Tariffs Raise Input Prices for Valley Manufacturers

TRADE: Chief executive urges letter-writing to lawmakers for relief.

When it comes to the tariffs imposed by the Trump Administration, **Richard Brent** is not shy about expressing his opinion.

"Tariffs are crazy, and retaliation is nuts," said Brent, chief executive of **Louroe Electronics**, a Van Nuys maker of audio surveillance equipment.

Small manufacturers in the Valley and throughout the U.S. may agree with Brent's assessment of the decision by the White House to impose tariffs starting in January on solar panels and washing machines and later steel and aluminum from China, Canada, Mexico and the European Union. Those countries in turn have placed tariffs on imports from the U.S. China's tariffs equal about the $34 billion tariff imposed on it by the U.S.

MANUFACTURING & TECHNOLOGY

Mark R. Madler

For Louroe, the tariffs will increase costs on capacitors, transformers and some circuit boards used in the audio capture equipment the company makes. For example, Brent said, a capacitor that had cost a nickel now will cost 6.5 cents. While not a huge leap, it does add up, Brent said.

"We use enough of them that it will have a small impact on the cost of the hardware," he added.

Tom Manzo, president of **Timely Prefinished Steel Door Frames** in Pacoima, said that the company's steel costs have risen more than 22 percent this year.

Arctic Mission: Congressman Steve Knight pilots F-35 flight simulator in Valencia.

The increase is due to the tariffs and a requirement that all steel must be sourced from U.S. companies. Timely has had a long-term relationship with **USS POSCO**, a joint venture between U.S. Steel and POSCO, in South Korea.

"What has led to an increase in steel cost has been the United States did not have the capacity to keep up with the demand and needed to gear up more blast furnaces which takes months to get online," Manzo wrote in an email to the Business Journal.

The next step for Brent is to get letters out to area lawmakers. Louroe is located in the district of Congressman **Tony Cardenas** (D-Panorama City) while Brent lives in the district represented by Congressman **Brad Sherman** (D-Sherman Oaks).

He said that a letter outlining specifically what products will be subject to the tariff and asking the congressman what they can do to minimize any impact could be helpful. Although he works in the security industry, Brent said he didn't think Louroe's products warranted a special exemption from the tariff.

F-35 Supplier Award

Crissair Inc. was recognized Aug. 21 with a 2017 Elite Supplier Award from **Lockheed Martin Corp.** for its work on the F-35 Lightning II military jet. The Santa Clarita aerospace parts manufacturer makes 30 different fluid control components used on the stealth fighter.

Company President **Mike Alfred** said it was an honor to recognize the work of the nearly 200 employees on the world's most advanced fighter jet.

"The men and women who make up this company embody the very values upon which it was built: hard work, dedication and, most importantly, a shared commitment to the success of our clients and customers," Alfred said in a statement.

Invited to attend the ceremony were representatives from Lockheed Martin and Congressman **Steve Knight** (R-Palmdale), who serves on the House Armed Services Committee. Knight took his turn in a F-35 mobile cockpit demonstrator on display by Lockheed at Crissair in Valencia.

"The fifth-generation capabilities of the F-35 are essential to our ability to combat 21st century threats," Knight said in a statement. "I take great pride in having the opportunity to recognize the workers in the 25th Congressional District who are an important part of making it a reality for our Armed forces and our allies."

Fast-Growth Companies

Multiple manufacturing and technology companies in the San Fernando, Santa Clarita and Conejo valleys were included on this year's Inc. 5000 list of fastest-growing private companies.

Among those recognized for their growth over a three-year period was **Faye Business Systems Group,** a Woodland Hills technology consulting and software company. The company made it on the list for a fifth consecutive year.

"It's a great honor to have made the Inc. 5000 list for the fifth year in a row," said Chief Executive **David Faye**. "Earning another spot on this amazing list continues to be a real source of pride for us."

Also included on the list were **ZPower LLC**, a developer of rechargeable silver zinc microbatteries at No. 82; **SolaRack** in Thousand Oaks, a manufacturer of solar racking equipment at No. 383; information technology services provider **JKL Technologies Inc.** in Newbury Park, at No. 2186; IT consulting and private cloud hosting firm **ISSquared Inc.** in Newbury Park, at No. 2991; and **Bioluz LED**, a Woodland Hills manufacturer of LED lighting products, at No. 3360.

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Franchise Court Battle

RESTAURANTS: Dine Brands' lawsuit alleges $23 million owed in operating fees.

After Applebee's second largest franchisee RMH Franchise Holdings Inc. filed for bankruptcy protection in May, Applebee's parent company, Glendale-based **Dine Brands Global Inc.**, sued to prevent RMH from liquidating its restaurants.

Dine Brands, which also owns the IHOP chain, alleges that Nebraska-based RMH is also on the hook for more than $23 million in damages stemming from unpaid royalty fees and improper store closures. It seeks to terminate RMH's franchise rights to Applebee's locations in Arizona and Texas and take control of the 35 locations.

RETAIL & HOSPITALITY

Ethan Varian

RMH owns more 146 Applebee's restaurants in 15 states, accounting for nearly 8 percent of all Applebee's locations.

In June, RMH filed a counterclaim in bankruptcy court alleging Dine Brands' poor management and ill-advised promotional campaigns caused sales to drop. In the claim, RMH cited the company's move from Kansas City to Glendale along with the hiring of former chief executive **Jill Stewart** in 2014 as catalysts for the downturn.

"As a result of this exodus, resulting in a massive loss of institutional knowledge, and Ms. Stewart's misguided leadership, the franchisor quickly lost touch with the Applebee's brand, with key positions either left unfilled for years or filled by newcomers without relevant restaurant industry experience or a clear sense of Applebee's roots," RMH wrote in the filing.

RMH went on to blame Applebee's introduction of upscale menu items and expensive wood-fired grills for increasing costs and hurting sales. The company also pointed to Dine Brand's high-profile marketing campaign for IHOP's new burgers as damaging the Applebee's brand and eating into Applebee's burger sales, which it said account for 16 percent of revenue.

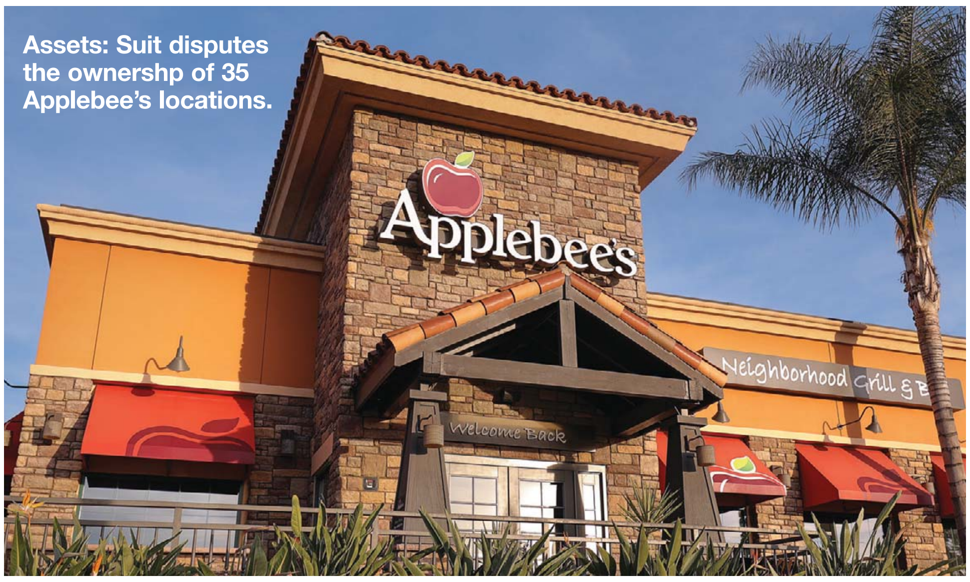
"Finally, adding insult to the injury, the franchisor announced on June 11, 2018, that it intended to rebrand IHOP to become 'IHOb'—the 'b' standing for 'burgers,'" the filing reads. "Yet much of the recent Applebee's advertising campaign — for which Dine Brands asked Applebee's franchisees to pay for an increased portion of the bill — is focused on advertising burgers."

In an interview with Business Insider, Applebee's President **John Cywinski** denied the IHOP campaign had affected Applebee's franchises, pointing to a 5.7 percent increase in comparable same-store sales last quarter.

"We have fundamentally different occasions that we target," he said. "From my perspective, from a Dine Brands standpoint, that's a win-win, and not a concern at all for me or our franchisees."

David Henkes, an analyst at foodservice consulting firm **Technomic Inc.,** agrees with Cywinki's assessment.

"It's very hard to see a link between the IHOb campaign and some challenges with sales at Applebee's franchisees," Henkes told the Business Journal. "Consumers have nearly infinite options for burgers, and I'm not sure there'd be any way to prove causation."



Assets: Suit disputes the ownershp of 35 Applebee's locations.

RMH's bankruptcy proceedings and the pending litigation with Dine Brands are ongoing. The Wall Street Journal reported that RMH's parent firm, **Acon Investments LLC**, plans to accept bids on the franchisee's assets at the end of September.

'No Poach' Demise

In an agreement with Washington State Attorney General **Bob Ferguson**, Dine Brands restaurant chains IHOP and Applebee's agreed to end their policies of prohibiting employees from moving from one restaurant franchise to another.

The move follows an investigation led by Ferguson in January into so-called "no poach" contracts, which critics say limit worker mobility and depress wages.

"Businesses can't rig the system to avoid competition," said Ferguson in a statement. "My goal is to eliminate no-poach clauses in the fast-food industry nationwide. This is a major step forward in achieving that goal, but we're not done. Other fast-food companies that use no-poach provisions are now on the clock to accept a similar deal or face litigation from my office."

In addition to Dine Equity, **Church's Chicken**, **Five Guys**, **Jamba Inc.**, **Little Caesar Enterprises Inc.**, **Panera Bread** and **Sonic Drive-In** will remove no-poach language from worker contracts. In July, seven other chain restaurants agreed to stop enforcing no-poach provisions. They include **Arby's**, **Auntie Anne's**, **Buffalo Wild Wings Inc.**, **Carl's Jr. Restaurants**, **Cinnabon** and **Jimmy John's Franchise**.

Ferguson said he will continue to investigate restaurants that use no-poach contracts and is prepared to file complaints against companies who fail to come to come to an agreement.

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