

Mike Petters, president and CEO, Huntington Ingalls Industries
Coronavirus message
April 5, 2020

Good afternoon, I'm Mike Petters, the CEO of Huntington Ingalls Industries. It is Sunday afternoon, April the 5th, 2020, and I wanted to talk to you a little bit about where we are and where we're going to be going as a company, as a community, as an industry.

This past Tuesday, our company passed the milestone of being 9 years old since we spun off. During that time, during, over that course of nine years we've had lots of success. We've had some, we've had some days where we stubbed our toes a little bit, but all in all, we've had a pretty good run. And we've had a pretty good run, not just on behalf of our employees or our customers, but also for the communities that we're in, for the suppliers that support us and ultimately for our shareholders. What I wanted to talk to you about today is how do we think about where we're going to go from here? And as I said before in a past couple of videos I talked about; we're in a response mode to this COVID-19 crisis, but we also have to be thinking about recovery.

And so there's a lot of combined things going on now around response that are going to set us up for a very strong recovery on the other side of this, whatever that looks like. What I want to talk about today though is how things are going for all of those folks who have some stake in our success.

First, I want to talk about our employees and the things that we're doing to help our employees manage the crises in their families and in their lives, and also allow the employees to support where we're going to go. I think I mentioned before we started, right at the very beginning with a philosophy of: Let's make sure that we create as much flexibility for our employees as we can so they have the tools they need to respond to this crisis. We continue to do that whether it is copay eliminations or liberal leave decisions that we made at the beginning. We have been on the front of trying to make sure that we give our employees as much flexibility as we can.

Just recently Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. And we've aligned our liberal leave policy to the CARES Act which we believe gives our employees even more options to deal with the challenges that they may be seeing in their personal situations. We also changed our posture from: Let's have everybody be working onsite, to let's have as many people working off-site as possible. And today about 25% of our workforce is working remotely in support of our customers and in support of the missions that our customers are asking us to support.

Finally, we know that there's a lot of our employees that have to be present to do their job, and so we've been following the Centers for Disease Control and Prevention guidelines for how we create a safe workplace to the best of our ability. Those guidelines have continued to evolve and our teams, particularly the teams in the shipyards, have been innovative and creative in supporting, and following, and implementing those guidelines and going forward. This is really important in my mind, because

we're going to be — for the next 12 months or so — we're going to be operating in an environment where there are likely to be folks in our communities continuing to test positive at some level. And so as we work, we're not going to get to a place I don't think we can hope for, but I don't think we can expect that we're going to be out of place where there will be no positive tests in our in the communities where we work. So I think we have to understand our operation, going forward in that environment, and we continue to strengthen that part of how we plan to operate.

With respect to our customers, our customers have been very clear across the board. They have been very clear that they want to find a balance between the health and safety and resilience and sustainability of our workforce. The missions that they ask us to do because, as I talked last week, national security never sleeps. We see that even this past week, we've seen even more requirements on our national security partners as well as their understanding of their role, the customer's role in enhancing and maintaining the liquidity of this industrial base that supports them, and that is really why the defense industrial base was declared to be mission essential from the very beginning.

I have been involved with meetings with the administration through the Business Roundtable and the Aerospace Industries Association. I'm on the executive community of AIA, and I'm a participant with the Business Roundtable, and I'm on the COVID-19 Task Force with the Business Roundtable. And we've had direct dialogue with leadership in the administration, starting with the president but including the national security adviser and the economic adviser as well as other members of the administration who are working to solve this problem.

In addition, not just me but the presidents of the shipyard and I have been involved with lots of discussions with members of Congress about how do we find the right balance on this workforce liquidity and mission that we need to find to not only respond to this crisis but then recover from this crisis on the other side.

With regard to our suppliers, in the same way that we calculated that the best way that we can provide the strength of the defense industrial base for Huntington Ingalls was for us to persevere and keep our facilities open and support our customers. Our hope is that's what you will do too. And we know that over the thousands of you spread across all over the country, varying sizes, varying communities, varying rates of engagement on this, we know that you're not quite sure yet what you have to deal with.

First of all, if you have issues, we want you to tell us what those issues are. Secondly, we want you to know that whatever provisions that the department our partners actually passed to us relative to liquidity, we're going to pass those directly on to you. For instance, there have been some changes to the way the cash flow payments can be made, cash payments can be made to small and disadvantaged businesses. And last week we paid invoices to our small and disadvantaged businesses but in the total amount of invoices that we paid two-thirds of those payments were advance payments. So we want you to know that we understand the situation that you're in. We know that the small and disadvantaged business part of our supply chain is really going to be, have some questions and some issues, and things that they've got to work through and we want you to let us know how we can help you solve those problems.

With respect to our communities, I have always been proud of the generous spirit of the employees of HII. We've talked already about the ability for our company, for parts of our company to pass protective personal protective equipment to our local hospitals and to the folks that we think will need it. We are

putting in place, we're trying to find ways to put in place to encourage blood donations. Our blood donor, our blood drives around the country right now in all cases is low, and we're encouraging our employees to do that.

And let me just give you one example of how the HII employees respond to their communities. Last Monday, in Los Alamos where we're a U.S. Department of Energy contractor, a food drive was set up, and in two days we raised \$22,000, for that food drive, and that will in turn support a 120,000 meals for that community. That's an incredibly indicative example of the kinds of things that happen when our employees, not only our employees are under stress, but then they recognize that their communities are under stress and they reach out to support those communities.

What I'd like to point out to all of those stakeholders here is that at this point in time we are probably more isolated than we've ever been and sometimes we lose sight of those things that are happening in our communities that need our help and so now's the time for you to be aggressive in stepping and trying to find ways to not only deal with your own situation but then step out and try to help your neighbor out.

Finally, for our shareholders, what I would say is that you know that if we don't get those other things right with our employees, and our customers, and our suppliers, and our communities, we don't get that right, then we can't get it right for you. But we're working hard to get that right and where we are with you all, you know that over the last couple of weeks we've strengthened our balance sheet, we've created more liquidity for the company which will help us sustain a very strong recovery on the other side of this crisis.

We've also added to our backlog. We were awarded a contract. Andy Green's (Technical Solutions) business was awarded a contract to support the U.S. Postal Service, a pretty large contract for his business. And just Friday night, we were awarded the LPD 31 contract from the U.S. Navy. So we've enhanced the backlog, we're supporting our communities, we're supporting our employees, we are supporting our suppliers, and we are critical and of mission-essential importance to our customers. It's too early for us to say what the impact to our business is of this crisis, but we can say that we are managing all aspects of that to give ourselves a running start on a recovery on the other side of coming peaks.

Finally, what I'd like to do is, I just like to tell you a little story. I have had the privilege of interacting with lots of leaders from all walks of life, strong leaders from all walks of life, who have led large organizations or small organizations, who have great insight into how you deal with certain situations. I want to tell you about a friend of mine who several years ago was taking on a job that he had aspired to. He had visions of what he could accomplish in that job. He had plans for what he wanted to do. He had it all mapped out and he was excited about the opportunity that was coming. And shortly after the job, a crisis hit his business. It hit him, it would actually hit his organization in a way that he had not foreseen. And a couple of weeks after that as he was going through the response and the recovery, he and I were talking and I said, "Well, how does this make you feel?" And he said "Well, you know I could step back and say, 'Doggone it, I had all these dreams and ambitions and aspirations, and now I'm not going to be able to do it, and I could become a victim of the challenge, a leadership victim of the challenge,'" he said, "but I thought about it, I thought you know what, these problems that came up out of this crisis, these are really, really big problems. And I can't think of anybody else that I'd rather have to solve those problems than me."

Now that's not his ego talking, that's his attitude talking, and I want to ask you, as a leader of an organization, a leader of any institution, a member of any of the stakeholders of our business, when you look in the mirror tonight and you think about the crisis in your life, in your family, in your situation, and your company, your institution, wherever you are, when you look in the mirror tonight, I want you to ask yourself a question. With all these crises out there, who else would I rather have to solve these crisis than the person that's in the mirror?

Thank you.