

## HONEYBEE CAPITAL

### PUBLICATION #1 (abridged website version)

### HIGHLIGHTS FROM WSJ ECO:nomics CONFERENCE

### MARCH 2009

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### MOST PROVOCATIVE QUOTES:

- Vaclav Klaus, President of Czech Republic, President of EU: “I am stunned by how much faith this audience puts in the government.”
- Michael Morris, CEO of AEP: “the last person who called me a behemoth was Jeff Skilling”. (In answer to the question, ‘aren’t regulated utilities just dinosaurs and behemoths that are waiting to die?’).
- T. Boone Pickins: “We have no cards with OPEC. When you have no cards, you need to get out of the game.”
- Amory Lovins, Rocky Mountain Institute: “Climate protection is profitable, not costly.”
- Eric Schmidt, Google: “green energy, done properly, is more profitable – shareholders who think our energy investments don’t matter are dumb.” (okay I don’t think he actually said dumb, but that was the point).
- Bjorn Lomborg, Copenhagen Business School: “CO2 cuts are among the lowest return investments we could possibly make.”
- Tom Werner, Sunpower: “The energy business is not like the technology business – there are rules.” More friction in energy markets, due mostly to the role of policy & regulation. Yet most analysts and investors use a traditional tech mindset to analyze alt energy.

### BIGGEST THEMES

- **“TRUE COST” theme** – this came up time and time again, the basic argument is that when ‘free’ resources or externalities (water, carbon, etc) are priced more properly, market mechanisms can take over – but until then there are inherent disincentives for responsible use of resources. I believe that the biggest investment theme of the next 20 years will be the re-pricing of goods Americans consider ‘free’ (or close to it) as this ‘true cost’ is more explicitly recognized – water, air, electricity, food....
- **ROLE OF GOVERNMENT:** huge and fascinating counterpoints here. In almost every discussion there was a call for more national policy and a more

active government role. The DOE guys were absolutely mobbed after their session, way more than the VC guys (not that surprising in this environment). But then at the end President Vaclav Klaus (Pres of the Czech Republic, Pres of the EU) spoke about his biggest fear - that the EU was 're-centralizing' Europe, whereas the initial goal was to simply break down trade & other barriers within the region. See his quotes above, he noted that having spent 50 years under the Soviets yearning for free markets like America, he is now appalled to see the level of government intervention here, with loud cries for more.

### **INTERESTING BANKSHOTS:**

- **Role of “R” vs. “D”** – is this a structural risk for America? there are very few companies who are doing pure “R” anymore, and govt/academic support here has decreased as well... IBM and XRX are often cited as cos where “R” has continued. XRX mentioned how this was a controversial area to fund when the future of the company was in jeopardy, but it has been their most important advantage – they do lots of ‘soft’ work on human behavior, send anthropologists into offices, etc. Sounds flaky to some but this work has led to the insights that have fueled their best product development.
  - More specifically, lack of US presence in battery technology came up several times – this is likely to emerge as an area of govt investment as it fits with themes in Washington too.
- **Industry structure:** Are there parallels between early biotech and big pharma and the startup auto companies vs. legacy manufacturers? A number of the auto-related startups are populated by big-3 refugees. Curiously, they are very skeptical of prospects for companies like Tesla and Fisker, and not for the usual reasons regarding infrastructure, manufacturing at scale, dealer networks, etc. Rather, they noted that the challenge of regulatory requirements like consumer safety are underestimated. On the flip side, they note that these make legacy companies overly cautious... so it is unclear how which, if any, will ultimately be successful. This debate does indeed sound a lot like some of the early arguments of big pharma against biotech, though it’s a clearly imperfect analogy. A similar theme could compare alt energy and merchant power vs. traditional utilities, or even state by state, depending on the evolution of regulatory structures.