NATIONAL PRESS CLUB HEADLINERS LUNCHEON WITH
PANERA BREAD FOUNDER RON SHAICH

SUBJECT: PERVASIVE SHORT-TERMISM

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ALISON FITZGERALD KODJAK: [sounds gavel] Good afternoon, everyone. And welcome to the National Press Club. This is the place where news happens. I'm Alison Fitzgerald Kodjak, the health policy correspondent at NPR News, and I'm the 112th president of the National Press Club.

We're so pleased today to welcome today's Headliner speaker, Ron Shaich, the founder and former CEO of Panera Bread. But before we begin, I'd like to ask you all to please take a moment to silence your cell phones. And if you think you've done it, just double check so that you don't interrupt our program.

If you are on Twitter, we encourage you to tweet during today's event. We are @PressClubDC, and you can use the hashtag #NPCLive.

For our radio, TV and online audiences, I'd like to note that in addition to club members and working journalists, we have members of the general public here in the audience. So if you hear any applause or other reactions, they aren't necessarily coming from the working press.

My guess is that many of you have eaten at one of Ron Shaich's restaurants over the years. Or, at the very least, in a place inspired by his approach to dining. He's the founder of both Panera Bread and Au Bon Pain. And he's known in the industry as one of the founders of so-called fast casual, a $40 billion segment of the restaurant industry.

Panera has more than 2040 bakery cafes, six of which are within a mile of here. And it has 140,000 employees. It generates more than $5 billion in annual sales.

It was back in 1999 that Mr. Shaich took his company public and the stock did quite well. But still, he grew to regret the decision, and in 2017 he famously backtracked. He took the company private again and then he stepped down as CEO. He says that decision was rooted in a desire to protect the company and its employees from falling prey to the pressures of shareholders chasing short-term profits.

And since then, he's also taken up the cause of warning others about the current business environment and how it doesn't inspire the process of building companies for the long term and entrepreneurship.

Mr. Shaich is the leader of Act III Holdings, an investment firm that offers capital and other support to entrepreneurs in the restaurant industry. And in his spare time, he is also the founder of No Labels, an organization many of us here in Washington are familiar with. It's dedicated to promoting bipartisan political problem solving.

And with those thoughts on the table, I'm sure we'll have a lot to talk about this afternoon. So please join me in welcoming Ron Shaich to the National Press Club. [applause]

RON SHAICH: Thank you, Alison. So I know you all want to talk about your Bacon Turkey Bravo, or something equivalent, but I actually would like to speak really about the pervasive short-termism we do see in our capital markets, and, maybe more importantly, how it's causing real damage to our national interests and what we're trying to do.

Before I do, let me just tell you a little bit about myself, as you heard from Alison. I've been the CEO of a public company for 26 years. And to put it in perspective, that's longer than Cal Ripkin played baseball. And unlike Cal Ripkin, I still have knees. So I have some perspective on it. And let me tell you a little bit more Panera and that company I ran for 26 years.

Panera Bread is indeed one of the ten largest restaurant chains today in America. It's got now just pushing $6 billion in sales, 140,000 team members – you might call them employees – and today serves one out of every 30 Americans – or, as I like to say, 3% of America – every week.

I want you to know something else. And it brings perspective to what I want to share with you today. I won as a public company CEO. If you understand it, Panera's been the best-performing restaurant stock in the food industry, when measured over the last two decades. It's performed twice as well as Starbucks over those last two decades. It's performed six times as well as Chipotle over those last two decades. And in fact, it beat the S&P 500 by 44-fold – 44 times the S&P 500; you should have invested in Panera – over the last 20 years. The reality is, our annualized returns push just shy of 25%, and actually beat Warren Buffett's Berkshire Hathaway over those last two decades. So I feel pretty good.

[applause] That's very kind.

Having said that, I think it's very important to share with you why we won. And our core strength has been a willingness to discover today what will matter tomorrow, and then to transform our company into that future as it unfolds. That's the key; that's what we want from leaders, that's what we want from our business institutions. That's what we need. And indeed, that's been the key to our success, our ability to execute these transformations – I call them smart bets – every five to ten years to prepare us for the future.

And as you heard just a brief bit, this company was formed as Au Bon Pain. It was a single store in Boston in the '80s. And the first major transformation for us was to recognize that the product we were selling, which was croissant and bread, wasn't what people wanted. If we listened to customers, we quickly understood what they wanted was to use the croissant and bread to make a sandwich. And we quickly moved into the sandwich business. And Au Bon Pain took off. And it took off because it became the epitome of what has come to be called a bakery café.

And across America in malls, particularly in urban locations – we were talking at lunch about roast beef and Boursin – that became special. And that became the essence of Panera. And that was the first major transformation.

The second one occurred for us in the mid-'90s, we had bought a little chain in St. Louis called the St. Louis Bread Company. I was trying to figure out what was going on in the world. And I came to understand there was a powerful trend taking form in the consumer marketplace. And again, we're trying to figure out what are the deeper trends? How do we separate the wheat from the chaff? What's the noise and what's real?

And it was clear to me that people increasingly wanted to feel special in a world where everything was mass produced. By the '90s, everything had become mass produced. And you started to see the reaction to it. And that's the deeper trend. You saw in the beer business, Budweiser and Miller started to yield to Samuel Adams. You saw in the coffee business Folgers and Maxwell House and that started to yield to Starbucks.

I can tell you a story. Twenty years ago, if you came to our house for dinner on a Friday night, we'd open a can of Folgers. Today, if we don't grind our own beans and use one of those expensive machines, we're insulting our guests. Right? Isn't that true? It's our perception. You can think about the beverage business and you can think about the transformation. Twenty years ago, 30 years ago, we would have Coke and Pepsi. But increasingly, people wanted to feel special, different; they wanted something that was more uniquely their own and you started the evolution of what we call specialty beverages.

Well, we realized the same thing was happening in food service. And we saw a large niche of customers who were rejecting fast food. They simply wanted something more than a lot of food for not very much money. That was commercial, that was processed. And what folks really wanted, they wanted real food, they wanted environments which engaged them, and they wanted to be served by people that actually cared, that had a connection to the food.

And it was very clear to us that there was this niche that was rejecting fast food. And ultimately what they wanted was a food experience that respected them. Or at least they felt better about themselves in their relationship with that food experience.

And ultimately, we build Panera around that kind of paradigm. And as you heard, that paradigm ultimately became the etiology that rooted this thing they're now calling fast casual, which is simply to say better food, better environments, better people. And a better experience.

And that paradigm today, you heard it as 40 billion; it's now $50 billion in the growth segment of the restaurant industry. And again, I was saying at lunch, when we first did that, you could have bought our stock for a penny on the dollar for where it ultimately traded. One cent on the dollar. And people say to me all the time at lunches like this, "Ron, why didn't you tell me?" And I look at them and I go, "Friend, you could have bought that stock by the wheelbarrow for a year. You didn't because you didn't believe in it. You didn't understand it." And that's the reality of innovation, that's the reality of transformation. It's the willingness to make those commitments ahead of certainty.

The third major transformative bet for us occurred in 1999. I was at that time operating a public company with four divisions – ABP, ABP International, a manufacturing business, and this fourth business called Panera. And I was struggling with it. I recognized that Panera had the potential of being nationally dominant. But very few, if any, companies ever get there; it's so hard and so difficult.

And I was away and I was with a friend, and I was saying to this friend, "I'm really concerned. This is the golden goose. This has the potential to be powerful." And my friend looked at me and said, "Ron, what would you do if Panera owned all those other divisions, if the name of the company was Panera?" And I looked at my friend and I said, "You know, if I had any strength, if I had any guts, I'd monetize every other asset, use those resources to make Panera happen, and simultaneously I would take the very best people and go down there myself and make it happen. This is the gem."

And I'm the kind of person, when I start to think about something, I want to go do it. And I sat with it for about three months and I came back and I said, "We're going to go do it." And ultimately, we sold every other business we had, bought Panera, and bet the whole thing on Panera.

And the reality of it, today it sounds very wise, but when you're going through it, it's horrible. Au Bon Pain was my first son. It was really the way I related– these were people who I cared about, I loved. And going through that process is always so difficult, but that's what change is about.

At any rate, it worked. We had a great run through the '00s. And by 2011, we were facing the fourth major transformation. What did that mean to us? It was very clear that Panera– again, the world was changing and Panera wasn't changing quick enough with it.

Our volumes had gone up so high, and we didn't have the kinds of service systems that allowed us to process those people.

And ultimately, I went off and I came back and I wrote a memo over a weekend. How would I compete with Panera if I weren't part of Panera? What would I do if I wanted to take Panera on and do a better job than Panera was doing for the guest? And I started to think about it, and I said, You know what? We've got to go do this. And ultimately, we built a vision over the next two years for how to evolve Panera. And that vision was essentially rooted in digital access, in innovation, inclusive of a commitment to clean food, food free of all artificial colors, flavors, preservatives and sweeteners. A loyalty program. And ultimately something that's called omnichannel, which is to say, you can access a Panera whether you like it to go on the digital, you can access it in café, you can access it for delivery; wherever you want it, we'll be there.

And ultimately, we put that vision in place. I cannot give voice to it in a couple of minutes, but it was the toughest thing I've ever been involved in in my career. It was seven or eight different initiatives simultaneously.

The result: By 2017, each of the themes we had bet on had become the themes of the restaurant industry. Everybody wanted to be in digital. Everybody wanted to be in loyalty. Everybody wanted to do omnichannel. And we were leading in each of them. Panera is 35% digital today, over $2 billion, the largest loyalty program, over 50% of our sales. It's considered a poster child for omnichannel.

And by 2017, our sales, what are called comp store sales in the restaurant industry, were up like 6% in an industry that was flat. Very strong performance. And we had record results. Best year of our history.

So that's the Panera story. And we're going to come back to it in a second. But I want to talk about my perspective from the other side as a successful public company CEO. Because I've had a powerful vantage point to watch and observe. And I want to share with you what I've seen.

Our public markets have become increasingly shortsighted and, indeed, hostile to companies like Panera that compete on the basis of long-term transformation. That is the truth. The question is, why? And the reality is, investors today in the public markets – your money, we're driving it – are increasingly renting stock, not owning shares of a company.

And what does that mean? I'll put it in terms for you. Fifty years ago, the research shows the average holding time for a stock was eight years. Today that average is less than eight months. A tenfold change in the holding time for public companies. And there is a reason for it. You've got a number of different forces – you've got hedge funds that are day trading on an assessment of the next data point. When I would talk to hedge funds, the question they would ask me was, "What are my comps going to be, my sales, next week?" Because there's so much liquidity that they have the ability to trade, and they're trading on the information change.

You can look at active money managers. Some of us have active money managers. They're focused on short-term performance also because they're incented on that short-term performance, and they figure "why should we buy the stock into that transformation until the event arises? No need to."

You can couple that with the increased use of high frequency, algorithm-based trading. This is a huge part of the market. Some would suggest as much as 40%. And this is trading not based on evaluation of the company, but it's really arbitraging the marketplace. And it magnifies all that short-term pressure in a very intense way. It's some of the reasons we've seen these flash trading meltdowns that have occurred at different points in different stocks.

And then you have the ascent of passive index funds, which are pushing 20% of all the public market trading. These are institutions that don't manage governance. They're not involved in the governance of companies, and they're outsourcing it to groups like ISS and Glass Lewis, which are essentially rules-based. So there's no judgment in it. That's the reality we have.

And the byproduct of all this is activism. What is activism? It's essentially folks with a short-term focus and financial engineering playbooks who field the power and the ability to move a company. And you have a dislocation, a disconnection between the principle – that is to say your money – and the agent, the folks that are running these companies.

And the reality is, we've increasingly, with this pervasive short-termism had the assent of these activists. And activism campaigns have grown at a rate of 18% annually, the number of them, since 2012. So think about that, think of what it is. In my industry, restaurant industry, approximately 20% of restaurant companies were hit with activists last year.

And what does it mean? They are really attempting to effect very short-term change in a company. And this fuel that's added to this fire, something called agency theory – some of you may not know it; it came out of the Harvard Business School in the '80s and '90s – and this essentially argues that the only role of management, the only role, is to serve the shareholders who are supposedly owners, and to deliver for them in a short-term sense to maximize their returns.

Now, that wasn't always the way it was. The ideology in corporate America when I got out of business school 40 years ago was, we had a responsibility to the community, we had a responsibility to our team members, we had a responsibility to our consumer. But today, that's been whittled down to where we're not focused on it. And that's what's given voice to this activism.

And let me share with you how activism works. Basically, you buy 2% of the company. You take another 6 or 8% in derivatives or options. You walk in and you say, "Listen, I now control 8% of the company; you work for me. And here's what I want. I want

you to cut the G&A by 20%. I want you to close that factory in Milwaukee. I want you to dividend out the money. Maybe we'll sell off a lot of our assets. And then we'll dividend it out and we'll let somebody else worry about this in about two years; somebody else can deal with it."

That's what activism is at the very core level. It doesn't take a lot of brilliance to come in and say "cut." It doesn't take a lot of brilliance to say "let's add more debt, let's bring more leverage to this." And the reality is, management, in so many instances, find the cost of fighting them is high and the probability of winning is low. Because why not push on these guys? We can drive up the returns. The probability of winning is low. And there's a kabuki dance of sort of incremental acceptance. And it goes on over and over and over again.

And basically, these activists are taking many of these companies hostage for their short-term interests. And the reality is, I'm not telling you all management teams are good. There are bad companies that are foolishly run. But I don't think, as many companies that have been attacked – and some of the major companies in this country have been attacked over and over and over; 20% of our industry – I don't believe, if I may say it with all due respect, a 35-year-old sitting in an office tower in Manhattan is better able to run that company than the folks that you've hired to run it for you. That's the reality of it.

So I want to just talk a little bit about something you probably don't expect – feelings. How does all this affect our boardrooms and our CEOs? The reality is this: When you've got this prevalence of short-termism, when you have this advent of activism, you end up with fear hanging over the decision-making process in so many public companies. The boards seek to avoid being the target of activists. And the reality is, if you have a candid conversation with any public company director, lawyers or advisors, you're going to hear about the looming threat of activism and the effort to avoid it. Nobody wants to get caught in these crosshairs.

So you hear fear. And what boards try to do is they try to outmaneuver the activists. So the mantra today in corporate America – be your own activist; let's be our own activists before they show up and do it to us. And what that means is, the boards are then demanding short-term focus at the expense of the long term.

And reaction? What do you think your CEOs are doing? They're giving the boards, they're giving the activists just what they want. You know, CEOs, they want to deliver. They don't want to feel the vulnerability they feel. So what they do is they begin to think short term and avoid the kinds of long-term transformations that actually created the value in a company like Panera. And these CEOs that feel vulnerable, they begin to react to the activism by trying to please these activists. And they avoid those transformative bets.

And here's my point: We can never truly quantify the opportunity costs of the missed innovation that are not even considered in so many public companies today. It's not even a possibility. And that's the problem.

And here's the irony. And you just appreciate this. A capital structure that allows a company to think and act in the long-term interests of stockholders, stakeholders, across the board, remains among the most powerful competitive advantage for actually creating shareholder value creation.

I want you to think about the success of the FANG stocks. Do you know what the FANG stocks are? Facebook, Amazon, Netflix and Google, Berkshire Hathaway, which I mentioned earlier. All these companies, I would suggest to you, have their success on their ability to think and manage for the long term. And many have structural mechanisms that give them the capabilities to do just that.

So I want to tell you something; I want to bring it back to the Panera story and then we're going to talk about all the implications of this for society. Each time I went through that transformation of Panera, I laid awake at night worried that activists were going to show up. And twice I got them. In 2008, we had Shamrock show up, said to me basically, "Hey, let me tell you how to run your company. Cut your costs here. Do that. You don't need all that innovation and transformation." And then in 2015, another one showed up, Luxor, as we're going through this innovation, this investment in digital – "We don't need that! You can outsource it; somebody else will can do the digital. We'll buy it. Just listen to us."

Now, fortunately, the good news for us is we won in both cases. But how we won, the difficulty of winning is the challenge. And I just want you to appreciate what it felt like. They say it's lonely at the top; you've heard that expression? But nothing is lonelier than knowing that the very thing you spent your life working on could be disrupted by somebody seeking short-term gain, just trying to use it in a short-term program.

And for me, as somebody who cared deeply about the people I worked with, about our guests, about the way in which we contributed to the communities we lived in, letting that happen on my watch, letting these guys get a hold of this and take control of it and rip it up for short-term gain, would have killed me. See, when you love something, the inability to protect it is terrifying. That's the truth. And the reality wakes you up at four in the morning and saps all your energy.

And I want to share with you. I want you to understand something else about transformation. Successful transformations are difficult and they require time to determine what matters and time to test and evolve. We were just talking about it. See, nothing is proven until it's done. But activist investors, they don't have the patience to wait for that proof. They don't need to. And the truth is, we at Panera were blessed because we at Panera had the time to make those long-term transformations.

But frankly, I worried, if I weren't here and I'm 65, and I vote 17% of the stock, and I have this reputation and I have this credibility, what happens in the future? Would Panera have the ability to drive the kind of success it had by driving long-term transformation? And I worried about that deeply. And my answer to that question was very simple. I chose to take Panera private at the height of its success in 2017 with an evergreen European investment fund.

So why did I do that? Why? Well, first, because it was a great deal. And because it was the biggest US restaurant deal ever done, and among the highest multiples. And it was a very good deal with our shareholders.

But there were a bunch of other reasons that drove me. What I was driven by is the desire to protect our competitive advantage and our ability to make these long-term transformative commitments. I wanted to also insulate our company and our stakeholders from the predatory behavior of short-term financial engineering.

And I ultimately came to this conclusion: When I came of age, long-term money was going public. Today, long-term money is in the private marketplace. And it was very clear to me that was the place you could do your best work in delivering for guests, delivering for team members, and ultimately delivering for your shareholders.

So here's my broader point today: I believe the pervasive short-termism found in our capital markets is bad for our economy and bad for our country. And I'm not the only one who's seeing that. Top business leaders are concerned. Warren Buffett and Jamie Dimon recently wrote, "The financial markets have become too focused on the short term. Companies frequently hold back on technology spending. They hold back on hiring and they hold back on research and development to meet quarterly earnings targets."

Others are speaking to it. Pundits are telling us our short-termism is making our markets less attractive. Andrew Ross Sorkin, of Dealbook, the *New York Times*, he recently wrote, "It's no secret that the public markets, despite the heights they've reached, are fundamentally broken." He went on to write, "No chief executive wants to live in the glare of the public spotlight and deal with pesky investors who hold stock in timeframes of days and months, not years and decades."

And here's the result: Look at the data. Look at the facts. The number of public companies has shrunk by half in the past two decades. Our public markets aren't working. And let me tell you something. Leading academics are also urging there are serious public policy consequences if we don't fix our markets.

Some of you may know the name Clay Christensen. Clay is a friend. He's the author of, *The Innovator's Dilemma, The Innovator's Solution,* and really one of the great thinkers in this country on innovation. And recently he wrote, "Financial markets and companies themselves use assessment tools, basically simple ROI, that make innovation that eliminate jobs more attractive than those that create jobs." What's he saying? We live in a world where there's such short-term pressure, the only way to resolve those short-term pressures are to cut costs. Any other kind of innovation is going to take too long and you're not going to have the chance to get through it.

And he gets to the heart of the problem. He says, "The short-term focus of today's public markets pose a powerful challenge to the ability of American companies to innovate, compete, and ultimately generate real GDP growth." Folks, real GDP growth, which informs

our economy, only happens when you have innovation, only happens when you have productivity increases. Without that, you don't get GDP growth.

And indeed, the leaders of American finance recognize this. They recognize structural reform is necessary. Some of you may know the name Larry Fink, BlackRock, one of the largest money managers in the country; we're talking trillions. He wrote recently, "The time has come for a new model of shareholder engagement. We collectively are going to need to focus on benefiting shareholders instead of wasting time and money in proxy fights."

Even our President, Donald Trump, has offered his answer to the problem. He said, "We're not thinking far enough out." He said, "So we, the administration, are looking at dropping quarterly guidance very, very seriously. We're looking at twice a year instead of four times a year."

And what I come to you to say today is, structural remedies are necessary. And they are available. We could introduce differential voting rights based on how long somebody holds stock. The fact that you've held stock for ten seconds shouldn't give you the same rights as somebody who's been investing in that company for years, if not decades. And this is presently done; it's not something that's not done. It's presently done in Europe.

We can also adjust the tax rates based on holding periods. And we do today. You have short-term capital gains and long-term capital gains. And it's there to be had if we choose that in our public policy objectives.

And then there's the issue of guidance. Guidance is what we as public company CEOs are constantly giving out. And we're managing that guidance. And we're managing that in the relationship with the Street. A moratorium on guidance will change the discussion from whether a company meets expectations – as if that's the means to measuring a company – to a discussion of how is the company performing against its key metrics? Which is actually much more substantial and much more how we would think about a company when we're looking at it as it transforms.

Finally, I want to talk about compensation. Compensation needs to be based on long-term performance, around key metrics, not simply stock performance. Stock has many other factors that drive it. And when you focus folks on the stock, they're focused on anything they can do to get that stock to move, as opposed to what drives the underlying success of a company.

In any case, here is the point I want to leave you with today: As journalists, as business folks and as citizens, we must understand the consequences of the pervasive short-termism that seeped into our capital markets. We must push for structural changes. And we must continue to protect long-term thinking if we expect American companies to innovate, if we expect to be able to drive continued economic competitiveness. And most importantly, we must evolve if we expect to ultimately drive GDP growth. And my point: If we don't, the long-term health of American companies and the vitality of the economy's at risk.

Thank you. [applause]

MS KODJAK: So we're going to take questions from the audience. I also got a lot of questions via email over the last several days.

MR. SHAICH: But we're not going to take Bacon Turkey Bravo questions, right?

MS KODJAK: No, no, you cannot ask about your favorite sandwich. Well, I don't know, you can ask anything. I'm going to start because you mentioned a few things, particularly the idea that company leaders' number one obligation is to the shareholder, at least structurally the way the markets are now. How do you fix that? Who should they be obligated to? Should they be obligated to employees? To the community? To their suppliers? How do you change it?

MR. SHAICH: Well, let's talk about why it is, and then we can talk about how to change it. The reality is, it wasn't always this way. Corporations are chartered by the state. And when you think about it, the shareholders in a public company are not owners like you and I would own the house. They have no legal liability, their names are not on the door. They have almost complete liquidity; they can get in and out. They have a relatively diminished relationship with it. And in many ways, the structure of it is much more like renting an apartment than it is like owning that apartment. And we give undue power to them in the context of that.

And the truth is, until the last 30 years, that was not the way we thought about it. We had a responsibility as business leaders in a much broader context to the community, to the society, to the country, to our employees, to our communities. And I think that the way to fix that, what I'm trying to do, is just give voice to it.

MS KODJAK: Was there a regulatory change or was this just an attitude change?

MR. SHAICH: It was an attitude change that began in the '70s. As I said, agency theory came out. It became prevalent in business schools. And there was a mantra of maximizing shareholder value creation. And then it became increasingly more and more short term. I've produced extraordinary value creation. We sold our business for $7.5 billion. But that didn't happen overnight. I'm an overnight success in 36 years, through four transformations. And the reality is, that's how you create value the old-fashioned way. But we've built a culture that is talking about something very different.

And I speak about this in a whole bunch of different places. And what amazes me is so many people get this. They just don't know how to fix it. And I think the most powerful thing folks like I am trying to do, others you heard that I quoted, we're trying to give voice to it and we're trying to ask the question – is this a system that serves us?

And I think if you ask yourself that seriously, you would really answer it with a question mark. And then from that question mark, it leads you to really begin to say, How do I be part of the solution, not just simply accept the problem.

MS KODJAK: You mentioned some other business leaders – Jamie Dimon, Larry Fink – who seem to be on the same page with you, but I don't get the sense broadly the markets and investment community is. Or are you hearing more than I am?

MR. SHAICH: I'm hearing more than you are. But I'm living this. I'll share a story with you: When I speak to conferences with folks that are in the activist community – I did one, a conference with Jim Cramer six months ago – what always amazes me is how much support I get from folks that are actually spending their working hours working on this. I watched faces over here. You guys in the financial community? Yes? I find anybody who's in it gets it. The problem is, we don't understand how to fix it. And we can't get above ourselves to really fix it.

And the reality is, this system is our system; we created it. And by the way, it isn't Wall Street, it's us. Everybody wants to drive these returns so intensely. Your 401(k)s which put pressure on the money managers, which puts pressure on the public companies, which drives this whole behavior cycle. And I simply need to say, my view of it is, let's ask ourselves – is this serving us? Because it's our economy, it's our society.

MS KODJAK: It sounds like you're trying to change minds. Do you also have to change laws and regulations?

MR. SHAICH: Yes. Well, you change minds first and then comes the laws, right? And you also change practices. But enough people have to begin to say this makes sense, and you begin to see the kinds of structural change. And there is a momentum out there. There's a number of people. I'm trying to give witness to my own personal experiences, but there's a number of people that control vast resources that get this. And there's a lot of folks in the regulatory community who understand this.

You have Trump speaking to it. That tells you there's something afoot. And it really tells you that there is real challenges here and there's real possibility.

MS KODJAK: How much has the emergence of 24-hour business news media contributed to this? CNBC, Fox Business News. I used to work at Bloomberg. Do they emphasize short-term gain too much?

MR. SHAICH: Yes. [laughter] But this is one place I'm not coming to blame the media. I also think these issues are very, not dissimilar to what we see in our body politic, where we have this environment where we're competing with the Chinese with 20-year plans and we can't agree on a budget for 20 months. Part of that is driven by – I think we all recognize it – you have media that is now speaking, cable news, that is now speaking to various niches of the consuming public and repeating back what they want to hear. I think there's some of that that occurs, again, with the cable business press. I love my friends at CNBC, but a whole bunch of it is, what happened to the stock yesterday; what's going to happen tomorrow. And that focus on simply the trade as opposed to the growth and the inherent strength of a company gets lost often in that kind of discussion.

MS KODJAK: I have a bunch of questions here about executive compensation. I know you touched on it in your talk.

MR. SHAICH: I'm in favor of it.

MS KODJAK: [laughter] People are asking about the income gap between highest paid, the CEOs, versus the workers, whether that is damaging. And also, how much of the executive compensation should be tied to stock price. You mentioned performance.

MR. SHAICH: Yeah, so let's take each of them. I think we all know that over the last 10 to 15 years, certainly since the great recession, it's guys like me, guys on Wall Street that have benefited. And it's actually Main Street that hasn't. And that's part of what we see playing out in our national politics, the folks up in Pennsylvania and Ohio had that plant close because you got some activists driving tougher and tougher performance: "Let's cut that factory, move those jobs, let's do something. Let's drive that stock price in the short term. I'll benefit it from it." That's the thinking. That has a price. And a very real price.

And so, I do think that there are implications for this kind of pervasive short-termism in our public markets and in our private markets that has impact on the country and ultimately has a political price and leads to what I think is unfortunately the benefits are not flowing broadly and equally across the society.

MS KODJAK: I'm going to go to the room in a minute, so if you have a question, put your hand up. I'm going to ask you one more.

MR. SHAICH: Let me just take your compensation one. Another question you asked was how I felt about it. Look, I think that when you have CEOs making 1000 times what the average worker is making, we've got to really ask some questions. You may think that that CEO is worth it, but it's the wrong message. It's the wrong way to build our country. And I don't know that I have clear answers, but I do know that we're in this together. And if we're only in the game of seeing somebody else as a way to accomplish my financial needs and not understand there's a long-term implication to it, I think we're setting ourselves up for trouble.

MS KODJAK: I'm going to ask you a question about a specific company which you may or may not want to address; you talked about the auto company closing a factory. I recently read that Tesla has the bestselling luxury cars in the country, yet the narrative in the news, based on investors' expectations is that Elon Musk is a failure at leading Tesla. Is that an issue of short-termism? What do you see there?

MR. SHAICH: I think it's an issue of Elon Musk is a public relations calamity. [laughter] I don't care what you're doing, discipline, being able to play by the rules and keep your mouth shut and dealing with real facts, matter. And so, I think Tesla is a whole different situation. And it's a question of leadership and his ability to bear the burden and responsibility of leading an enterprise.

MS KODJAK: I think we had a question over here.

ALAN SCHLAIFER: I'm Alan Schlaifer, the chairman of the Wharton DC Innovation Summit. One of the words you used most frequently during your excellent and stimulating talk was innovation. What do you see as the public and private policies and actions to drive innovation, whether in the food industry, in telecommunications, in healthcare, transport, or other fields?

MR. SHAICH: I think you do a Google search of the word innovation today, I would hazard to guess that innovation is mentioned ten times more than it was five years ago. It's hot. Every young person wants to be in innovation. It's where the excitement is. It's the catchall phrase.

Having said that, I'm not sure our large enterprises are actually set up. And I absolutely am convinced the financial pressures and systems inhibit it. And that's really what I'm talking about here. When you put innovation and innovation leadership up against short-term financial pressure, short-term financial pressure wins every time.

And I will share with you a little story. I was speaking at a conference on innovation several years ago. And I actually heard one of the leading speakers on innovation, he was speaking, and he was speaking– I won't tell you who it is and I won't tell you who was in the room, but I would say to you there ten of the Fortune 50 CEOs in the room. And I was speaking at it. And this other gentleman said, "Look, you all live in fear of the guy coming up with the next innovation in a garage that's going to disrupt your business. What you don't understand is you actually have the thing they're more afraid of and is more powerful. You have the distribution. You have the scale. You have the economics. You have the capital." The problem is, the large institutions, the large enterprises don't have the space and time given where we operate within these public markets to actually make that investment ahead of the curve. And so, they have to wait until the next Apple is born in that garage. And then they try to react and it's often too late.

And so, we have this system that's so tightly wound around short-term performance that there isn't enough slack to actually, in the larger enterprises, deliver for the long term.

JULIE: My name's Julie. I write about the restaurant industry for a trade publication called *Restaurant Dive*, and this morning Panera announced a new CEO. In the past few weeks, there's been new CEOs at restaurant companies in general. Would you be able to comment on how new leadership can help a restaurant company with their long-term growth strategy?

MR. SHAICH: Yes. I just saw that coming over here. I'm going to take a contrary view. I argue that the restaurant industry, for example, seems very simple – make some food. There are very few industries that are tougher. It's easy to think about it; it's really hard to deliver it. In 2500 distributed units around the country where you have to basically make the food, bring the people in every day, it's a difficult business.

And I believe deeply that the best way to approach that is with management that's thinking long term. Because the kinds of things that really add value are really these kinds of transformations that we made, and companies like Starbucks have made, and companies like Chick-fil-A have made. And what you typically see in those organizations, long-term leadership. Because it takes time to understand. It takes time to make the commitment and make the bet. And it takes time to play it out.

And so, I think rapid turnover of CEOs – and I'm not commenting on the specific Panera case, but I'm speaking in general – I think rapid turnover of CEOs is usually a marker for a company that is not going to be driving the kind of innovation that is going to be lasting.

DANNY: Hi, Danny, reporter from Medtech Insight. I wanted to address two things that you mentioned. One, you talked about requiring laws and regulations to fix the market. What would you tell folks who would say, "Hey, the market is self-correcting, leave it alone; regulations only add to the cost"? And secondly, you talked about wage disparities. I don't know if all CEOs would agree with what you just said. For you, is that a matter of basic humanity or patriotism? Why do you think that even needs to be addressed in a capitalist system?

MR. SHAICH: Let's take the last question first, that's the tougher of the two. Then we'll go to your first one and you can remind me of it by that point. Look, I think this wage disparity, there are moral questions when you have people that are not able to live on a living wage, frankly. Every one of us has to ask that question for themselves. But I do think that's true. I don't think we want people that are working that are below the poverty line. Personal view.

Having said that, I would go further and say, when you have this kind of wage disparity, it's bad for anybody that believes in the country. It's bad for anybody who believes that– it's bad because it pulls us apart. It's bad because you end up having folks that are so disconnected and so outside the mainstream that we're going to create social forces for ourselves that are going to rip us apart.

And so, I think, as a guy who's done very well, and I'm not trying to be a hypocrite here, I personally believe we do better when we're in this together as a society.

MS KODJAK: Do you know what the ratio was at Panera when you were CEO?

MR. SHAICH: I don't, but it was certainly– how do I say it? I was generally one of the– I generally came out among the top CEOs in the relationship of performance to what I was paid. And frankly, I was a founder; I had founder stock, and I didn't really care about my short-term compensation. What I cared about was where the company went. And between us, what I really cared about was my responsibility to this institution. And I think that it's a much broader question, but I think responsibility – responsibility to each other, responsibility to the

institutions we work for – is not spoken about enough. And that's what we want from our leaders, not simply optimizing for their own short-term benefits.

And these are much deeper questions about what kind of society works best.

CAROL JAMES: My name is Carol James. I spent 40 years in journalism in public affairs, mostly food and agriculture. And so, building on what you're talking about now, most companies address some of the existential threats facing humanity, such as climate change, or systemic threats that affect food and agriculture, such as the national obesity epidemic. How do you look at issues such as those and the corporate responsibility toward them?

MR. SHAICH: I think it's a profound responsibility of leadership, CEOs, the food companies to, frankly, be part of the solution, not part of the problem. And one of the great joys at Panera was our ability to do that.

We were the first one of two companies in '07 and '08 to bring out antibiotic-free chicken, chicken free of antibiotics. In 2010, when the whole world was fighting about posting caloric information, we said why would we not put calories up on our menu? If we're embarrassed about what's on our menu, maybe we should change the menu and not try to hide it. And in 2014 and '15, we made the decision that we wanted to remove all of these artificial colors, flavors, preservatives and sweeteners. And we spent two years doing it. I made that pronouncement internally before we knew could do it because I knew if we put a line in the sand, we would get there. And we've continued down that road.

And all I would say is, I think it's good business to take care of your guests. And I think part of Panera's success is, we were trusted. We're not perfect. We've got lots of issues. We're part of the problem. But I think we continuously have to be asking ourselves, is our only responsibility as corporate leaders maximizing our personal compensation, or is there responsibility in that leadership role; again, to our team members, to having a sustaining enterprise; to our communities, making a difference in it; to our guests, making sure that we're actually adding value to their lives.

MS KODJAK: I'm going to jump in just briefly because Danny asked a question about regulation and I have a couple here as well. This one, and I think it goes to what Danny was asking, in your experience is business overregulated? I know the President talked about rolling back regulations. And there were two specific ones regarding minimum wage policy and healthcare policy. I know I'm pushing it all together.

MR. SHAICH: We're getting to the easy ones! So let's take one at a time. You remember which is what and I'll try to come up with appropriate responses. So the first one was regulation. Is there too much or too little? I think it depends on the issue. And on some issues, we're overly regulated. Certain work rules are grossly overregulated. The inability to adjust, the inability to hire certain kinds of people are really out of control. I was talking to someone yesterday who runs a camp in New Jersey. He can't hire teenagers to work at his camp. That's an example of overregulation.

On the other hand, there are instances where we have things in our food system that shouldn't be there. Need to be regulated. And I think that we need to think about regulation not as a universal good or bad, but something that has a cost, but also something that has a benefit.

MS KODJAK: Then wage or health policy. As a business owner, how much are those difficult?

MR. SHAICH: Well, any time somebody is putting constraints or pressures around you, it makes for greater difficulty. The job of CEO is– any CEO that tells you, "Oh, I get too much pressure," that's the job! We're trying to balance off all of these different constituencies and all of these different needs. And the more regulation that's put on, the more constraints and costs, it just makes it more difficult. But I think it's the same question. We as a civic society have to make some determinations what we want, what's okay. And then we as business folks have to operate within it.

In my view, as somebody who's operated in it for 36 years – 26 running a public company reporting every quarter – my view is, I never worried about that. And I'll tell you why. Because every one of my competitors was getting the same regulation. And really, the challenge to me was not spending a lot of time worrying about what I couldn't control, but worrying about what I was going to do to get that guest to walk past all those other establishments on the street and come to my establishment. That's the way you win when you run a business.

And I think that society, different question, has to make its own determination: What are the environment and the constraints that we want our enterprises to exist within.

CAITLYN LICHUM[?]: Hi, my name is Caitlyn Lichum. I'm here representing the Kogod School of Business at American University. And I wanted to ask–

MR. SHAICH: I knew you guys were business students. I got your eyes.

MS LICHUM: Yeah, we definitely look like it. You mentioned before how the short-term mindset is hurting American companies and the ability for innovation entrepreneurship to develop here in the nation, and I wanted to ask you if you would say that there's a country that's doing this better, that has a long-term mindset and the advancement in entrepreneurship and innovation. And if so, what can we learn from them, other than adopting this long-term mindset?

MR. SHAICH: It's a great question and I don't have a good answer for you. I think that there are countries. The first thing that comes to mind is Israel, which is known as the start-up nation, that has built an infrastructure around this. I couldn't tell you what they're doing from a legislative or regulatory perspective to support it. I think it's, as much as anything, part of the culture and part of living in an export society.

I think there are certain regulations we see coming from other parts of the world that are more progressive relative to driving long-term thinking. I think the US has actually exported this kind of short-term thinking.

And I think it's a very fair question to be asking.

STEVEN GRIFE[?]: Hi, Steven Grife. The public markets definitely have issues, as you mentioned. There's also been a huge growth in the private equity industry in this country over the past 10, 15 years. Do you think it's in the best interest of our country to have so many of our small private and mid-sized companies owned by highly financially oriented private equity businesses?

MR. SHAICH: Do you want the long answer or the short one?

MR. GRIFE: The short one.

MS KODJAK: You've got about five minutes.

MR. SHAICH: I'm going to give him– Steven, the short answer is, no. Our public markets have issues, but we have the same issues playing out within private equity. As you may know, private equity is essentially pools of capital. They have limited partners that are investing in companies. And the problem here is, with private equity, if you're really good, you're going to be in their pools of capital for seven to ten years. If you're not good– I'm sorry, let me say– if you're really good, they're going to try as quickly as they can to get an inflection point and sell that company, to find a way to capitalize on it. Why? Because what drives a private equity firm is essentially raising its next fund. The way a private equity firm receives most of its remuneration is on its 2% management fees.

And so, what they want to do is get a very high IRR and turn around and be able to market that and raise the next fund. And so, you have this short-term pressure that plays out in private equity. If you're not so good, you'll be at the end of the fund and it will run seven to ten years.

What I propose, and actually what I'm doing – I've taken my own money and I'm doing this – we started what is called an evergreen fund. We have three principles in this evergreen fund, and the first one is a commitment to not having any terminal point. So we have no limited partners. It's all my partners and my money. And it's essentially focused on making long-term investments. And we're quite happy to be in it for 20 or 30 years.

Secondly, it's rooted in something we call founder-friendly capital, which is essentially to say– one of the things we find in the innovation economy is increasingly young companies, they want to go finance. It's like a corporate life cycle event, every nine months. But what they don't understand is often these things come with what are called anti-dilution clauses or preferred clauses. And what that simply means is, if we buy your stock, and you need more money in six months, and you go out and the valuation goes down, every existing

shareholder but basically the common shareholders, the founders, they get that new price, which often means that there's an exploding pool of shareholders.

To put it in simple terms, I had a company – I won't mention their name – who was in our office last week. He had raised $70 million. He was facing the prospect of having a round that was at a lower valuation. His equity was going from 15% to 2%.

That's the kind of thing you see. And our commitment in founder-friendly capital is simply saying, if we invest with you, we'll invest with you through all your rounds. And we'll commit to that in advance. We're not going to give you the highest valuation. but we're going to give you consistent capital you can count on. And now as a founder, you don't ever have to worry about financing again.

Secondly, our second principle is what we call sherpa management. I said earlier it's tougher to build a nationally dominant company than climb Mount Everest. The reality is, our role is on the board, not doing financial engineering, but really helping guide, as a sherpa would, people as they try to climb Mount Everest.

And so, I do think that there are better models of how to support business innovation. There are better models than private equity as it's constituted today. And I'm not certain that growing up and being a public company is the right and best path either.

MS KODJAK: We are almost out of time. I want to mention a couple of upcoming events. On April 29th, we have a Newsmaker event to discuss the status of child and forced labor in Uzbekistan, specifically as it relates to cotton production.

On May 2nd is Night Out for Austin Tice, which is a national campaign organize by the National Press Club and partners to help raise awareness and money to help secure the release of a journalist, Austin Tice, who's been held in Syria for seven years. So please go to our website, *NightOutForAustin.com,* and find a participating restaurant – maybe one owned by our esteemed guest today – and go eat some food and support journalism.

And finally, on May 17th, we have a Headliners book event with David Maraniss. His new book is, *A Good American Family*.

And for you, before we leave, our very well-covered and exclusive National Press Club coffee mug.

MR. SHAICH: Thank you.

MS KODJAK: Thanks very much. [applause]

END