



**Chris Kastner, HII President & CEO**

Thank you for being here.

2023 was a very good year for us. I don't know if you had the time or the inclination to look at our financials and the programmatic detail coming out of 2023, but it was a very good year. It was growth across all business segments. The growth that we thought would show up, is showing up, and we're preparing for that across all three business segments.

We're excited about Sea Air Space. You're going to see all of our presidents of our divisions there on panels talking about their businesses and their challenges. A full display of our product set at Mission Technologies, Ingalls and Newport News, and many people in our booth. I look forward to speaking to any of you that come in there.

I know probably you are aware of the Investor Day that we had. If there's any confusion about our strategy and our products and what our focus is, there can't be now. It's all laid out there very transparently in our Investor Day presentation. Both the charts and the people that did the discussion there up in Wall Street.

So I think it's a pretty comprehensive document talking about what we're focused on. So please, if you haven't seen it, go ahead and take a look. The first thing I'd probably like to start with and probably what you all may be concerned about or have questions about is the 45-day report that came out.

Just step back a second from what's going on in shipbuilding, okay? There's really unprecedented demand in shipbuilding that's going on right now that we saw coming, and it has arrived.

You have that backdrop of significant demand coupled with the effects of COVID on the economic environment, both manufacturing labor, shipbuilding labor, and the supply chain, which is part of the manufacturing labor story as well.

So the Navy, with Navy leadership, actually, we, as an industry and I'm just quoting HII numbers here, but the industry has been getting after this since COVID started. And we have the numbers here relative to the investment that we've made and the investments that have come out of the supplier development funding coming out of the Navy. We've spent \$450 million training the workforce from 2020.

You can see the numbers, \$265 million, and that's SIB funding and destroyer funding. What's not as talked about is that there's a very successful program under the DDG program to make the suppliers that support surface combatants strong. It doesn't get as much press, but it's a very good, well-managed program.

These are our teammates in General Dynamics, both in the VCS program with Electric Boat and BIW on the destroyer program, along with the Navy, having a number of projects to identify and prioritize where the funds should go. That's been working and is in place. As you saw by the budget, it's going to increase over the next few years.

That has flown into the supply base. We have outsourced 3.6 million hours to other suppliers. Now, what that means is maybe called strategic sourcing some other areas. But that 3.6 million hours is actually structure being built that we used to build.



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And from a capacity standpoint, we outsourced it to other vendors, and we're actually creating additional shipbuilding industrial-base by outsourcing that. And you could usually go to different regions where labor is available. We've also created over 200 new suppliers since COVID started. And then from a capital standpoint, we've spent \$3 billion since 2015 because we saw back in '15 that there was going to be significant demand.

We obviously couldn't anticipate COVID and what that impact would be. But we did see additional demand coming. So we started the investment back in '15. All this goes to saying and it's down at the bottom there: it's not done. We've doubled our capital spend to 5% of sales over the next three years. And we will continue to outsource work to local areas within Hampton Roads and then to other regions to access where the labor is, to go where the labor is to build product.

So this isn't the end. This is just a snapshot in time, and we will continue to make investments to meet this demand in a pretty challenging environment. This has all been done as a partnership with the Navy. They have been right in the middle of it prioritizing projects, identifying with us in a partnership to make sure that the money that's being spent is being spent in the right place.

So I wanted to make sure that got out there that this is work that has been going on and will continue to go on. And there's an infrastructure in place within the Navy to manage it, and they're managing it very well with industry involvement.

One other thing relative to this, these are traditional ways we know how to improve shipbuilding: labor, supply chain, capital, and infrastructure. These are traditional methods to get after additional demand within shipbuilding. We're also evaluating non-traditional techniques. Fortunately, Mission Technologies has a lot of good AI talent. We have a relationship with Amazon Web Services, and we are pointing that technology towards our shipyards now.

We have pilot projects going on to try to improve efficiency in a few of the organizations. We're going to get yields out of those pilot projects. If we can utilize AI to improve our processes, we're going to do that. So it's not simply the traditional things we know how to do that we know will improve capacity and throughput, but also the non-traditional methods that we're looking at.

With that being said, I think you can just go to questions if you'd like.

**Reporter:**

My question for you is what do you need from Congress and the Navy to get back on track with these programs? And what have your conversations been like with Hill staffers in terms of conveying these delays in the feedback that you've gotten?

**Chris Kastner:**

Well, I think the Navy's taking the right steps when you think through the SIB funding that's been appropriated and is in the plan. That goes a long way to mitigating the impact. Additionally, one of our greatest risk is advanced procurement happening at the right time for future ships.

That can't be delayed. That has to happen on time. I think there's a broad understanding of that. But from time to time, you may get delays in advanced procurement, which puts you behind the eight ball. And it's a risk that we can't deal. You don't want to have to deal with. So you want to get advanced procurement happening on time so you don't have that risk moving forward.



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From a congressional standpoint, the Navy's very transparent with Congress on the schedules for the ships. When I talk to Congress about progress, it's always about labor and supply chain. There's no different message. So we're as transparent, obviously, with them as we are with you and with the Navy. So they're very aware of what the challenges are.

**Reporter:**

You're saying advanced procurement can't be delayed. But say you're a Hill staffer, you're trying to cut funding in the budget for other priorities. These all have delays. What is your argument to that 'don't touch that money' when this isn't on track?

**Chris Kastner:**

The issue there is you've got to protect the supply chain.

There's risk in the supply chain when a supplier that was counting on an order and organizing their manufacturing line and the assumption they're going to get the next order. And they could potentially be on schedule and delivering their product. And if there's a gap, that's a problem. So we need to make sure the supply chain stays healthy. Part of the reason we're in the fix that we're in is that the supply chain got unhealthy coming through the years when they were ordering less ships.

So you got down to single-source, sole-source suppliers and demand signals that weren't consistent, and it created a frailty of the supply chain.

**Reporter:**

You talked to us previously about the three years of advanced procurement being important for carriers. The Navy pushed back CVN 82. They did add three years of advanced procurement instead of two. So how do you see your progress in convincing Navy of your point of view of these industrial issues and the possibility of CVN 82 being pulled back?

**Chris Kastner:**

I think there's continuing discussions with the Navy about the importance of a healthy supply chain for aircraft carriers, which means we would like to get started in '26 and potentially even '25 on the critical suppliers in regard to 82.

There's no doubt that a two-ship buy with 80 and 81 really reduced the risk of 81. Interesting, the timing of that with COVID, we got all those orders in. So the risk we have on 80 in the supply chain has been alleviated on 81. The order status on the 81 subcontractors are very good.

We are in continuous discussion with the Navy relative to when we need the risk in the supply chain for the aircraft carriers, when we need to get those orders done. They fully understand it, and we'll just continue to work it with them and Congress.

**Reporter:**

We previously reported that *Enterprise* is behind now. Navy now saying 18 to 26 months.

I'm wondering, because that's due in part to supplier delays, whether you think that the overlap between the carrier and submarine parts has really led *Enterprise* to fall behind, and they've all been focused on the sub-industrial base in recent years. And then I have a follow-up.



**Chris Kastner:**

Yeah, I don't think so. I don't think so. They're not the same parts.

There's just some critical large components on 80 that is impacting the erection of that ship and a strategy for building that ship, which is delaying it. I would not think it's an overlap between the two.

**Reporter:**

Just in general, what would you say is the right balance between the supplier and workforce priorities, between submarines and carriers going forward, as these both are a priority?

**Chris Kastner:**

*Columbia*-class is the number one priority. That's very clear. But when you think of the VCS and aircraft carriers, it's kind of 2A and 2B, right? We don't make a distinction between the two. We need to get them both done.

**Reporter:**

Just on the SIB funding, how is that funding kind of filtering through? I think the shipbuilding plan had as much as \$17.5 billion over multiple setups and the supplemental SIB. Can you just talk about from where you sit, how that money is filtered to you and how much is going or who's making the decision on what goes to suppliers? I don't know how Blue Forge Alliance fits in there. Could you just kind of shed some light on that?

**Chris Kastner:**

So it's a team effort led by the Navy.

Blue Forge is involved in it as well as Electric Boat and Newport News in recommending projects that are put together. Then ultimately, the decision is made by the Navy on where the funding goes, and it's distributed. It will go through us to the supply base or through Electric Boat to the supply base. So it's a team effort.

**Reporter:**

The programs it focuses on are the submarines and the carrier, and characterizing a lot of these things with pretty broad brush. Pretty complicated appropriately. Pretty complicated. A lot of pieces.

So with each of these programs, they're all different. They all have different characteristics. There's many, many factors that drive these delays. Management, allocation of resources, design maturity, supply chain issues, workmanship issues, any number of factors.

*Columbia*-class, *Virginia*-class, both blocks, and the carrier *Enterprise*. From your point of view, what's a fair way to characterize each one of those, in turn, what's driving the delays?

**Chris Kastner:**

So maybe I can start with two programs that are doing well, DDG and LPD. What are the characteristics of those programs? Stable designs.



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And when the design changed, it was very thoughtfully implemented. I'm talking about DDG Flight III. So stable designs, on-time advanced procurement, consistent workflow. All of those and they're pretty far down the learning curve on each of those.

And a really good core group of shipbuilders, notwithstanding the attrition challenges we've had. Ingalls has had a very good core group of shipbuilders executing on this. So let me go to the other side on programs that are a big challenge right now. We've got a first-of-class class. And they're encountering, and I'm not speaking for General Dynamics or Electric Boat. I'm just speaking generally.

First-of-class ships have challenges. I believe the risk management plan they have on the *Columbia* is very robust, and they do a very good job managing it. I do, because I've seen it. But you're going to have first-of-class issues. And couple that with a lot of green labor that could yield to workmanship issues and efficiency issues, and you get potential schedule issues.

It's a first-of-class ship, and you're rebuilding a workforce coming out of COVID. It's a fact of life that you have a less experienced workforce than you had before. Across the board. Across the board.

There's significant loss of skill after COVID. That's been broadly understood. And it's been a cross-section of our talent base.

**Reporter:**

But then as you try to manage that issue, management gets to make these decisions. Where do I allocate people? And so we have a priority program. So I put all my best people over on that ship and then over here on this ship, which was coming along okay, now I took my best people and put them all on that ship. I don't have my best people there anymore. Pretty soon they're in trouble. You got a *Makin Island*.

**Chris Kastner:**

I could dispute that because I was there.

**Reporter:**

It's not unique to anybody. It's not unique. Everybody's had these issues.

**Chris Kastner:**

It's not unique. First-of-class ship, an increase in the demand signal, and an exterior force that has impacted the industry. We had [Hurricane] Katrina down in Mississippi. We had COVID impact everyone.

**Reporter:**

What's driving the *Enterprise*?

**Chris Kastner:**

*Enterprise* is the supply chain. Fundamentally, we've got some late material at the bottom of the ship that we can't erect it. We can't erect the ship until we get it done. Now, the shipbuilders have done some pretty heroic stuff to keep 81 on schedule.



**Reporter:**

Trying to resequence things?

**Chris Kastner:**

We will resequence things, but we are also going to be build two aircraft carriers in the dock at the same time, which is not unprecedented for shipbuilders.

You can do that from time to time. But this is a Navy and Newport News developed approach to mitigate the impact on 81.

**Reporter:**

The Aircraft Carrier Industrial Base Coalition had a survey earlier this year. 40% of suppliers said they would need to do layoffs if the carrier program was delayed, even more, which have been confirmed.

What would the residual effect be on HII if mass layoffs start to happen down through the supply chain?

**Chris Kastner:**

It's just going to make it, obviously, more difficult to meet your objective of building the aircraft carrier if they become more fragile, right? We did the two aircraft carrier buy. We've got them relatively healthy now. It would be really counterproductive to now have a significant delay and put them at risk.

We would have to think through how we could manage that going forward and how we could meet the requirements on the aircraft carrier.

**Reporter:**

On *Virginia*, the Navy's budget is looking to trim procurement this year. And I'm just wondering how you guys are feeling about it and about the Navy's rationale that the dip in procurement for one year is sort of necessary to help get caught up on the program.

Is that rational sound, or are you guys going to be hurt as a result of that cut?

**Chris Kastner:**

The budget is still very robust. The issue is, I think you're referring to is the one submarine. And we need to make sure that we order a full ship set of material for that other submarine so we keep the supply chain healthy.

It won't necessarily impact us if we only order one, but then we need to keep the supply chain healthy and order a full ship set material.

**Reporter:**

With the Navy's kind of other component in the budget of the submarine picture, looking to invest a lot of money in the industrial base in 25 and over the FYDP. Do you guys already have



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an idea of how you would absorb the funding that comes to you out of those investments? Is that pretty well set, or is that still an open question?

**Chris Kastner:**

There are projects that have been submitted, hundreds of projects, that have been submitted that are integrated by the Navy to determine how that money would flow out to the industrial base. The specific projects that have been chosen, we know some of those, but we don't know all of them yet.

**Reporter:**

I wanted to ask about the effects of COVID. Kind of a two-part question.

We've heard from you, from your competitors, from the Navy, from basically everybody, how much damage it did to the industrial base. I'm wondering if HII or maybe if you've invested with another firm to do this kind of work for you, has done an objective study to figure out how it affected your supply chain beyond just the anecdotes that we all know you could provide.

And the second part of that is we understand that COVID, you lost a lot of workforce because of it in terms of experience and whatnot. And you lost suppliers who, unfortunately, went out of business. It happened at a faster rate, but those are problems that you would have dealt with regardless of whether COVID happened. So I'm wondering if you've discovered any kind of issues in the supply chain or just generally the effects of COVID that were unique to COVID, you wouldn't have dealt with it if COVID didn't happen?

**Chris Kastner:**

Well, that's interesting. We were already looking at there was already a challenge in the manufacturing workforce, and we were going to have to ramp labor to meet the demand. COVID accelerated that. What we didn't expect is inflation, and we couldn't have anticipated inflation that happened subsequent. And what that's done is it's eliminated the spread between what we pay an entry-level shipbuilder and what general services or retail pays someone.

So it's easy to switch. So we're working very hard with the Navy and with our local communities to try to get programs in place that make it positive for someone to become a shipbuilder in the community because if they choose it as a career and go through these programs, the best examples are our Apprentices Schools. When you choose that, you tend to stay.

But just the walk-in candidate that comes into shipbuilding now, it's challenging, tough work, and the cost to switch for them is very simple. And that's why we have high attrition rates.

**Reporter:**

The implication there between entry-level shipbuilder and working at Macy's, the implication is that the pay difference is no longer as good or is no longer as big?

And also, you know it's a little bit less strenuous to be in Macy's?

**Chris Kastner:**

Correct. Correct. That spread has really gone away. That's something we didn't anticipate and that we wouldn't have encountered except for all the inflation that showed up in the economy.





**Reporter:**

Did you guys do any kind of formal studies on this?

**Chris Kastner:**

We know what's going on. We don't need a formal study. You just pull the manufacturing data and the employment data for you. You go online and you get it, right? So it's generally acceptable. You can find it anywhere and see the spread in the two. Minimum wage increase has impacted us as well. It's the same issue. Now, it hasn't gone. It is not as high as just the general pay rate. But all those impact us.

**Reporter:**

Thanks a lot for doing this. I'd like to follow back on some of the other really smart questions asked about the carriers.

In particular, the two carrier buy. So what I'm curious is, right now, you're in negotiations that you can't really talk much about, but at what point are you? Is it convincing them you're going to get to get a two-carrier buy? Is it a risk thing? They're on board for two carrier buy, but they're worried about the risk, that kind of thing. Is that they're worried that you're not going to be able to perform that contract because of problems with *Enterprise* and everything like that. And then some of the things you're doing, so the idea of building two carriers at one time.

You said, "Well, we've done two ships at one time," but two carriers a little different deal. So is that into the mix too? And I'd like to learn a little bit more about what makes that different, that two-carrier build that you would like two destroyers?

**Chris Kastner:**

It doesn't make it different. If you build two destroyers at a time or two aircraft carriers at a time or two LPDs at a time, you're going to get the savings if you can order the material together. It's no different. It's always better to buy things in quantity.

**Reporter:**

Well, I meant specifically about the dry dock, the actual physical.

**Chris Kastner:**

So you could do that with, if you have a, so that's a graving dock, right? So you could build destroyers heel to toe in there as well, but you don't need to. So we're in initial discussions with the Navy conceptually about a two aircraft carrier buy in the future. I think there's general broad understanding that if they buy them together, they get the savings. They saw that in 80 and 81. They fully understand that.

That's not the issue. The issue is we just have to get from a budget standpoint and a timing standpoint get to the place where we can actually get an acquisition plan that looks like that. So we haven't done that yet. We're still at the initial stages of just generally talking about it, but it's the right way to do it.





**Reporter:**

So you say they're on board, so you know because Navy keeps on saying the decision hasn't been made yet.

**Chris Kastner:**

It hasn't. It hasn't. These are initial discussions. The data is clear that it provides a savings that we thought it would. But we haven't gotten there from an acquisition side.

**Reporter:**

Why wouldn't that happen?

**Chris Kastner:**

I'm not sure. It's a budgetary issue, potentially.

**Reporter:**

In terms of building it I'm curious about in that dock building two carriers at once. I understand it's a joint Navy project. So what does it all entail?

**Chris Kastner:**

Well, you had to put a new sill in the dock so you could float off one section of it.

You float 80 to the side of the dock and then you put the sill down and you could start erecting 81 next to it.

**Reporter:**

Now, the work has already been done?

**Chris Kastner:**

The sill has for sure.

**Reporter:**

When do we kind of christen that?

**Chris Kastner:**

I don't know if we have communicated the date when we'll be doing that. So I don't know if that's public yet.

**Danny Hernandez, HII Corporate Director of Public Affairs:**

For awareness, we are working to do some sort of an event surrounding that at some point. So, there will be a future invite.

**Chris Kastner:**

Would that be kind of a good selling pitch point for a two carrier buy?



**Chris Kastner:**

Well, we don't need to sell a two aircraft carrier buy. We really don't. It's not only intuitive, the data backs it up that it made sense. And I think it's broadly understood that that's the best way to procure them.

**Reporter:**

I was wondering to what extent HII is involved in DOD's Replicator initiative. And if you think the Navy has done a good job in articulating its approach to that and engaging with industry. I think it's fair to say OSD has done kind of a terrible job in terms of its public-facing rollout of Replicator and kind of explaining that. But I was wondering kind of on the Navy side and its engagement with you all, how well they've done.

**Chris Kastner:**

So we engage in a number of levels from a technology standpoint with really all of DOD on the elements that would make Replicator successful. We manage Minotaur, which is a joint command and control project for the Navy that uses AI on the edge to track targets, right, and eliminate clutter.

There's a good chart on Minotaur in the Investor Day so you can see what that is. That, coupled with our big data platform, which has the ability to manage significant amount of data for the government. And we do that already for the government with our big data platform that we could potentially use. That's a JADC2 sort of data adjustment tool because what we're talking about is a JADC2 concept that would enable Replicator.

So we're engaged in the different areas of technology that could make Replicator a reality. We are not directly engaged in a program office related to the project, but we are in discussions with various elements of DOD with technology that could enable it.

**Reporter:**

So none of your unmanned platforms have been picked for that at this point?

**Chris Kastner:**

No, but we do have you have to think through what's attributable and what they mean by that.

Our small UUV has been chosen. The revenue and the quantity has been increased. It's an amazing product, and it's starting to ramp right now. It could potentially be used for that, but it's really not an attributable asset.

**Reporter:**

Earlier, you mentioned you're embracing AI as a way to improve your processes.

Can you provide a little bit more specifics in terms of how you envision that technology?

**Chris Kastner:**

Sure. So one thing a shipyard has is massive amounts of data. And now, not all that data is in the right place where it can be used by the AI tools that are available out there right now. So there's work to do to get that data in a place where the tools can be utilized.



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But if you can get to the place where you and an example could be quality, where there are quality tickets that are written that there's a wealth of data on a specific ship or system. And if you could get that into database and identify faults and when they happen and who they happen to, and when you get that signal within the shipyard that that's happening, you know immediately what has to happen.

And there are no hands involved in that, then that's how AI is going to be used. It automates it for you. It automates it and potentially even makes a decision for you on what the next step needs to be.

**Reporter:**

Can I ask one cleanup question? The Virginia Full Ship Set. Do you know if that's been ordered? It doesn't sound like you understand what the numbers mean versus the order.

**Chris Kastner:**

I do understand what the numbers mean. It's about a billion dollars short, I think.

**Reporter:**

So on the second Virginia, you're a billion dollars short of what you need for long lead procurement? **[this reporter's question caused confusion that was addressed following the briefing]**

**Chris Kastner:**

I believe so, yes.

**Reporter:**

Thank you. HII has done a lot of digital design. And I'm wondering with these delays from the 45-day ship review versus this digital design stuff that you guys are using on the aircraft carriers and other platforms, there's got to be a dividend from that digital design.

It would have been three months worse if we didn't have that. What is that dividend? Can you explain it?

**Chris Kastner:**

Yeah. So yeah, I don't have that specific data point. I'm sorry.

**Reporter:**

So labor, this is my main question. Labor, [Secretary of the Navy Carlos] Del Toro talked about incentives at McAleese a few weeks ago. It was everything from pay, workers, to housing, to Chick-fil-A's at every workstation, like it was an amazing sort of litany of. "Here's how workers need to be catered to in order to want to work in the shipyards." That's what he said. Are you thinking about incentivizing - it would be an incredible cost to pay for people's housing and subsidize people moving from around the country? Is this even venturing into?

**Chris Kastner:**

So we're attacking the labor situation really in three areas.



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One is the one you're talking about, which is we need to provide more flexibility for shipbuilders when they come in. Historically, it had been a very binary arrangement. Come to work or you're going to get fired, right? So we provided much more flexibility for our shipbuilders now. More time off at the beginning of the process while they're getting acclimated to the job.

We have a number of different programs to make them more comfortable when they come into the workspace. We used to just train them and send them out to a crew. Now we train them. We bring their foreman into the training center, and we put them out as a team. So they have a framework and a culture that they're developing with their teammates, so they feel like they're not alone when they go out in the shipyard.

A number of initiatives of trying to make it more flexible for the shipbuilder and give them time to acclimate into the industrial environment because they're just not ready for it. Second thing we're doing is we're recruiting from places where we know through analytics that they're going to stay. We know regions and micro regions around our shipyards where we know they're not going to stay if we recruit from there. We're not recruiting there as much. We go to places we know they're going to stay.

So then we have that data, and we're doing all that data analytics to say, "We have more success recruiting in this area versus this area." The third thing we're doing is targeted incentives. So we actually just started a pilot program down in Mississippi where if you stay and your attendance is good and you're consistent for this and have no work violations, we're going to increase your pay by a certain amount over that time period.

We are paying machinists more in Newport News in some places where it's critical to get the job done. So we're doing targeted incentives in various areas that we have critical needs. We have a Chick-fil-A at Ingalls.

So we are having to meet the new employee where they're at versus just assuming they're going to come in with two years of training in metal shop at high school and wanting to get right to work in the shipyard. And we're doing more training as well before they come in.

**Reporter:**

Are you more amenable with your union negotiations on contract?

**Chris Kastner:**

Well, so our union negotiations don't expire until I believe 26 and 27 in both our shipyards.

But we have a historically a good relationship with our unions. So that hasn't changed.

**Reporter:**

So you talked about AI, making your processes more efficient, and we were just talking about your workforce issues. Do you foresee those two things coming together as well?

Can AI help with your green workforce with helping with this flexibility? Do you foresee those kind of issues coming together?

**Chris Kastner:**



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I do. And it's more related to the digital part of the job. Having digital products and having digital products to evaluate versus reams and reams of work instructions and specifications has made the job more efficient.

A quick story, I don't mean to bore you, but I was on a tour of the panel line in Newport News a couple of weeks ago, and I broke off from the crew, and I went on the panel line, and I met like a 55-year-old shipbuilder with a tablet. And I was by myself. He didn't necessarily know me. I was just some guy in a white hat. And I go, "How's it going?" And he goes, "Good." I go, "Show me what you're working on with the tablet because 80 is a digitally designed ship." He pulls it up, pulls up the product he's working on, can rotate it around, and he goes, "This is very intuitive. First time I've worked with it." It was actually a shipbuilder from Avondale that had come up and helped us in the panel line. And it was very positive. And that technology, it isn't just for the 18-year-olds. It makes everybody's job easier. So we will see that. We call it time to talent. It will accelerate time to talent because you're not having to have that knowledge of working through all the work instructions, all the design data, and trying to piece that all together. It's very visual.

**Reporter:**

Thank you for doing this. They took my AI question, so I'm going to ask about 3D printing. And then how HII is using printed parts to kind of, I guess, not get ahead of the delays, but maybe soften some of the delays.

**Chris Kastner:**

Additive is an important project for us.

We've been doing it for a while, and we actually believe our core competency is not necessarily in printing the parts. It's working with the Navy to get the tech warrants to approve that the parts are able to be used in the Navy ships and that the material properties are such that they're safe to be used in ships. So we work very closely with the Navy to ensure that gets done.

We've got some pretty significant parts that have been approved on our ships in Newport News that are printed now. We only think that's going to increase. We would like to accelerate that process, and the acceleration isn't related to us having the printers or the know-how to do it. That's driven by the technical teams getting comfortable that the properties and the material are such that they can be used.

So it's here. It's happening. I would like it to happen much more quickly and more of it.

**Reporter:**

So are you saying that there's a little bit of a reticence with the actual or the laborers on the ground in terms of trusting these parts?

**Chris Kastner:**

No, no, no, no. The teams doing it have and we do very thorough engineering analysis to ensure that the material has the properties that make it safe and it can be used.

But the Navy appropriately makes sure that we go through a very thorough process to qualify each part.



**Reporter:**

my follow-up question is on HII and LVC and what you're doing there, particularly when it comes to, I guess, information with their integration.

**Chris Kastner:**

Live Virtual Constructive Training. It's an important part of our Mission Technologies business. It's not just training anymore.

It can be used more broadly than that. It can be used for operational planning. It can be used for contested logistics. And we are communicating that to our customers on how it can be used and how versatile it is and the missions that it can accomplish. So we're just at the beginning of that process. But we believe it will only expand because the capability is so great.

**Reporter:**

Are you getting any pushback there and convincing customers that it can be used in these other areas?

**Chris Kastner:**

I wouldn't call it I wouldn't call it pushback, but we haven't made significant strides in that regard as of yet. There's no conversion.

**Reporter:**

Great to see you again, sir. Thanks very much for doing this and being so open with us. I don't want to ask a question that cross-threads you with your customer, but having done this for a while, the definition of madness is doing the same exact thing and expecting a different outcome.

And every couple of years, the Navy plays dogpile on the rabbit almost with dumping on industry. When no other part of the defense industrial base has as much oversight, intrusive oversight across all the programs you guys are doing. You know what program success looks like. You're having it on DDG 51. You're having it on the LPDs. You know at what point does the whole organism need to change?

Because you guys, your predecessor, your predecessor's predecessor, have tried to work with the Navy to innovate the way things are designed and built. You know it was a step to go to a fully digital design, but you worked with the Navy in order to try to get them there. But yet, there are many, many other pieces of this that are antiquated, bizarre warrant holders that just don't want to bend when it comes to things.

I mean, how do you get to a better place so that the SecNav after next isn't saying the same thing which they do because whenever their budget comes under pressure, they think like, "Okay. Well, the right thing to do [inaudible] spray industry as if they're sort of the innocent bystander in this train wreck, and yet they're the conductor, station master, network engineer. Answer that one however you want to answer it.

**Chris Kastner:**

Don't worry, I will.



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I can tell you that at the programmatic level, there is a lot of trust and transparency in the issues that we're facing and how we're going about fixing that. And I expect that to continue.

And I think there is impatience in seeing a return related to the SIB funding and industrial-based funding because it is significant. But we have to remember that a lot of these contracts were signed before COVID hit.

This industrial-based funding projects, it isn't as if you're making an investment and you're going to get results right away. These are, in some cases, buildings that are being built that take a year and a half to two years to get built. I think what shipbuilders do a very good job at with the Navy is playing the long game. We are where we are, and we're going to mitigate the impact on those ships as much as we can. But we can't make the same mistake again.

We have all this demand coming. We have to make the appropriate investments. We have to rebuild a workforce. And we need to make sure that when we sign these new contracts, when we sign the Block VI contract, when you sign the LPD contracts, when you sign the new LHA contract, that we have realistic and appropriate cost and schedule targets in there that reflect the investments we're making and the general economic conditions. So it's a good question.

But I don't see at a working level, I think the teams absolutely know what the challenges are, and they are allocating the resources to fix them. It just isn't happening as quickly as they would like.

**Reporter:**

One of your concerns also is, right, out year funding, right? We know what it costs to build an aircraft carrier and the challenges. I mean, I remember Chris's stories dating from decades ago talking about what those challenges are individually on programs.

One of the problems, for example, is BWXT has not been particularly crazy surging to a couple of reactors a year, knowing that it's going to drop back down again to one reactor a year, right? Is there a need to have sort of a longer-term arc in how we look at this, support it? The people are dependent on it. The industrial base is dependent on it. And so we're going to have our fad where, "Oh my God, we've got to do a lot, and then we're going to lose interest. We're going to lose money." Right?

I mean, what's the view you're taking and some of the conversations maybe that next have to happen to take a longer, genuine, longer cycle view of this as opposed to, "Yeah, I had a couple more dollars. I put one more submarine in that. I had a couple of less dollars, so I had to delay the aircraft carrier."

**Chris Kastner:**

We don't necessarily think it's a fad right now based on the external environment.

**Reporter:**

So you think this is going to be a steady state?

I don't see a backup in defense in the budgets for the Navy. I don't over the medium term. I think the demand for submarines is going to be pretty consistent and growing for the next for the medium term for sure. And then when you add AUKUS into it, which I think we'll be successful





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at, I don't think it's a short-term thing. I think this goes beyond that. I think the demand for submarines will be consistent for a while.

**Reporter:**

Just one clarification question about *Virginia*, Block IV and Block V. So are the delays really attributed to their workforce, or is it also supply chain if you could dig into that? And then second part of my question is, when you opened, you said that there's an unprecedented demand in shipbuilding. Could you explain why you weren't ready? If you already forecasted that and saw that, yeah, why?

**Chris Kastner:**

So it's both supply chain and labor for Block IV and Block V. And they're related because the supply chain has labor challenges as well. So it's both. And the reason we weren't ready is because we had a pandemic, right, which created significant challenges in the labor force and the supply chain. In '15, we announced a \$2 billion, started at \$1.5 billion, became a \$2 billion capital program in both of our shipyards because we saw there was going to be an increase in demand.

If you go back and some of the Chris may remember this and maybe Vago, but we used to talk about being worried about the *Columbia*-class crowding out other programs because we were used to a \$12 to \$15 billion Navy procurement budget. Now it's a \$32 billion budget, and we don't think it's going to back up. And AUKUS has been added to that, which we need to fulfill those requirements.

**Reporter:**

Yes, sir. So you brought up AUKUS. Respecting the fact that you guys are sub-builders and that puts you at a better position than a lot of other companies. You know it seems like everybody is telling us they're investing into AUKUS or whatever. I'm just wondering, realistically, is the Pentagon giving you any real guidance?

I mean, everybody is saying they're investing into AUKUS, but very few people, there are some companies out there now who can say, "We have a contract where it says, 'this is AUKUS and this is what we're going to do with AUKUS.'"

**Chris Kastner:**

There's Pillar One and Pillar Two. I'm not sure what those other companies are referring to, and whether it's Pillar One or Pillar Two. And you know Pillar One is submarines, Pillar Two is the technology. We will participate in both.

We've taken steps from a partnership standpoint to engage not only in Australia, but in the UK with some pretty good partnerships which we've announced that you're aware of. I believe there'll be revenue flowing this year related to AUKUS.

We've been focusing on making Australia sovereign-ready, which making a nuclear culture within Australia and all that means from labor, supply chain, training, education, infrastructure. We've been focused on that. It's natural for us with our nuclear capabilities and our shipbuilding capabilities and then the capabilities within Mission Technologies.



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So we expect stuff this year to start to happen.

**Reporter:**

Just to be clear, I was mostly talking about the UK and Australia have announced some companies as like the primes or the main contractors, whatever you want to call them. But the extent to which companies are investing in these advanced technologies, it's hard to see who is I'm wondering, is the Pentagon telling you you should invest in this, or are you guys kind of picking your areas and saying, "We think this is what we're going to need?"

**Chris Kastner:**

Well, I'll tell you the Pillar One is much more advanced than Pillar Two.

We're working very closely following the Navy's lead on Pillar One. So we will participate that in some fashion. Pillar Two is a little bit more open and will be more competitive because there's more people that can provide those services. And no, the Pentagon's not telling us that we need to participate in that. It'll be a competitive environment.

**Danny Hernandez, HII Corporate Director of Public Affairs:**

We're at the end of our scheduled time. Before we get to closing remarks, just one fact check.

The dates that Chris Kastner put out on the union negotiations, those were accurate as he stated. It's 2026 for Ingalls and 2027 for NNS.

Sir, over to you for closing remarks.

**Chris Kastner:**

Thank you for your time today. I said it at the end of our Investor Day pitch as well. You know I wouldn't trade places with anybody. We have a lot of challenges. We need to get our ships delivered to the Navy.

They need them. We're very focused on it. And I think our Mission Technologies organization is doing very well and providing important services for their customers. So thank you for your time. I'll hopefully See you at Sea Air Space. Thank you very much.