



## Dec. 9, 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 with me today to close out our last episode of the year is HII president and CEO Mike Petters. Mr. Petters, as always, thank you for joining.

**Mike Petters:** Once again, Phoebe, thanks for having me on this afternoon.

**Phoebe Richards:** Of course. So I think we can say 2020 has been a tumultuous year, and events over the past few months are shaping what the first half of 2021 and beyond will look like. So getting right into it, we had a major election in early November. Do you anticipate any changes to the business or our industry as a whole as a result?

**Mike Petters:** You know, Phoebe, I get this question a lot, and I kind of look at a couple ways. Anytime you have new people, there's going to be some changes. But I think that they're the kind of changes that we're used to. They'll be around the edges of what we're trying to do. There may be some new sets of priorities. But we've kind of had a really interesting time over the last year or so. As the Pentagon and our other customers have taken a look at what's going on out in the world, that really drives their thinking.

And I think that, by and large, the changes will be there. There will be some new priorities, but I don't think it's going to be tremendously dramatic for us. We come into [2021] with a backlog of 45 billion dollars, and we're working through all of that while this kind of gets itself sorted out. I think what's noteworthy is as the election is played out, there hasn't been a big push one way or the other around spending on security.

I think it hasn't been a major issue of the campaign. I think that, you know, we always have a bipartisan support for national security, and I think it's all – it's still there. So I think we're gonna be in pretty good shape.

**Phoebe Richards:** Okay. So status quo for now?

**Mike Petters:** We're going to continue to innovate. We're going to continue to look to try to figure out what the future's requirements of national security are going to be, and how we invest in such a way to help that become a reality. So I don't think it's really sitting on where we are so much as we have a really solid foundation, which gives us an opportunity to help all of our customers go in direction that they want to go. I guess I would say that the change in administration is not going to have a tremendous impact on what that direction is. I think that direction is pretty persistent.

**Phoebe Richards:** Understood. And speaking of that direction, there's been talk about the Navy's future fleet and a potential growing number of ships. So how do you see that playing out, and are we prepared if there is a call for increased shipbuilding?

**Mike Petters:** Wow, that's a great question. Most recently, the Pentagon and the Navy put out a plan for what the Navy should look like in 2045. The programs that we're involved with today are very well-represented in that plan. And the programs that the Navy wants to develop in the future – we've been investing in those programs. And so I think that on the face of it, I think we're well-positioned to support that plan.

I do think that that's one of those things that'll get reviewed going forward in the new administration as to whether that's the plan or if there some other version of it. But I think that instead of getting too caught up in the numbers of different platforms and things like that – which is what everybody wants to talk about – I think that you can step back from it and say what are the long-term currents in that plan that are going to be real?

And from my standpoint, I see a Navy that has to be bigger. It has to be bigger in terms of it needs many more ships and many more platforms, manned and unmanned, but also the platforms are going to need to be smaller, faster, and cheaper. And so I think that the strategic challenge for us is how do we innovate in such a way to be competitive and valuable in that future. That's not terribly different from where we are today, but it is a little bit different.

And I'm excited about that because I think we've been doing that. We've been thinking about that now for a few years. We've invested in unmanned. We're investing in manufacturing processes. We've invested in a shipyard of the future. We've done all of those things that I think right in the heart of things we should be doing, and it positions us, but now we're going to have to go and perform and execute on that.

**Phoebe Richards:** And it sounds like you'll see continued innovation across the entire business across the three divisions then.

**Mike Petters:** Oh yeah, without question. The reality of the pandemic is that our national fiscal posture is not as strong as it was a year ago. And so innovation that creates more efficiency and more effectiveness is going to be the name of the game. I think we've been doing that, and I think we're positioned to continue to do that in ways that will directly support all of our customers.

**Phoebe Richards:** So speaking of COVID-19, obviously, it was one of the most disruptive aspects of 2020, and it's something that you and I have talked about a lot this year. So as we move into 2021, how do you see COVID-19 impacting or continuing to impact the business?

**Mike Petters:** You're right. We've talked about it a lot. I feel like I've talked with everybody about this a lot. I know that everyone else out there is talking about it a lot. It's probably the topic of conversation every night at every dinner table. I think that we are a company that is used to handling crisis, whether it's an environmental issue or a natural issue, like a hurricane or a fire, whatever it is, we have some pretty good, and we've talked about this, we've got some pretty good muscles around crisis management that we use pretty well.

I think we made a very important distinction at the very beginning of this, and we recognized that it wasn't a short-term crisis. That, in fact, the crisis was not a hurricane in our shipyard or a fire in our community, it was actually a human capital crisis in our living rooms at home. And so when we did that, once we understood that and we were able to give our employees the flexibility they needed to deal with that crisis, and we've worked our way through that, we're now in a pretty good place relative to the safety of our worksites, the protocols that we have in place.

I'd like to say that coming to work might be the safest thing you can do every day relative to what's going on out in the rest of the community. We certainly strive for that. So I think that sets us up for whatever the duration of this is. And I also think that because we recognized that this was not a hurricane and it was not going to be over in a couple of days, from the very beginning, we decided and we worked hard, and the whole team – from the folks on the waterfront to the folks in customer sites around the world – the whole team has recognized that we don't know when the end date is.

Let's make sure that whatever we put in place, we can sustain for that. And that's what I see is happening. I think we're well-positioned for what we're going to face, and I think we're going to face a pretty tough winter here. But that's not the end of the world. That's just we're going to face that. We're going to fight our way through it, and we're going to do okay in that.

And, you know, the last couple of days, there's been announcements of vaccines, and we'll see how all of that works out. I mean it's a lot of logistics and everything else. I think it's really important for all of us to just remember that this is going to be going on until it's not. And if you start trying to predict, it'll be over by the end of second quarter – I've been hearing some of that – and I think that's optimistic. It's good to have that kind of hope, but I don't want anybody to hang their hat on any of that because who knows what will happen.

I want to be able to persevere through the end of this and accelerate out the other side of it, whenever that is. I'd hate to think that we get to the end of the first quarter and we're not where we thought we'd be, and that creates a lot of challenge for us. So I think we're in a pretty good place. I'm proud of the team and I'm honored to be part of the team that is persevering in this crisis. Because in our communities, we're driving a lot of good behaviors at work, and at home, and out in the communities. I'm proud of that.

**Phoebe Richards:** Great. Speaking of which, just taking a step back, what do you think the defense industry's role is in terms of COVID-19 recovery?

**Mike Petters:** There was an Assistant Secretary in the Pentagon that said defense spending is at the nexus of national security and economic recovery. And I think that's about as well said as it can be. I would add that there's not much difference between economic security and national security. And so getting the economy moving again is critical to our national security. The good thing about the defense industry, in general, we're not the largest contractor out there. But even we have 5,000 suppliers in virtually every state.

When we can go and invest in programs that we know we're going to buy anyway, we're creating economic stimulus on the ground in communities across the country, communities that have been hit pretty hard by this or are being hit really hard right now. We have interesting things going on in our in

our society right now. On the one hand, you see the unemployment rate seems to be coming back. I think the last time I saw it, it was like eight or nine percent, after that big drop to 15 or 20 percent.

And so you start to say that's recovering. But that rate doesn't account for the people that have just decided to not look for work. And 50 percent more women have decided, because kids are at home and they have more than their share of work at home, 50 percent more women have chosen to not look for work than men. And so we're starting to get some real imbalances. You could look at it and say it's eight percent, but in some communities, it's going to be a lot more than that, and it's going to be a lot stronger.

Defense spending is a way to go back into those communities with real jobs, high technology opportunities, to get folks working again, get payrolls moving again, to get bills paid again. That's a faster way to get there than virtually any other way to do it. I'm not sure that's being heard right now. We're trying hard just to make that message. But I think this is one of those investments with a really high return.

If you're going to buy something, anyway, let's do it now when it has maximum impact. That's the way I think about it. We'll see what happens with that.

**Phoebe Richards:** Very Good. Well, Mr. Petters, thank you for sharing your thoughts and insight today, and thanks to our listeners for tuning in. We'll see you in 2021.

**Mike Petters:** Well, I hope everybody out there has a very, very safe and happy holiday. Please take care of your families. Be aware of all the protocols. Let me just say I was in a meeting last week where the head of the CDC was talking, and what he said was the number one source of transmission right now is family gatherings. So as you're thinking about your holidays, be very thoughtful and mindful and respectful of the virus and how it could impact your family.

And if that means that you have to do things differently, just that's the story of 2020. We're all doing things differently. But be aware of that and see what we can all do to help cut back on that transmission rate. I hope everybody has a safe holiday. Thank you.

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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](http://www.huntingtoningalls.com/podcast).

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