsylvania or New York, Lake Erie will be great for that in 2024. Credit: iStockphoto/Getty Images Niagara takes a total of about 3 minutes and 29 seconds (whether on the New York side or the Canadian side). Advertising Credit: John Greim/LightRocket/Getty Images Buffalo is almost directly on the center line - and you'll see a total of about 3 minutes and 45 seconds. Credit: Training Images/UIG/Getty Images just south of the Rochester line, and you'll see about 3 minutes and 39 seconds Credit: iStockphoto/Getty Images Five Ponds Wilderness, New York, will be a great place to see nature during the eclipse. Cranberry Lake (pictured) is one of the northern most northern regions and therefore the most central to the eclipse - the lake will take a total of about 3 minutes and 35 seconds. Advertising Credit: iStockphoto/Getty Images Burlington will take about 3 minutes and 16 seconds. Credit: Joe Klementovich/Aurora Open/Getty Images Right on the way to this state park, and will take a total of about 3 minutes and 24 seconds. New organizations are appearing in their place - organizations that are corporate in form but are not public shareholders and are not listed or traded on organized exchanges. These organizations used public and private borrowing instruments rather than public and private capital as their main sources of capital. The primary owners are not households, but large institutions and entrepreneurs who manage and monitor on their behalf and appoint agents to connect these agents with large capital interests and contracts that govern the use and distribution of cash. Takeovers, company breakups, divisional spin-offs, leveraged acquisitions and private departures are the most visible manifestations of a major organizational shift in the economy. The transactions have sparked criticism, even anger, among many business leaders and government officials who have called for regulatory and legal restrictions. The blowback is understandable. Change is threatening; In this case, the threat is aimed at many top executives of our largest companies. Despite the protests, this organizational innovation should be encouraged. By solving the central weakness of the state-owned company – the conflict between owners and directors over the control and use of company resources – these new organizations are making significant gains in operating efficiency, employee productivity and shareholder value. In the long run, they will improve U.S. economic performance over our toughest international competitor, Japan. The governance and financial structures of Japan's public companies increasingly triggered a period of similar-gross corporate waste and poor management of U.S. companies in the mid-1960s and early 1970s, now the ongoing organizational transformation in the United States. Consider these developments in the 1980s: Capital markets are in transition. The total market value of the apology in publicly traded companies has increased from $1 trillion in 1979 to more than $3 trillion in 1989. But newly acquired capital increases from private settlements, which have expanded ten times more since 1980, to $200 billion in 1988. Private settlements of debt and self-interest now account for more than 40% of annual corporate finance. Meanwhile, every year since 1983, at least 5% of the unpaid value of corporate equity has disappeared through stock inheritances and special operations. Finally, households are sharply reducing stocks.1 (See Privatization of Equity) If it continues at current trends, the last share of a publicly owned stock owned by a person will be sold in 2003. This prediction may be fictitline (short-term trends can never continue), but the fundamental aspect is clear. By the turn of the century, the priority of public equity ownership in the United States may have completely disappeared. Households are liquidating their direct assets and indirect positions (through channels such as mutual funds) at an unprecedented rate. Over the past five years, they have been net sellers of more than $500 billion in slea assy stock, 38% of its assets at the beginning of 1984. Why have stock prices risen sharply despite this huge sell-on? Because a big buyer-companies have been themselves. LbOs, MMOs, stock purchases, leveraged mergers and acquisitions and acquisitions have been cancelled to supply publicly traded stock. In 1988, 5% of the market value of public capital (more than $130 billion) disappeared with such transactions, even after re-adding all new issues released during the year. Of course, risks and returns from core corporate assets are not destroyed. To some extent, they live in semi-equity borrowing instruments, such as high-yield bonds with a total market value exceeding $200 billion. But many of the risks and returns still present as equality; they only take the form of large positions of privately held equality. The privatisation of equity is now a central feature of corporate ownership in the United States. Historically, public equity markets dominated by individual investors have improved more heavily in the United States than in other countries. Vast public ownership has offered executives a reasonably priced source of permanent capital that could buffer the company against adversance in a way that debt may not. Share ownership allowed individual investors to participate in stock returns and diversify from the benefits of liquidity (because they were able to sell their shares) and diversification (because they could move a small number of shares from many companies). The virtues of broad public ownership are not what they used to be for managers or investors. An important factor is the emergence of an active market for corporate control. A capital structure, mostly equity, protects managers against the risks of economic decline. But it also carries significant risks in other threats to a hostile takeover or management control. The role of the public market has also changed as investors themselves have changed. For decades, stock ownership has been indirectly beneficial ownership through large pools of capital by millions of holdings - in particular, large corporate and government pensions have migrated In 1988, its total value exceeded $1.5 trillion. These corporate funds, which currently account for more than 40% of total stock ownership, are fed like large public investors. They kept diversified by keeping many different investment managers, each trading in a number of highly liquid public securities. However, investment philosophies have been evolving in recent years to include participation in a certain number of non-private liquid investments and private equity pools. This new investment philosophy is less necessary for institutions in large public markets. Large pools of capital, such as pension funds and donations, do not really need the liquidity offered by the public market. Liquidity serves two main purposes. It allows investors to meet their unexpected cash needs and trade stocks. Unlike individuals, large funds can reflect their cash needs towards the future based on predictable factors such as employee demographics, life expectancy and health trends. Thus, they can take a long-term view of investment returns and keep their assets in non-liquid assets. Fund managers also realize that trading is a difficult discipline that hold little comparative advantage. Trading is a zero-sum game played in a highly efficient market against equally skilled opponents. To make matters worse, large funds face diseconomies of scale while performing trades. The larger a fund, the harder it is to trade quickly based on temporary information benefits. A lot of movement of trade moves the markets. Nevertheless, these managers remain in charge of generating returns that exceed passive criteria. Enter the market for private assets such as real estate, venture capital and, more recently, the corporate control and restructuring market. Instead of trading a large number of small, liquid positions, funds can buy and own fewer large, non-liquid positions in a form in which they are more actively joined by management in the control of assets. This could be an alternative positive-sum game; actual changes to enterprise policies can be a path to enhanced value. Very large funds also have a competitive advantage here. The larger their position, the more actively they can participate in the ownership and management of underlying assets. Extreme, as with LBO funds, these changes can be dramatic. The LBO fund itself owns managers in partnership with company executives. In short, large corporate funds can be more like less like owners and traders. The same fundamental changes are at work in a wide range of corporate re-capitalizations, where external (or related) parties obtain large, relatively un-traded stock positions. Large pools of capital can participate in these private equity positions, but they are diversified by their enormous size. Smaller funds and households can't. Short this new investment philosophy, total, is a great Without the sobering effect of economic contraction, the returns from these private investments have been very attractive. In the long run, the new philosophy of institutions is based on a system of equity ownership dominated by special positions reminiscent of property systems in Germany and Japan. In this system, individual investors will increasingly be free riders on coattails with a small number of very large private investors rather than the central feature of the financial markets. The most common private going-to-private transaction, leveraged buying, is becoming bigger and more frequent. In 1988, the total value of 214 public company and whole acquisitions exceeded $77 billion, about a third of the value of all mergers and acquisitions. The total value of the 75 acquisitions in 1979 was only $1.3 billion (fixed $1988), while the total value of the 175 acquisitions completed in 1983 was $16.6 billion. This process is just beginning; In 1988, lbos worth $77 billion represented only 2.5% of outstanding public company capital. (See table, LBO Rise.) LBO Source Exhibition Rise: George P. Baker, Management Compensation and Department leveraged Buyouts, unpublished thesis, Harvard Business School, 1986. W.T. Grimm, Mergerstat Review 1988 updates. Transactions without general data are valued at the average price of global transactions. All industries are reshaping. Just five years ago, leading U.S. truck and auto tire manufacturers had independent and diversified public companies. Today, each is a very different organization. Uniroyal went to the private house in 1985 and later merged its tire-making operations with B.F. Goodrich to create a new private company called Uniroyal Goodrich. In late 1986, Goodyear borrowed $2.6 billion and bought back almost half of Sir James Goldsmith's outstanding shares to fend off a hostile tender offer. The Celeron oil and gas subsidiary maintained its main tire and rubber business as it moved to waive a number of unrelated operations, including an oil pipeline from California to Texas, an aviation operation and an Arizona resort hotel. In 1987, GenCorp loaned $1.75 billion to buy back more than half of its outstanding shares. The company has conducted several operations, including several operations, including a General Tire subsidiary, to pay off debt and focus on aviation and defense. Last year, Firestone was sold to Bridgestone, Japan's largest tire manufacturer, for $2.6 billion. As dramatic as the restructuring of our financial markets and major sectors, the developments reflect more fundamental and powerful economic forces than financial manipulation, management greed, reckless speculation and other colorful epithetics used by proponents of the corporate status quo. The forces behind the decline of the state-held company vary from industry to industry. But the decline is real, permanent and extremely efficient. This It's not just a function of interest tax relief. Nor does it reflect a temporary LBO phase that companies pass before cash by taking investment bankers and executives back to the public. Nor, finally, is the premise on systematic fleecing by other insiders with superior knowledge of the true value of these shareholders and bondholders directors and corporate assets. Current trends do not mean that the state-owned organization has no future. The traditional twentieth-century corporate governance model-scattered public ownership remains a viable option in some areas of the economy, with professional executives without significant capital assets, a board dominated by management-appointed foreigners- especially growth companies whose profitable investment opportunities exceed the cash they create internally. Such companies can be found in computer and industries such as electronics, biotechnology, pharmaceuticals and financial services. Companies that choose between profitable projects are unlikely to systematically invest in non-profit projects, especially when they need to regularly turn to capital markets to raise investment funds. The state-owned company is not eligible in sectors where long-term growth is slow, internally generated funds exceed opportunities to invest them profitable, or where downsizing is the most efficient long-term strategy. In the tire industry, the transition to radials, which lasted three times longer than side tyres, meand manufacturers needed less capacity to meet world demand. Overscapable capacity was inevitably forced into restructuring. A ten-fold increase in oil prices from 1973 to 1981 triggered protection measures around the world, forthing oil producers to a similar downturn.2 Industries under similar pressure today include steel, chemicals, beer, tobacco, television and radio broadcasting, wood and paper products. In these and other cash-rich, low-growth or declining sectors, the pressure on management to waste cash flow through organizational slack or investments in unhealthy projects is often unbearable. The company, which is open to the public in these sectors, declined at the fastest speed. Excluding regulatory intervention, the state-owned company is also likely to decline in industries such as aerospace, automobile and auto parts, banking, electric power generation, food processing, industrial and agricultural equipment, and transportation equipment. Public institution is a social invention of great historical importance. His genius is based on his capacity to spread financial risk over the diversified portfolios of millions of people and institutions and allow investors to customize risks based on their own unique situations and preferences. By diversifying the risks that would otherwise be met by owners-entrepreneurs and facilitating the creation of a liquid market for risk exchange, the state-owned company reduced the cost of capital. This requests for company ownership (sequined stock) have also allow the risk to be best met by folding investors without the need to manage the companies they own. From the beginning, these risk-bearing benefits had a price to pay. Clearable property claims create fundamental conflicts of interest between risk-carryers (shareholders) and those who manage risk (directors). The genius of new organizations is that they eliminate many of the losses caused by conflicts between owners and managers, without eliminating the vital functions of risk diversification and liquidity once carried out only by public equity markets. Theoretically, these new organizations should not be necessary. The three major powers are said to control management in the public institution: product markets, internal control systems managed by the board, and capital markets. But product markets generally did not play a disciplined role. For most of the last 60 years, significant cost advantages over scale and foreign competitors are a large and vibrant domestic market created for economies of U.S. companies. Their financial independence in the hands of The Japanese and others has not been severe enough for most companies to sap. The idea that external executives, who have little or no stock in the company, can effectively monitor and discipline the managers who choose them has been hollow at best. In practice, only capital markets played a control function a lot-and were blocked by legal restrictions for a long time. Indeed, the average 50% above market price of takeover and LBO premiums shows how much value public company executives can devalue before facing the threat of serious inconvenience. Takeovers and acquisitions both create new value and open the value destroyed by management through misguided policies. I estimate that corporate control market-related transactions of more than $500 billion between 1977 and 1988 unlocked shareholder earnings (target companies only) — more than 50% of cash dividends paid by the entire corporate sector over the same period. The widespread waste and inefficiency of the state-owned company and its inability to adapt to changing economic conditions has created a wave of organizational innovation over the past 15 years - innovation driven by the rebirth of active investors. When I say active investors, I mean investors with large capital or debt positions, who are on boards, who monitor management and sometimes refuse, who deal with the long-term strategic aspect of the companies they invest in, and sometimes run companies themselves. Active investors are creating a new general management model. These investors include LBO partnerships such as Kohlberg Kravis Roberts and Clayton & Dubilier; Carl Icahn, Ronald Perelman, Laurence Tisch, Robert Bass, William Simon, Irwin Jacobs and Entrepreneurs like Buffett; and and Banking weapons of Wall Street homes such as Morgan Stanley, Lazard Frères and Merrill Lynch; And family funds like the Pritzkers and the Bronfmans. Their model is built around highly leveraged financial structures, payment compensation systems for performance, significant equity ownership by managers and managers, and a waste of cross-subsidy and free cash flow between both business units of contracts with owners and creditors. Consistent with modern financial theory, these organizations are managed not to maximize earnings per share, but to maximize value, with a strong emphasis on cash flow. The way these organizations resolve owners-manager conflicts explains how they can motivate the same people, those who manage the same resources, to perform them under private ownership much more effectively than in public corporate form. In fact, LBO partnerships and merchant banks are rediscovering the role played by active investors before 1940, when they were directly involved in the strategy and management of public companies that they helped create Wall Street banks such as J.P. Morgan & Company. Morgan and his small group of partners served on the boards of U.S. Steel, International Harvester, First National Bank of New York and a number of railroads at the height of his fame, and he was a powerful management force at this and other companies. Morgan's model of investor activism largely disappeared as a result of populist laws and regulations approved in the aftermath of the Great Depression. These laws and regulations may have once taken their place, including the Glass-Steagall Banking Act of 1933, the Securities Act of 1933, the Securities Exchange Act of 1934, the Chandler Bankruptcy Repeal Act of 1938, and the Investment Company Act of 1940. But it also created a complex web of corporate insiders (corporate officers, executives, or investors with more than 10% property interest), corporate restructuring, court precedents and restrictions on bank participation in business practices that raised the cost of being an active investor. Their long-term impact has been to effectively isolate monitoring management and set the stage for the eclipse of the state-held company. Indeed, the high cost of being an active investor has left financial institutions and money management companies controlling more than 40% of all corporate capital in the United States virtually uninseated in the important decisions and long-term strategies of companies owned by their clients. They are almost never represented on company boards. Despite recent efforts by the Council of Institutional Investors and other shareholder activists to gain a greater voice in corporate affairs, they rarely and often use the ineffective proxy mechanism. All I've said is, institutional investors are extremely weak; they have several options to express their displeasedness with management more than selling your shares and voting with your feet. Company executives criticize corporate sales as examples of portfolio turbulent and short-term investor horizons. One guess is that these same executives very much prefer to churn out a system where large investors on the boards of their companies have the direct power to monitor and correct errors. Executives really want passive investors who can't sell their shares. The lack of effective monitoring has led to such huge inefficiency that a new generation of active investors has emerged to reesta at lost value. These investors overcome the costs of outdated legal constraints by purchasing all companies and using debt and high capital ownership to force effective self-monitoring. A central source of weakness and waste in the public institution is the conflict between shareholders and directors over the payment of free cash flow, that is, exceeding the cash flow required to finance all investment projects with positive net available values when the relevant cost of capital is reduced. In order for a company to work efficiently and maximize value, free cash flow must be distributed to shareholders instead of containment. But that's infrequent; There are several incentives to distribute high-level management funds, and there are several mechanisms for forcing distribution. A vivid example is the senior management of Ford Motor Company, which sits on marketable securities in an industry with about $15 billion in cash and overstareing. Ford's management is going crazy about buying financial services companies, aerospace companies, or making some other multibillion-dollar diversification moves-instead of effectively driving owners crazy about Distributing Ford's over cash so you can decide how to reinvet. Ford's not alone. Company executives often don't short of cash unless they have to do so. In 1988, the 1,000 largest public companies (with sales) created a total of $1.6 trillion in funds. Yet they distributed only $108 billion in dividends and $51 billion through share buybacks.3 Executives have incentives to hold cash in part because their cash reserves increase their autonomy over capital markets. Large cash balances (and independence from capital markets) can serve a competitive purpose, but often lead to waste and inefficiency. Imagine a hypothetical world in which companies distribute too much cash to shareholders and then have to convince capital markets to supply funds with sound economic projects emerging. Shareholders have a huge advantage in this world, where management's plans are subject to better monitoring by capital markets. Wall Street's analytical, due diligence and pricing disciplines give shareholders more power to suppress wasteful projects. Directors also resist distributing cash to shareholders because cash retaining increases the size of the companies they work for executives have many incentives to expand company size. they have. shareholder wealth. Compensation is one of the most important incentives. Many studies show that increases in executive pay are more about corporate size increases than value.4 The tendency of companies to reward middle managers with promotions instead of annual performance bonuses also creates a cultural bias towards growth. Organizations need to grow to be able to create new positions to nurture promotional reward systems. Finally, corporate growth increases the social importance, public prestige and political power of senior executives. Rare is the CEO, who wants to head a business that produces fewer products in fewer countries - even if such a course increases productivity and add hundreds of millions of dollars in shareholder value. The perquisites of the executive suite can be important, and often increase with company size. The fight over free cash flow is central to the role of debt in the decline of the state-held. Bank loans, hanging securities and high-yield bonds fueled a wave of takeovers, restructurings and private transactions. Total debt from all non-financial companies in the U.S. approached $2 trillion in 1988, up from $835 billion in 1979. Interest charges on these borrowings represent more than 20% of corporate cash flows, high by historical standards.5 This perceived use of corporate America is perhaps the central source of concern among proponents of the public company and critics of new organizational forms. But most critics miss three key points. First, trebling the market value of public-company equity over the past decade means it has to increase to avoid a major deleveraging of corporate borrowing. Second, the issue helps limit the waste of free cash flow by forcing managers to pay off funds that would otherwise protect borrowing without holding income. Debt is actually a mechanism for spending empire-building projects with low or negative returns, inflated staff, tolerant perquisites and organizational inefficiencies, rather than loosening cash rather than a replacement-rather than managers for dividends. By islending in exchange for stocks, companies are making promises to pay off their executives' future cash flows in a way that simple dividend increases won't. Permanent dividend increases or multi-year share buyback programs (two ways public companies can distribute too much cash to shareholders) do not include any contract commitments to owners by directors. It is easy for managers to reduce dividends or reduce share buybacks. Take General Motors' case. On March 3, 1987, a few months after the departure of GM's only active investor, H. Ross Perot, the company announced a program to buy back up to 20% of stocks by the end of 1990. From mid-1989, GM purchased only 5% of its outstanding partner Although the cash balance of $6.8 billion is more than enough to complete the program. Given the poor performance of management over the past decade, shareholders would be better off making their own investment decisions with cash GM retaining. From 1977 to 1987, the company spent $77.5 billion on capital, while U.S. market share decreased by 10 points. Borrowing allows such management discretion. Companies whose directors do not make the promised interest and principal payments can be declared bankrupt and possibly taken to bankruptcy court. In images of G. Bennett Stewart and David M. Glassman, Equality is soft, debt is hard. Equality is forgiving, debt insistent. Equality is a pillow, debt is a sword. 6 Some may find it interesting that a company's creditors have much more power over directors than public shareholders, but it is also undeniable. Third, debt is a powerful agent for change. For all the deeply felt anxiety about excessive borrowing, excessive borrowing desire and effective time can make economic sense to break a company, sell work pieces, and refocus the energies of several core operations. Companies that assume so much debt that they cannot afford debt service payments from cash flow are forcing themselves to rethink all their strategies and structures. The atmosphere of overleveraging crisis creates managers need to cut unhealthy investment programs, shrink overall money, and dispose of more valuable assets outside the company. The revenues generated by this delayed restructuring can then be used to reduce debt to more sustainable levels, creating a lean, more efficient and competitive organization. In other cases, violations of debt contracts create a board-level crisis that brings new actors to the stage, motivates a new review of senior management and strategy, and accelerates the response. The Revco D.S., Inc. lawsuit, one of a handful of leveraged acquisitions to achieve official bankruptcy, makes the good point. Critics however expected Revco's bankruptcy petition filed in July 1988 as an example of the financial dangers related to LBO debt. I have a different perspective. The $1.25 billion acquisition, announced in December 1986, significantly increased Revco's annual interest charges. But there were many other factors contributing to his problems, including management's decision to overhaul pricing, stockpiling and merchandle order at the company's pharmacy chain. This misled strategic direction confused and dissatisfied customers, and Revco's performance suffered. Before the acquisition and without the burden of interest payments, management could have followed these policies for a long time, destroying much of the company's value in the process. Within six months, however, debt would serve as a brake on management's mistakes, motivating the board and creditors to re-organize the company before further devaluation.7 at Goodyear shows how the debt is struggling. Shows. adopting value-creating policies that they would otherwise resist. Shortly after his company fended off Sir James Goldsmith's tender offer, Goodyear chairman Robert Mercer presented me with his version of the raiders' faith: Give me your worthless assets, your plants, your technology, research and development expenditures, the hopes and wishes of your people, your feelings with your clients, your pension funds, and I will develop myself and the deal makers. 8 What Mr. Mercer cannot note is that Goodyear's mandatory restructuring significantly increased the company's value to shareholders, forcing it to be short of cash and get rid of inefficient assets. Two years after this bitter complaint, Tom Barrett, who replaced Mercer as CEO of Goodyear, was asked whether the company's restructuring had damaged the quality of its tires or the efficiency of its facilities. No, he replied. We were able to invest to be competitive, we kept investing and we did the things we needed to do. 9 Robert Mercer's harsh words are characteristic of his reaction to the public institution's retention of the business. What explains such fierce opposition to a trend that clearly benefits shareholders and the economy? As amar Bhide, my colleague at Harvard Business School, points out, an important factor is that Wall Street competes directly with senior management as a steward of shareholder wealth. With huge increases in data, talent and technology, Wall Street can allocate capital among competing businesses and monitor management and disciplinary management more effectively than the typical diversified company's CEO and center staff. KKR's New York offices and Irwin Jacobs' Minneapolis base directly replace corporate headquarters in Akron or Peoria. CEOs worry that he and his staff will lose lucrative jobs in favor of rival organizations. Many are right to be concerned; the performance of active investors against the public company does not leave doubt which one is superior. Active investors are creating new general management models, which I call the most common branch lbo association. A typical LBO Association consists of three main selections: special transactions in an ongoing collaborating relationship and an LBO partnership of consulting and monitoring audit sponsors; Company executives who own significant stocks in an LBO section and remain after the acquisition; and institutional investors (insurance companies, pension funds and money management companies) who buy capital to finance transactions and finance limited partnerships with lenders (along with banks). Like a very traditional conglomerate, LBO Associations have many divisions or business units, companies that have taken private at different points over time. A variety of 19 businesses, including KKR, Beatrice, Duracell, Motel 6, Owens-Illinois, RJR Nabisco and all or part of Safeway, for example controls the collection. However, LBO Associations are different he organized holdings on at least four important issues. (See illustration, Public Company vs. LBO Association.) Public Company vs LBO Association Management incentives are built around a strong relationship between pay and performance. LBO Associations compensation systems often have higher upper limits than public companies (or upper limits at all), much more closely tie up bonuses than accounting earnings for cash flow and debt retirement, and otherwise closely make connections to management pay for department performance. Unfortunately, since these companies are private, very little data is available in salary and bonuses. But publicly available data is available on stock hosting, and stocks are an important part of the reward system at LBO Associations. Steven Kaplan of the University of Chicago reviewed all public company acquisitions from 1979 to 1985 at a purchase price of at least $50 million.10 Business unit chiefs have a median equity position of 6.4% in their units. Even without considering bonus and incentive plans, a $1,000 increase in shareholder value triggers a $64 increase in the personal wealth of business unit chiefs. The median public company CEO owns only.25% of the company's self-interest. The personal wealth of the median public company CEO increases by only $3.25 for a $1,000 increase in shareholder value, including salary, bonuses, deferred compensation, stock options and dismissal penalties.11 Thus, the typical LBO business unit manager's salary is almost 20 times more sensitive than that of the typical public company executive. This comparison understates the real differences in compensation. The personal wealth of managing partners in an LBO partnership (in fact, the CEOs of LBO Associations) depends almost only on the performance of the companies they control. General partners in an LBO Association typically receive 20% or more of the gains in the value of the divisions they help you manage (through overrides and direct capital assets). This means pay sensitivity for performance of $200 for every $1,000 added shareholder value. It's not hard to see why a manager who receives $200 for every $1,000 increase in shareholder value will come up worth more than a manager who receives $3.25. LBO Associations are more centralist than public conglomerates. The LBO Association is resuming compensation incentives and ownership for direct monitoring by headquarters. KKR, the world's largest LBO partnership, has only 16 professionals and 44 additional employees at its headquarters. In comparison, RJR Nabisco Atlanta headquarters KKR took private a $25 billion

transaction last year employing 470 people. At the time of the Goldsmith tender bid for Goodyear, the company had more than 5,000 people on the Akron chief executive payroll. It is physically impossible for KKR and other LBO partnerships to be up close daily decisions of their operating units. Instead, they rely on stock ownership, incentive payment that rewards cash flow, and other compensation techniques to motivate managers to maximize value without bureaucratic oversight. My survey of 7 LBO partnerships found 13 professionals and 19 unprofessed average headquarters staff overseeing about 24 business units with total annual sales of more than $11 billion. (See chart, LBO Partnerships Keep Staff Lean.) Exhibition LBO Partnerships Keep Staff relying heavily on lean LBO Associations leverage. The average debt ratio for public companies prior to purchase (long-term debt as a percentage of debt plus equity) is about 20%. The Tiger study shows that the average debt ratio of an LBO is 85% at the completion of the purchase. Debt-intensive use significantly reduces the amount of a company's equity. This allows LBO general partners and factum managers to control a large portion of total ownership without the need for large investments or large free capital donations that they cannot make. For example, in a company with a $1 billion asset and a 20% debt ratio, management must raise $80 million to buy 10% of the account. If the same company had a 90% debt ratio, management would only need to raise $10 million to control its 10% stake. It intensifies equity assets between managers and LBO partners, intensifying property incentives that are very important for debt efficiency. High debt also provides LBO Associations and other private organizations once tap into the risk diversification benefits provided only by the public equity market. Heavy use of debt means that much of it should be in the form of public, high-yield, non-investment securities, better known as junk bonds. This debt, spearheaded by Drexel Burnham Lambert, reflects more of the risk posed by shareholders in the typical public company. Placing this public debt in the well-diversified portfolios of large financial institutions poses an equity-like risk among millions of investors who are the ultimate beneficiaries of mutual funds and pension funds, without the need to keep these risks as equity. Indeed, high-yield debt is probably the most important and productive capital market innovation of the last 40 years. LBO Associations have well-defined obligations to their creditors and now to claimants. Most of the acquisition funds are organized as limited partnerships, where partners of the sponsored LBO firm serve as general partners. The purchase fund buys most of the self-interest and sometimes provides debt financing. The limited partnership agreement denys the general partner the right to transfer cash or other resources from one LBO section to another. In other words, all returns of a business are limited to partners and other capital owners of that business Reduce the risk of inefficient reinterment by banning cross-subsidies between such binding agreements Unit. In fact, the LBO sponsor should ask his institutional investors for permission to reins into the funds, a dramatic difference from the power of public company executives to freely shift resources between their business units. The management, indiguation and financial structures of the LBO Association are neatly involved with the rebirth of active investors. Institutional investors transfer the job of being an active monitor to agents who are best qualified to play the role. LBO partnerships tie their performance by investing their own resources and reputations in this transaction and taking the bulk of their compensation as a share of the growing value of companies. To be sure, this is not without the tension of the delegation. LBO partnerships and team managers control the LBO Association's small capital base but create incentives to take high-risk management gambling for them to keep debt too little. If their gamble is successful, they give big rewards by increasing their equity value; if their gamble fails, the creditors will pay a large part of the price. But such reckless behavior can have huge reputational consequences. As long as creditors take a rational stance, an LBO partnership that is trying to profit at the expense of its creditors or moving away from a deal that goes sour will not be able to raise funds for future investments. To date, the performance of LBO Associations has been remarkable. Indeed, it is difficult to find any systematic losers in these transactions, and almost all earnings seem to come from real increases in productivity. The best studies of LBO performance achieve the following conclusions. BDO's create big gains for shareholders. Studies, The average total premium to public shareholders is estimated to vary between 40% and 56%.12 Kaplan said the total shareholder value increased by an average of 235% on purchases re-opened to the public or otherwise sold (occurring on average 2.7 years after the original transaction), or about 100% above market-adjusted returns over the same period.13 These returns are evenly distributed between pre-purchase shareholders and debt and equity suppliers for trading. Prebuyout shareholders earn an average market adjusted premium of 38%, while the total return on capital (debt plus equity) for buy-to-let investors is 42%. This return to buy-to-let investors is measured by the LBO's total purchase price, not the purchase apology. Returns on equity are very high, as there is an almost pure risk premium and therefore independent of the amount invested. The average nominal return on buy-to-let equity is 785%, or 135% year on year. Value gains do not come at the expense of other financial voters. Some critics argue that purchasing investors, especially executives, generate excessive returns by using insider information to exploit public shareholders. Managers face serious conflicts of interest in these transactions; they're at the same time cannot act as a buyer and agent for . However, managers with equity Part of postbuyout management teams systematically sell shares into LbOs. If this purchase was significantly under-priced in light of internal information, it would be foolish to assume that it has the same internal information as the ongoing management team from the insider who did not participate. In addition, LBO tenders are becoming common; low-priced purchase offers (including those initiated by management) quickly create competing offers. There is no doubt that some bondholders have lost value through private transactions. My estimate is that RJR Nabisco's pre-purchase bondholders lost almost $300 million as their claims on the new leveraged company were dropped. This is a small sum compared to the total earnings of the transaction of $12 billion. Yet, there is no evidence that bondholders lose their lbos average. Evidence about LBOs completed as far back as 1986 shows that convertible bond and preferential stockholders earned a statistically significant amount and flat bondholders did not experience significant gains or losses.14 New data may document the losses of bondholders in recent transactions. But the expropromination of bondholders' wealth should not be an ongoing problem. The financial community puts poison to protect bondholders in the event of significant restructuring and perfects many techniques, including re-purchase provisions. In fact, versions of these loss prevention techniques have been available for some time. In the past, bondholders such as Metropolitan Life, which sued RJR Nabisco over the declining value of the company's bonds, have chosen not to pay the protection premium. LBOs improve operating efficiency without major layoffs or major cuts in research and development. Kaplan said average operating earnings increased by 42% compared to the pre-purchase year, until the third year after purchase. Cash flows increase by 96% in the same period. Other studies have documented significant improvements in profit margins, sales per employee, working capital, inventories and receivables.15 Those skeptical that these findings will scan the business press, which records the impressive post-acquisition performance of companies such as Levi Strauss, A.O. Scott, Safe-way and Weirton Steel, may take a moment. More importantly, employment does not fall systematically after acquisitions, but does not grow as fast as in similar companies. In kaplan research, median employment of all companies, including significant divesters, increased by about 1%. Companies without significant liquidation increased employment by 5%. In addition, major concerns about the impact of acquisitions on R&D and capital investments are uninde placeless. Low-growth companies that make the best candidates for BDO do not initially invest largely in R&D. Of the 76 companies in Kaplan's work, only 7 spent more than 1% of sales on R&D before purchasing. Another new shows that R&D grows at the same rate as some of the sales As with comparable public companies.16 According to Kaplan's study, capital expenditures are 20% lower in SOCs than non-LBO companies. These cuts appear to be due to reductions in low-return projects rather than productive investments, as they occur in low growth or declining sectors and double the market-adjusted value. Taxpayers don't subsidy private departures. Huge increases in debt have been charged almost to eliminate an LBO tax obligations. This argument overlooks five sources of additional tax revenue generated by acquisitions: capital gains taxes paid by pre-purchase shareholders; capital gains taxes paid on postbuyout asset sales; tax payments on large increases in operating earnings generated by productivity gains; Tax payments by creditors receiving interest payments on LBO debt; and taxes generated by more efficient use of the company's total capital. Overall, the U.S. Treasury collects an estimated 230% more revenue over the year after a purchase and 61% more than its longer-term present value. Earnings of $12 billion related to the acquisition of RJR Nabisco will provide net tax revenue of $3.3 billion in the first year of acquisition; The company paid $370 million in federal taxes the year before the acquisition. In the long run, LBO sponsors who will generate total taxes with an estimated current value of $3.8 billion in transactions do not have to take their companies to the public to succeed. Most LBO transactions are completed with the aim of returning the restructured company to the public market within three to five years. But recent evidence suggests that LBO sponsors keep their companies under private ownership. Large productivity gains and high-return asset sales generate enough cash to pay off debts and allow BTO's to generate handsome returns as concerns. The proliferation of these transactions has helped create a more efficient infrastructure and liquid market for the trading of departments and companies. Thus, LBO investors can give cash on a secondary LBO or private sale without resorting to an IPO. A recent study finds that between 1981 and 1986, only 5% of more than 1,300 LbOs became publicly public again.18 Public companies can get information from LBO Associations and mimic many of their features. But this institutional structure, philosophy and focus require major changes. They can reduce the waste of free cash flow by borrowing to buy back stock or pay large dividends. They can change their bylaws to encourage large investors or experiment with alliances with active investors such as Lazard Frères' Corporate Partners fund. They can increase equity ownership by managers, managers and employees. Instead of accounting earnings, cash flow and they can increase incentives through payment systems for based performance. By re-thinking about the role, they can separate management from central. they can separate it. company headquarters and staff downsizing. Some companies have experimented with such changes-FMC, Holiday and Owens-Corning-and the results have been impressive. But only a coordinated attack on the status quo would stop the public company from being held. Such an attack is unlikely to progress fast enough or go far enough. Who can argue with a new model of enterprise that aligns the interests of owners and directors, increases efficiency and productivity, and unlocks hundreds of billions of dollars of shareholder value? Many people seem, mainly, because these organizations rely on very heavy debt. As I mentioned earlier, debt management discipline and free cash flow are crucial to resolving the dispute. But even some critics who accept the controlling function of debt argue that leverage costs outweigh the benefits. Wall Street economist Henry Kaufman, a key critic of the going-specific trend, issued a typical warning earlier this year: A sharp rise in interest rates in response to any serious shock-Federal Reserve credit restrictions, or outright recession that makes the entire stock market vulnerable, or the ability of foreign firms to advocate for offer-specific assistance for parts of some breakdown U.S. companies would drive debt-laden companies to the government's doorstep. 19 The relationship between debt and bankruptcy is perhaps the least understood aspect of all this organizational evolution. New protection techniques mean that the risk associated with a certain level of corporate debt is lower today than five years ago. The majority of bank debt associated with BTO's (which usually represents about half of the total debt) is made through floating-rate vehicles. But a few BTO interest rate fluctuations are considered unrestricted exposure. They take cover to put a ceiling on interest charges or use swaps to convert fluctuate interest-only debt into fixed-rate debt. In fact, most banks require such risk management techniques as a condition of driving loans. Leverage critics are also likely to be smaller in the old world than the balance sheets that dominate equality in the new world that fail to appreciate that bankruptcy and itself are not always something to avoid- and the costs of becoming bankruptcy are much higher. The proliferation of takeovers, LBOs and other special operations has inspired innovations in the restructuring and exercise process. I call these innovations the privatization of bankruptcy. BDO's are more often in financial trouble than public companies. But very few BTO official bankruptcies. These are quickly re-arranged (several months are common), often under new management, and at much lower costs under a court- supervision process. How can bankruptcy cost less in a highly leveraged world? Consider a simplified example. Companies A and B are the same in all respects except their financial structure. Each has a worrying value of $100 million (value of expected future cash flows) and a liquidation or scrap value of $10 million. Company A has an equity-weighted balance sheet with a debt ratio of 20%, which is common for large public companies. Highly leveraged Company B has a common debt ratio of 85% for LbOs. (See Illustration, Privatization of Bankruptcy.) Privatization of Bankruptcy Now both companies are going through business reversals. What's it going to be? Company B gets into trouble with its creditors much earlier than company A. After all, company B doesn't have to shrink too much because it can't afford its $85 million debt. But when you don't run into trouble, its going-anxiety value will be nowhere near its liquidation value. If the ongoing value goes down to $80 million, it remains worth $70 million, which must be protected by avoiding liquidation. That's why the creditors of company B have strong incentives to preserve the remaining value by quickly and efficiently rearranging their claims outside the courtroom. There is no such incentive in company A. Before creditors worry about their $20 million debt, the borrowing value could drop significantly. By the time the creditors intervene, company A's concern will be deserted. And if the value of company A drops below $20 million, it is much more likely that company B will be worth less than the $10 million scrap value. Liquidation in this case is a possible and rational outcome with all conflicts, disse this and costs. The evolving U.S. corporate governance and financial system exhibits many features of the post-war Japanese system. LBO partnerships act like the main banks (real power center) in Japan's keiretsu business groupings. Keiretsu leverages and capitalizes on a wide range of debt and equity inter-company holdings. Banks often hold significant resensing in client companies and their managers help them with difficulty. (For years, Nissan operated by a graduate of industrial bank of Japan, who became CEO as part of the bank's efforts to keep the bankrupt company.) Other staff, including CFOs, often move between banks and companies as part of an ongoing relationship that includes training, consulting and monitoring. Japanese banks allow companies to enter formal bankruptcy only when liquidation makes economic sense, that is, if a company is deader than life. Japanese company boards consist almost only of the inside. Ironically, even more U.S. companies are coming to resemble Japanese companies, while Japan's public companies are becoming more like U.S. companies 15 years ago. Japanese shareholders rarely have any power. Banks' chief disciplinary tool, the power to keep capital away from high-growth, cash-starved companies, has greatly diminished as a result of various factors. Japan's victories in the world product markets are roiling its companies with profits. This domestic and international capital markets have created ready-made alternatives to bank loans, while deregulation has freed institutional access to these funds. Finally, new legal restrictions prevent banks from holding more than 5% of any company's capital, reducing incentives to venture into active monitoring. Most of Japan's state-owned companies are flooded with very free cash flow that exceeds their opportunities to invest in profitable domestic growth. In 1987, more than 40% of Japan's major state-owned companies had no net bank debt, meaning they had larger cash balances than their short- and long-term borrowings. Toyota, with a cash hoard of $10.4 billion, more than 25% of its total assets, is commonly called Toyota Bank.20 in short, japanese executives are increasingly unconsured and unsymned. They do not face effective internal control, little control from the product markets already dominated by their companies and less control than the banking system due to self-financing, direct access to capital markets and lower debt ratios. Unless shareholders and creditors find ways to prohibit their directors from acting like U.S. executives, Japanese companies will make unecons economic acquisitions and diversification moves, produce domestic waste and engage in other value-destroying activities. The long-term outcome will be the growth of bureaucracy and inefficiency and the demation of product quality and organizational sensitivity— until the waste becomes so severe that it triggers the corporate control market to address excesses. The Japanese remedy will reflect this country's unique legal system and cultural practices. But as hostile takeovers, LbOs and other control operations have gone into unacceptable behavior in the United States, a driving force in corporate restructuring, so it also outweighs the potential revolving costs and tough risks of the corporate status quo once you hold in Japan. Meanwhile, in the United States, organizational changes that have revived the corporate sector will create more agile businesses and help reverse our losses in the world product markets. But as this profound innovation continues, people will make mistakes. To find out, we need to push new policies to the limit. It would be natural to see more failed opportunities. There are already some worrying structural problems. I look uncomfortably at the dangerous trend of LBO partnerships, supported by their success, they began to receive more of their compensation in front-end fees than back-end profits earned by increased equity value. As management fees and fees for completing deals increase, so do incentives to make deals instead of good deals. Institutional investors (and the economy as a whole) are best served when LBO partnership is paid to the last member of the LBO Association and paid as a fraction of the back-end value of deals, including LBO partnership losses. In addition yet to fully understand the limitations on the size of this new organizational form. LBO partnerships are understandably attractive to increase the reach of their skilled monitors by restructuring divisions as purchasing tools. It will be difficult to achieve this successfully. Larger staff will need to further centralize decision rights and dilute pay sensitivity for high performance, which is very important for success. As LBO Associations expand, they risk re-creating the bureaucratic waste of the diversified state-owned organization. These and other issues should not cloud the extraordinary benefits of the large state-held organization in the eclipse. What amazes me is how few mistakes have been made so far in the organizational change since World War II. 1 Equity values based on trends in the Wilshire Index. Sarah Bartlett published exclusive settlement data from IDD Information Services, Private Market's Growing Edge, New York Times, June 20, 1989. 2 For further analysis of the oil industry, see my article, Takeover Controversy: Analysis and Evidence, for further analysis of the oil industry, corporate restructuring and Executive Compensation (Cambridge, Mass.: Ballinger, 1989). 3 Calculated from Standard & Poor's Compustat file. 4 Kevin J. Murphy, Journal of Corporate Performance and Administrative Rescination, Journal of Accounting and Economics, 1985, volume 7, no. 1-3. 5 Federal Reserve Board, U.S. Economic Balance Sheets. 6 G. Bennett Stewart III and David M. 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Smith, Special Going Wealth Implications for Senior Securities, Journal of Financial Economics, 1989, volume 23, no. 1. 15 In addition to Kaplan, see See also Frank R. Lichtenberg and Donald Siegel, Impacts of Leveraged Acquisitions on Productivity and Related Aspects of Firm Behavior National Bureau of Economic Research, 1989. 16 Lichtenberg and Siegel, NBER, 1989. 17 Michael C. Jensen, Steven and Laura Stiglin, LbOs Effects on U.S. Treasury Tax Revenues, Tax Notes, February 6, 1989. 18 Chris Muscarella and Michael Vetsuypens, Efficiency and Organizational Structure: Reverse LbOs One Study, unpublished paper, Southern Methodist University, April 1989. 19 Henry Kaufman, Bush's First Priority: Buying Madness, Washington Post, January 1, 1989. 20 Average (book value) debt ratios fell to 68% in 1987 from 77% in 1976. Given the 390% increase in stock prices during this period, market value debt ratios fell even more dramatically. Figures calculated from the Needs Nikkei Financials file for all companies in part One of the Tokyo Stock Exchange. A version of this article appeared in the September-October 1989 issue of the Harvard Business Review. Review.