



May 20, 2020 Podcast Transcript

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Announcer: Welcome to HII Talking Points, a Huntington Ingalls Industries podcast. Twice a quarter we'll sit down with HII leaders to discuss topics of interest in our company and industry.

Phoebe Richards: Hi, everyone, and welcome to HII Talking Points. I'm Phoebe Richards and talking with me remotely today is HII President and CEO Mike Petters. We're conducting this interview online versus our normal in-person setup due to the coronavirus pandemic. Mr. Petters, thank you for joining me.

Mike Petters: Thanks, Phoebe, for having me again. This is a new setup but we're going to make it work.

Phoebe Richards: Yes, we will. So speaking of the pandemic, you have spoken about the pandemic several times over the last six weeks or so, both to our employees and to our external stakeholders. Today I'd like to hear your thoughts on what the company is doing in terms of this crisis and how you see it shaping HII going forward. So let's get started.

Mike Petters: Okay.

Phoebe Richards: So early- to mid-March was when the pandemic started taking hold in the US. Can you walk us through the first steps and key objectives you and senior leaders had in those first few weeks?

Mike Petters: I think that we mentally – somewhere in the first ten days of March – not just HII but as a country, had to come through a posture change from if we get this to when we get this, what are we going to do? And you know, I think that sort of became, frankly for me and for most of the country, I think – I'm going to credit the NBA.

When the NBA, let's see, I think that was the eleventh of March, they had a single person test positive. One of their players at one of their games tested positive. They suspended the entire league for 30 days. And that was clearly a lot of forethought went into that, but that was a situation – if you go back and you read about where they were, they were actually on their toes back on January to having the discussion about what are we going to do when this happens, so they were ready.

I think – I watched that night – I was on travel that night and the next day I was in Pascagoula and Brian Cuccias and I had a conversation about this is not an "if" question; it's a "when" question. And our crisis management team met for the very first time the next day.

Now the thing about our company is while we – you could argue maybe we were a little flatfooted here, what I would say is that we do crisis management all the time. And so when we scheduled the crisis management team for the next day, basically my staff, the team members, they had 24 hours to get ready. When we had our first meeting, we were ready because we have really good muscles when it comes to crisis management. It was a long afternoon of meetings talking about what the objectives

were going to be and how were we going to achieve those objectives, and we settled in on this idea that it's not if; it's when. What does that mean? Now you've got to remember, the only thing we knew at that point in time was that people could be coming to work and not exhibit any symptoms, but they could be contagious, and that's still the case, right? But we didn't have any way to check that. So we quickly came to this view that we are going to have to operate for the - not just in the near term but for the mid-term and for the long term we're going to have to operate in an environment where we're going to have people in our workforce that are going to test positive and people in our communities are going to test positive.

And once you get that mindset of, "this is going to be going on and we're going to have to continue to operate in that environment," it becomes pretty clear what you have to do. You have to make sure that your people have the flexibility to deal with whatever disruption they're going to have in their lives, and you need to do everything you can to make the workplace as safe as possible. And so you've seen both of those, right? You've seen the host of policy and procedure changes that we've made relative to sick time and PTO and liberal leave and all of those kinds of things. You know, you've seen that to give the employees the flexibility, and you've seen what our operations folks have done relative to making the worksite safer: shift changes and masks and those kinds of things. And that's been evolving. Both of those have evolved over time. We didn't have all of that completely – nobody had all of that sorted out on the 13th of March.

So that was sort of the very first thing that we jumped into, was we've got to give our employees some flexibility and we've got to have a safe place to work. The second thing that we jumped into was we've got to make sure that the franchise that we have and the responsibility we have as critical infrastructure is preserved. And if you look at the assets that we require to do that. The first one is the employees. And of course we put the employees in the first objectives. You know, we've hired over 25,000 employees in the last five years, and we've spent over half a billion dollars training those folks. That's an asset for – not just for HII but for the entire country, to – you know, it's a national asset related to our national security. And so investing in that and making sure that we have the flexibility and the liberal leave and all that stuff worked out great.

But the other part of it is we need to be more liquid. We need to make sure that we have the balance sheet that's going to support us. And so in that timeframe we actually went and established another bond for a billion dollars and we expanded our credit line so that we have the liquidity to survive for any sort of potential challenge we have out there. Now the good thing is that our customer keeps paying us because our customer has declared that we are critical infrastructure, and so that's all gone really well.

The third thing is that even back in the middle of March, I knew that I was getting information from all kinds of places, and some of it was good and some of it wasn't and I was having a hard time sorting that out. And so we established on that day that HII needs to be the credible source of information for our employees.

So I think those three principles have – they were established at that very beginning and they have served us very well throughout this whole process. And I think I've said it before: Our first positive case showed up about nine days later. So by that point in time – we were no longer prepared at that point. We were responding. And – but we had been – we were responding at that point basically with a running start.

Phoebe Richards: Speaking to that, a lot of thought process going into things, it's not just the company but our greater communities at large. I mean, this pandemic has been hard on the economy and smaller businesses including suppliers that we have throughout the country. So how can HII and the nation at large mitigate the impact on our important but vulnerable supply chain?

Mike Petters: The point that we've been trying to make and the point that frankly the government has been trying to – the Pentagon's been trying to make is that the defense industrial base's critical infrastructure needs to continue to operate to support the missions that are going on even today. It's not like the world became a less threatening place because of the virus, and so our national security requirements are as big, or bigger, than they were before this happened. You can read the newspapers and you can hear that some of the folks who are not necessarily our friends are kind of throwing their weight around a little bit, and we still have to respond to that as a nation. In order to do that we need to be able to do that from an industrial base standpoint.

In our particular case, we have several thousand suppliers located in virtually every state. I think we would say that in that supply chain we have over 400,000 people working across the country supporting the products that we have. What we've been able to do, especially for the small and disadvantaged businesses, is we've been able to – under the terms of their contracts and under the terms of the contracts -- with the Pentagon, we've been able to accelerate some payments to them to help them maintain their liquidity during this crisis. We're paying them for work that they're doing or work that they're about to do or work that they've done, but what that does is that helps them with their liquidity challenges that they would have.

We've spent more than \$50 million of that kind of money into our supply chain. On a given year we spend anywhere from \$3 billion to \$4 billion in that supply chain, so you know, that's just normal payments in a normal course of business. So this is in addition to that and kind of an early payment timing thing to help them with this point in the crisis. But the point of it is that we have these relationships and we have these contacts and we can actually not only create national security by doing this, but we're actually creating economic security in those communities where this is happening. And so that's an important role for all of us in the defense sector right now.

Phoebe Richards: So we don't know when this crisis will end or how an end will even be determined or what that really looks like. So, you know, from your perspective, is HII's infrastructure prepared to support operations under these circumstances long term?

Mike Petters: Well, I think it's responded very well so far. You know, time will tell. We'll continue to evolve as we go forward, but you know, I think one of the more remarkable things about the whole pandemic worldwide is that, you know, about two months ago everybody stopped going to work and got on the internet, and the internet did not break. So that's a remarkable kind of fact, is that the internet was basically ready for this kind of activity.

We had to expand some of our licenses and we have to upgrade everybody's thinking about security, so we've had to do some of those things. But those are things we know how to do and we've done them and as we need to we'll continue to step in and do those things. But I feel pretty comfortable that we've got infrastructure that allows us to do that.

Phoebe Richards: And one more question and it's a topic we've addressed. We've talked about transformation in previous episodes. Do you see this crisis – kind of taking a step back, do you see this crisis as a catalyst for long-term or accelerated transformation?

Mike Petters: What I'm seeing is that it's actually happening. Whether the pandemic was the catalyst or not, I think some of the changes in the way that we're thinking about the problem we have basically energized the organization to take advantage of tools that we had been working on. But now instead of them being available to us and maybe something we'd introduce in the next five years or so, these are things that are getting introduced and have ready for us to use in the next five weeks. I think it's kind of interesting that for most of our careers we have talked about, "We need to transform our company. We need to disrupt our company. We'll come up with a program plan to do that. We'll put some transformation targets or disruption targets into people's performance agreements, and we'll do all kinds of those things the way we do them. And we'll make progress on the margins." And then what's happened here is that this pandemic has basically empowered the organization to go do it itself, and so the organization is actually transforming itself organically.

Those of us in leadership positions are marveling at this. When I talk to other CEOs they're all talking about how many folks they have working remotely or how many ways they've changed their manufacturing operations and that they're not going back and that they're more productive. And I frankly believe that the companies that try to go back to the way that it was at the end of February are going to fail. I mean, some people have said that this was a black swan. I don't think it was a black swan, because people were – there were enough people out there that were writing about this and talking about it. I think this was actually a knowable risk but that in our own minds, when you think about risk, you think about the likelihood and the consequence. And I think we underestimated both. We underestimated the likelihood that this would happen and we underestimated consequence if it did. And as a result we were flatfooted to start with and we're playing catch-up.

But I'm proud of our team and I'm proud of the folks in the organization who are finding new ways to get missions done every day. Couldn't be more proud of what we're doing and where we're going to go.

Phoebe Richards: Well, Mr. Petters, thank you for sharing your thoughts today and thanks to our listeners for tuning in and, you know, please continue to tune in and be safe.

Mike Petters: Thanks, Phoebe, and thanks to everybody out there for the work that you all are doing.

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Announcer: Thanks for listening to HII Talking Points. This podcast was produced by Huntington Ingalls Industries' corporate communications team. We welcome your feedback and ideas for future podcasts at www.huntingtonIngalls.com/podcast.

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