Impact of COVID-19 on the Manufacturing Industry. A Q&A Session with Roger Atkins of the NTMA.

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A Q&A Session with Roger Atkins of the National Tooling and Machining Association and Jordan Blask, Katherine Koop Irwin, and Edward Grattan of Tucker Arensberg, P.C.

Every sector of the worldwide economy has had to react to the COVID-19 pandemic and the manufacturing industry is no exception. For the third interview in our series of interviews with local business leaders regarding the impact of COVID-19 on the economy, Jordan Blask, Katherine Koop Irwin, and Edward Grattan, labor & employment, business, credit, and finance attorneys, at Tucker Arensberg, P.C., a Pittsburgh based law firm that represents clients both regionally and nationally, "sat down" via Zoom Meetings, with Roger Atkins, of the National Tooling and Machining Association to provide his perspective and outlook related to the effects of COVID-19 on the manufacturing industry.

Roger Atkins is the President of the National Tooling and Machining Association ("NTMA"). Roger was appointed by the NTMA Board of Directors and joined the association following a successful career in contract manufacturing and in consulting for manufacturing companies. Roger knows the NTMA well, having joined the association in 1979. He previously held every officer position for NTMA at the national level, including serving as NTMA Chairman in 2012. Roger also held various officer positions within the Houston, Texas NTMA Chapter. Roger began his career at his family's contract manufacturing business, immediately after graduating from Texas A&M University. Over the years, he spearheaded significant growth in multiple manufacturing companies, all of which also belonged to NTMA. His greatest success was growing a Texas-based manufacturing company from $22M to $156M which included acquisitions and international greenfield startups. For the past several years, Roger has operated RJ3 Enterprise, LLC, an executive advisory company, guiding small to medium sized manufacturing companies through growth and change.

Tucker Arensberg: What is NTMA and how does it serve its members?

Roger: The NTMA is a 75 year old association that was started by a group of individuals who got together and started an association because of their need for a skilled workforce. I find it interesting that after 75 years, we still find obtaining skilled workers to be one of our biggest challenges. After over 75 years, our association is made up of 1,200 small to medium sized manufacturers that provide precision machine work. The NTMA is made up of privately held entrepreneurial based and family-owned businesses for the most part. All of them are based in the United States. The typical member profile ranges from $5 million in revenue to $100 million in revenue. Probably with our sweet spot in the $30 million revenue range. These folks truly are the backbone of U.S. made goods.

Tucker Arensberg: Prior to COVID, what was the state of the manufacturing sector, more specifically, the precision tooling sector, and the industries that they serve?

Roger: The industry was strong for the most part. Our members served anything from oil and gas companies to aerospace, to medical defense, to automotive, to industrial component companies. So they serviced a wide range of machining needs. But, the good news was, our members were relatively busy, and some extremely busy prior to the second week in March. Frankly, that's what is going to eliminate this from being so terribly devastating to the small to medium sized manufacturers across the country. They had strong backlogs going into this thing. It's like when you get a locomotive going down the tracks, you want to slow it down, but it takes a little while to slow it down, and so most of them really were strong. The first quarter was quarter for our members, and some of our members say the second quarter was strong as well. I think the real concern is the outcome for our members in the small and medium sized businesses going into Q3 and Q4.

Tucker Arensberg: In terms of the financial impact on things right now, is it limited to businesses burning cash or is it a broader impact that you are seeing for the third and fourth quarter. Is there stress on supply chains, etc.? What's your view on how the financial impact might evolve over the second half of this year?

Roger: I think there's always a degree of burning some cash through the shutdown, but the real key is the decline in incoming orders. I think that's more my concern for our members. I would be willing to say by the first of April to mid-April, you were starting to see a decline of incoming orders. Definitely not continuing at the rate that they had been coming in. We have some part of our membership, probably a third, that's seen little impact. They happened to be in the "right" manufacturing areas. If you're on the medical side, you didn't see a decrease, you actually saw an increase. I'd say for a third of our members, there's been significant disruption, but they have still have been able to run their businesses. I think another third of our members are disrupted, and that's primarily because of the decline of new orders coming in. Where our members had a strong backlog of orders, it will take them through Q2, maybe into early Q3, but the degree of orders that are coming in are not at the same rate that they were pre-COVID. So I think that's going to affect some of our members. I will say the PPP loans have been instrumental to our membership. We did a recent survey and 92% of respondents received a PPP loan. That will help them for three to six months. Then in three to six months, we could be looking at a whole different picture.

Tucker Arensberg: In your survey for PPP, of the 92% who responded and received a PPP loan, do you have a sense of the size of the loans that people were receiving?

Roger: I don't, but I would say they are in the $500-$750 thousand range. They're small to medium sized companies. I mean, we have smaller and larger outliers on each end, but I would say we are in the $500-$750 thousand range.

Tucker Arensberg: On average, how many people are employed by most of the NTMA members?

Roger: I would say 35.

Tucker Arensberg: Have they reported any reductions in labor force?

Roger: Yes, we have had some that have furloughed some employees. But, I think the good thing is a substantial amount of our membership were essential businesses. Ninety eight percent (98%) of our businesses were deemed essential businesses. So to me, that's good news. But yes, some have reduced it. Those that are in the automotive industry have probably suffered as much as anyone. It has sort of been supply-chain oriented as well. I would say most of our members have held on to their employees. Many of which did so through PPP, as a way of holding on to them, which was what the loan was intended to do.

Tucker Arensberg: What has been your membership's experience in dealing with the Family's First Coronavirus Protection Act or Response Act?

Roger: Going by the surveys and those that we contacted, we believe that many companies have been very fortunate. Those who have employees that may have been exposed to COVID, they have self-quarantined and followed internal procedures. Small and medium manufacturers can respond quickly. They are much more agile than the large manufacturers, or the large corporations. Our members got their shops in compliance. They were almost in a pre-compliance mode before we started getting compliance regulations on how to run your shop. They started going to multiple shifts, trying to keep certain workers in certain areas, those kinds of things. So they actually were in a pre-COVID internal environment before the real regulations came out. When the real regulations came out, it was really a fine tuning for them. The administrative types of employees were asked to work from home as much as possible. Just trying to eliminate the number of people at the facilities at any one time.

Tucker Arensberg: Have you had any issues with your members' employees being either able or unable to wear masks because of what they are doing? The idea being that they need unobstructed eyesight, etc.?

Roger: I would say probably the first thing that came out of the masks was the ability to get them at the time, like with toilet paper. So, I would say that most all of our companies, and I always hate to be absolute, are wearing masks in their shops. I think the biggest change has been the wearing of masks unless other safety gear is required, but I've seen it and I have not heard of any of our members having a push back. I think there's always probably individual cases that might be issues or certain reasons for not wearing masks but, I think our industry has adopted it quickly.

Tucker Arensberg: As far as people being unemployed, and then being recalled to work, have your members seen any issues or had any questions? Often times we are asked and we have seen from other clients that someone that's on unemployment, particularly receiving a CARES Act stipend, under emergency unemployment compensation, may be receiving more based on their unemployment, as they earn by returning to work. And so, generally, what have you been seeing or what are the questions or issues, if any, your members have been experiencing regarding that issue?

Roger: We have 1,200 members, but my span is limited, so I want to be very frank about that. But the one industry that has expressed such issues to me has been the automotive industry. They got PPP loans and yet they furloughed employees, so they were going to have to deal with that part of the issue of letting people go, and then getting people to come back. But, I'm talking about just a limited handful of people across our group that have had any issues like that. After the PPP loan, we had some questions about how long after receiving your PPP loan, if things didn't change, until you would have to reduce your workforce. Forty percent of our people who got PPP loans kept their employees, so that's solid. Almost 50% stated that without the PPP loan they would have to reduce their work force. Some reported, that if it continues to go on longer, with the lack of orders, another 30% said they could eventually have to let workers go.

Tucker Arensberg: Are you seeing any increase in available members of the skilled workforce, as larger companies downsize? Are they putting skilled workers into the employment pool that might otherwise benefit organizations such as NTMAs members?

Roger: I know one particular member that needed to replace someone, but they said, they never had any kind of employment pool. With skilled workmen, we just never had an employment pool to draw from. So therefore, you keep people that maybe would be best suited somewhere else. But now, we're starting to see some quality people enter the unemployment market from larger companies. The mega companies, they spend a lot of money, have much more money for training, specialized training, and certain things that could be very beneficial for a small to medium sized company – not just manufacturing. But, I think there's going to be, from some of these large manufacturers, people entering the work force that's going to be beneficial to the small-medium sized manufacturer. But that's how manufacturing is. You are always going to need a qualified machinist, and if you find a first-class machinist, you're going to hire him in a downturn. But, they're just so hard to come by. And so we have people that are actively hiring.

Tucker Arensberg: Are there companies anticipating an opportunity factor to come out of this situation, from new orders or from a consolidation due to some businesses not surviving? How are employers managing the

workforce versus potential opportunity factor?

Roger: Yeah, absolutely. I've been writing articles on it, actually. I hate to say, but if you look back in our recent history, in every crisis, whether it be a physical crisis or a war crisis or some other financial crisis, they all create opportunities, and I've just tried to lead our association to not take our eye off the ball. There's going to be opportunities because the industry is strong. There are people that are going to survive this. You look at the potential of reshoring or on-shoring because of the supply chain disruptions that we've seen over the last 2.5-3 months, created by COVID. I'm working with one of our key-note speakers for our conference at the end of October. He is a reshoring/on-shoring expert. He will discuss the amount of work we could see come back to the United States because U.S. companies have outsourced certain sectors and such outsourcing crippled them because of supply chain issues after COVID. So I'm really focusing on our members being solution providers to large OEM supply chains. I think it's definitely something our members are keeping an eye out for in hopes that they could see more work come their way.

Tucker Arensberg: Do you generally see any type of merger cycle amongst the peer companies in the NTMA because some companies are going to be a bit distressed right now and probably others are going be the winners due to a stronger balance sheet?

Roger: Well, I think from an NTMA member standpoint, it's more difficult to take advantage of acquiring targets. I think it's hard for members that are in the mix of the fight, to find opportunity to acquire someone, even if they're troubled, because they're just fighting to survive. They might survive, and they may see the other side of this challenge we're on, so I don't think that a very large percentage of our members are going to have the cash to acquire a fellow member as a result of COVID. I think we do have a handful of our members that are in a position to acquire some smaller companies. I actually just talked to a guy last week on that very issue and he said right now that they're just starting to think about acquisitions during this downturn. However, private equity companies have been focused on manufacturing and the oil and gas industry for a long time. The last big downturn, in oil and gas industry, you can't believe how many private equity people would call me for advice on acquisitions. There's going to be opportunities for acquisitions to come out of this.

Tucker Arensberg: Are you seeing any operational changes coming out of this generation's first pandemic? What kinds of changing operational moves or pivoting do you see happening right now?

Roger: Well, I think of augmented reality. I think you're going to see a lot of things go electronic. For instance, instead of having people in your shops. I think the days of sales people walking in and helping you could be changed from you putting on a set of goggles and them walking you through it. I think we're going to see a lot of electronic changes within our companies. And this is something I've been trying to encourage our members to get behind. In any disruption in our industry or a major disruption such as this, there are opportunities for change. I think a lot of companies are going to look into more automation. After COVID, the people who may have been reluctant to go through with automation are going to be more open to change. When you see what a pandemic can cost in terms of workforce and operations by closing your business, it would be a great improvement to go the automation route. So I think you're going to see a lot of the internet of things. This happens in our larger shops, but I think you're going to see this move down into the smaller and medium companies. A lot of our guys are moving that way quickly. Our real progressive people that are into robotics are moving more into robotics. So much of the work that is easily automated has been taken overseas. We keep the stuff that is really hands on and complex. But I do think if we can see some shift, we could see more and more automation and I think that's what we are going to see.

Tucker Arensberg: What are you forecasting to be some of the challenges that any company might be facing as Q3 and Q4 roll around?

Roger: The idea that the majority of all of our members have stayed open is not a surprise to me thus far. There was a strong backlog going into the pandemic. My biggest concern is with the decrease in demand from customers over the next three months. Let's just say from April 1 through May, new orders really didn't start coming in or say they start increasing in June, that's going to be a solid lack of shipments. So you went into a decline and you've eaten up your backlog and it's been slow to come back. That's the "v" if you will, that I'm concerned about. Working through the backlog following an increase in new orders, I think is where it's going to show itself in Q3. But I think the tough times for medium sized business, regardless of what industries you're going to be in, is Q3 and Q4. The government has provided opportunities to help companies, with loans, etc. That will get them through 3 to 6 months. If the market hasn't come back in that time, the decline is going to put solid pressure on Q4. So if this hasn't come back to some degree and you've lost two months of orders, then you get an order, it takes you six to eight weeks to deliver it, and now, it takes you 30-60 days to deliver, and most orders are 60-90 days to get your money, you're talking about a small business that's not going to see cash until probably until the end of the year.

Tucker Arensberg: What actions do you hope to see from the federal government maybe in terms of another stimulus to help keep manufacturing companies afloat over the next six to twelve months? We are assuming that another stimulus or other actions will be necessary until consumer buying power returns to a certain level of normality.

Roger: One form of action is expanding the PPP loan to a longer period of time. Some of our members were having a hard time using the stimulus in the required time frame. Maybe also a PPP amendment in the form of not having to spend 75% of the loan on payroll costs. But going forward, here's some additional things that could be helpful:

- A 100% bonus depreciation;
- Restart America loans. This would be a plan where a company could take government loans out at a low interest rate. These funds could be helpful to use on equipment and in other ways that improve your facility. Companies are really going to go to more automation after this pandemic. These companies are going to have to invest and such loans would be very helpful at this point in time.
- Some tax credits to onshore companies. If companies would onshore or re-shore products – they think that would be a way to motivate certain OEMS to bring back work to the U.S.
- A payroll tax holiday. The payroll tax holiday, should be extended for the rest of the year. Getting funds directly back into the companies versus having to apply for loans would be a great help.
- Liability protection, however, that's really low on our members' hit list for things that could help them quicker.

But, I think that the next stimulus has to be a way of getting cash into the companies quickly. The PPP loans, some would say that it didn't happen quickly enough, but for the government to give that much money out – they did it in a short period of time. Of course with such programs comes mistakes. But, all in all, you got to look at what they did in a short period of time. It is pretty phenomenal but, if you could get into the payroll taxes, that's the stuff that stays in the company immediately. Direct infusions of cash is what I think would help our members going forward. Whether there's another stimulus bill or not, who knows. I would love to see there not be one, and that businesses come back quick enough not require it. But that's probably up in the air.

Thank you to Roger Atkins of the National Tooling and Machining Association for sharing his insights on how the manufacturing industry is reacting to COVID-19. Please check back regularly for new interviews. If you have suggestions for interview topics or professionals, please contact Jordan Blask.

About the National Tooling and Machining Association

The National Tooling and Machining Association (NTMA) is the national representative of the custom precision manufacturing industry in the United States. NTMA has 29 chapters throughout the U.S. and nearly 1,200 member companies that design and manufacture special tools, dies, jigs, fixtures, gauges, special machines, and precision machined parts, representing more than $30 billion in sales annually. While many of NTMA members are privately owned independent businesses, the products and services they provide are vital to the nation's economy, serving industries from aerospace to electronics to nuclear power. For more information: www.ntma.org.

About the Interviewers

Jordan serves as the Co-Chair of Tucker Arensberg's Bankruptcy and Creditors' Rights Department. He a member of the firm's Board of Directors, and its Chief Compliance Officer. Jordan is the shareholder in charge of the firm's COVID-19 Rapid Response Team and is the curator of Tucker Arensberg's COVID-19 "Answers to Business Challenges" blog. Jordan can be reached at 412-504-5597 or via email at jblask@tuckerlaw.com.

Katherine is a Shareholder at Tucker Arensberg. She is an employment and labor law attorney, professional speaker and corporate trainer, who has defended employers in litigation and counseled and helped employers, HR professionals, in-house attorneys and managerial employees on how to avoid employment law issues while focusing on their business goals. Katherine can be reached at 412-594-5508 or via email at kirwin@tuckerlaw.com.

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