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TABLE OF EXPERTS

Tariffs to Technology: **How Twin Cities Manufacturers Stay Resilient**

The Minneapolis-St. Paul Business Journal held a panel discussion recently about the uncertainties and risks of the current manufacturing industry and navigating this unpredictability. Steve Kalina, president and CEO at Minnesota Precision Manufacturing Association, served as moderator of the discussion. The five panelists were Justi n Lau, president at Technical Methods, Jon Crofford, president at TLC Electronics, Jeremy Miller, managing director at Redpath and Company and Barb Sheldon and Ben Hangge, SVPs and commercial banking managers at Highland Bank.

STEVE KALINA: Manufacturers seem to be holding their own overall, but there is a definite drop in workload from post-COVID times. Jon, how has TLC Electronics been performing recently and what's driving the growth that you're seeing?

JON CROFFORD: There's two sides of TLC Electronics. We have our distribution side where we distribute electronic components, and we also have the contract manufacturing side where we build custom wire and cable assemblies. As for the total business revenue, we're up about 150% over the last five years and we have doubled our employee count. Distribution had huge growth at the tail end of Covid and now grows organically and through acquisitions. The wire and cable assembly side has grown mainly organically. Many customers appear to be shopping for new suppliers that are domestic, have strong manufacturing processes, and can take their project from low-volume product launches to high-volume production. We have a great team of employees at TLC that know how to find and service those customers. Once a potential customer meets our people and tours our facility, we typically start the onboarding process of becoming their supplier.

KALINA: What growth opportunities do you see for other manufacturers out in the market?

CROFFORD: I would recommend that a visionary manufacturing CEO truly understands their business, cash flow, financials, and their overall market. If they still have time they can try to learn about taxes and deductions. It sounds simple, but if you truly understand those items, you can have an advantage over your competition.

KALINA: Justin, what trends are you guys seeing in your business right now regarding technical methods?

JUSTIN LAU: What we're seeing right now is incredible demand for our services. We primarily operate in the aerospace and defense industry and what's driving demand right now is the industry trying

THE EXPERTS:

JON CROFFORD
President & CEO
TLC Electronics

Jon Crofford serves as the President and CEO of TLC Electronics, Inc., where he leads the company's continued growth and long-term success. A graduate of the University of Wisconsin–Stout with a focus in Communications Management, Jon previously co-owned two thriving businesses in the construction and restaurant industries. In 2014, he returned to his roots, purchasing his family's business and bringing his forward-positioning mindset to TLC. Under his leadership, TLC has become a recognized leader in cable and wire harness manufacturing. Through strategic acquisitions and organic expansion, the company has doubled its workforce, grown revenue by more than 200%, and significantly strengthened profitability. Jon lives in the northeastern suburbs of the Twin Cities with his wife and son.

BEN HANGGE
Commercial Banking Manager
Highland Bank

Ben Hangge brings over 20 years of experience in banking, with deep expertise in M&A deal structuring and providing financing for manufacturing companies. He began his career as a credit analyst and recently advanced into commercial banking leadership at Highland Bank. Ben holds a bachelor's degree in Economics, Finance, and Marketing from Bethel University and is completing The Stonier Graduate School of Banking at The Wharton School. He serves on Highland Bank's Asset Liability Committee and is a mentor for students while staying active in community organizations. A dedicated family man and father of four, Ben also enjoys coaching youth sports and playing golf.

STEVE KALINA
President & CEO
Minnesota Precision Manufacturing Assoc.

Steve Kalina is President and CEO of the Minnesota Precision Manufacturing Association (MPMA), a trade association representing all Minnesota manufacturing, primarily focusing on workforce development support and legislative influence. Prior to his role with MPMA, Steve was President of a contract manufacturer and long-time member of MPMA. He sits on the Governor's Workforce Development Board and numerous other industry and community boards. Steve has a finance degree from Bethel University, lives in Andover with his wife and three kids, and loves coaching youth sports.

JUSTIN LAU
President
"Minnesota Industrial Tooling Technical Methods, Inc.

"Justin is the owner and President of Technical Methods Inc (TMI), an aerospace and defense manufacturer located in Lonsdale, MN. TMI specializes in designing and manufacturing complex tooling for aerospace foundries across North America. In addition to foundry tooling, TMI also machines, finishes, and assembles aerospace castings under their AS9100 program.

Prior to TMI, Justin served as a pilot in the US Air Force before assuming various engineering, commercial, and corporate roles at GE Aerospace and Emerson. "

JEREMY MILLER
Managing Director
Redpath and Company CPA's

Jeremy Miller is a Managing Director on the Transaction Advisory Services team at Redpath and Company. He has supported clients as a trusted advisor on over 250 due diligence projects in a variety of industries, including manufacturing and distribution, construction, healthcare, life sciences, and consumer and industrial products. Jeremy helps identify key industry and deal risks across the entire transaction lifecycle including through quality of earnings and revenue, net working capital, and debt and debt-like analyses on buy-side and sell-side transactions. He has 13 years of public accounting experience and joined Redpath and Company in 2020.

BARB SHELDON
Commercial Banking Manager
Highland Bank

Barb Sheldon, Commercial Banking Manager at Highland Bank, thrives on supporting business owners and fueling their growth. She brings a deep curiosity and respect for their stories, pairing that with innovative financial strategies tailored to each client's needs. Known for her collaborative and solutions-driven approach, Barb offers comprehensive support—from lending to cash management—while fostering strong, long-term banking relationships. She leads Commercial Bankers in the St. Paul, Minnetonka and Bloomington offices and is expanding Highland's presence in Woodbury. Recognized as a 2022 "Top Women in Finance" honoree by Finance & Commerce, Barb is an inspiring leader committed to empowering her team and clients alike.

to recover from the effects of COVID. There were a lot of decisions made during COVID that put the industry on its back foot and there is a push to rebuild the workforce, re-establish the supply chains, and replenish inventory.

KALINA: With the proliferation of lasers and additives and AI technologies and the pace at which those are expanding, how are you evaluating those or other investments and how they are going to impact your business?

LAU: We're taking it one step at a time. In our instance, we're solving for capacity constraints we're facing in our current facility. We're experimenting with new technologies to increase our output within the footprint that we currently have. There are a lot of interesting ways to tap into that. Most recently, we've adopted a couple of 3D printers and it took us a while to try to understand how we might be able to integrate what they offer into our products. Ultimately, we took the leap of faith and it's really helped our business deliver a lot more product with the space that we currently have.

KALINA: It's interesting as we talk a lot about the tariffs and some of the other challenges and the cost of doing business, the next challenge might be capacity. So capacity and throughput are probably equally as important as some of the cost challenges.

LAU: What we've tried to do is make the most of what we've had. We're not saying we wouldn't make any sort of long term commitments and invest in strategic growth, but we're trying to exhaust every other avenue that we can to meet our demand before we make any significant commitments.

KALINA: Jeremy, how are your clients handling recent uncertainty in the market and the economy?

JEREMY MILLER: Most of our clients are following a similar strategy that we are, trying to stay actively engaged with others in their industry, which can include advisors, competitors, lenders and then other adjacent businesses. No one knows the future but we find that comparing notes is a helpful way to gain perspective. It's important to learn from these conversations and not overreact to all the uncertainty. We think the best


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way to manage uncertainty is to embrace it and learn from it. Also, it's important to course correct when needed, but we don't want to overcorrect since that can lead to unintended or harmful consequences to a business.

KALINA: Have you seen significant impact, good or bad, from any of your clients related to the tariffs?

MILLER: We have in some situations and industries. For most of 2025, there's been uncertainty. What we're seeing is the markets are reacting a little bit faster than the action that is being taken by clients (which is a good thing). There are some companies that are stockpiling inventory, for example, from experience in the past with other trade wars. We are also seeing supply chain challenges that continue to impact companies as well, but holding more inventory has allowed pricing to stay controlled. What we have to remember here is tariffs will either be a direct hit to your gross margin or an increase to the price paid by consumers or customers. But even with the price increase, in most cases businesses are seeing margins deteriorate a little bit, and we have seen clients attempt to implement price increases. The issue becomes the amount of time it takes to push those through when you have contracts with customers.

Relative to deal flow, we've worked with businesses that have been impacted directly by tariffs over the past few months. What we're seeing is any business that was impacted immediately saw a reaction by the M&A market to slow down the pace of acquisitions to assess the impact of valuations in industries. We started to see a lot of international buyers entering the market that otherwise probably would not have emerged prior to all the tariff activity. At this point in the market, we're seeing a lot of demand for high quality assets, but a lot of the focus is on supply chains and customer contracts to understand how easy it is to change prices in the middle of a contract to offset some of the impact and manage the change.

KALINA: Ben, kind of a segue from what Jeremy was just talking about on the international buyers. Are you guys seeing much of a change in either capital expenditure lending or the M&A market as far as the uncertainty?

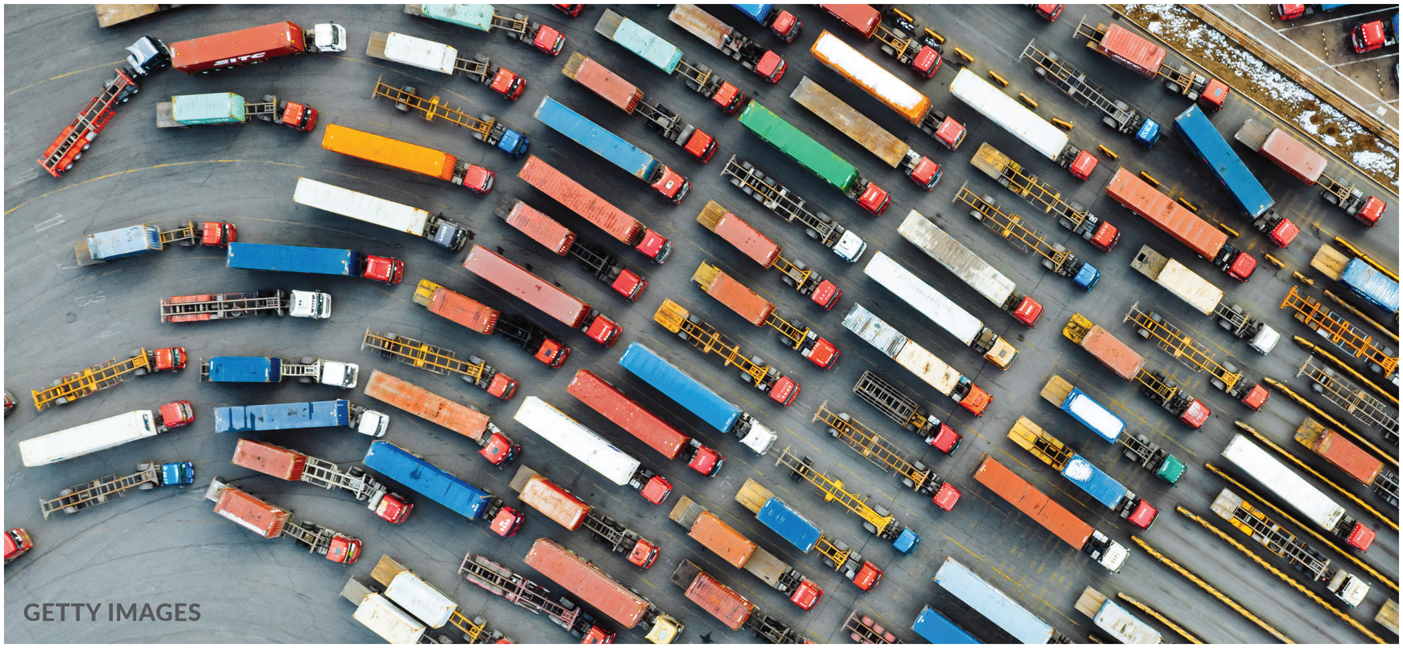
BEN HANGGE: The past five years have thrown a lot at business owners; COVID, inflation, supply chain challenges, rising interest rates, geopolitical conflicts, and tariffs. Through it all, business owners have adapted and continue to find ways to move forward and grow. This year we've seen steady demand for capex financing, and we expect that to pick up even more now that 100% bonus depreciation has been permanently reinstated through the Big Beautiful Bill. Minnesota hasn't yet aligned its tax code with the new rules, but if and when that happens, we should see capex activity in Minnesota really take off. When it comes to M&A, the headlines paint a picture of a slow year in 2025, primarily at the high end of the market where global supply chain complexities and tariff issues weigh heavily. But that's not the whole story. On Main Street, lower middle market deal activity remains strong. Most of these businesses rely on domesticated supply chains, so they've been less exposed to direct tariff volatility. Looking ahead, we expect deal activity in this space to stay strong through the rest of 2025 and into 2026, as business owners and decision makers get more comfortable operating in what's become the "new normal" of ongoing uncertainty.

KALINA: I'm going to keep going at some of the uncertainty and risk. Justin, back to you. You talked a little bit before about focusing on making improvements wherever you can before necessarily just jumping to long term investment or long term plans. But when you are investing or evaluating significant growth projects, how do you quantify that risk?

LAU: I don't know if you can ever fully quantify it. You do the best that you can, right? You try to model everything in such a way where you're factoring in risk, but when you're thinking about growth, you need real estate, you need equipment, you need a talented and skilled workforce, you need potentially new processes and tools and working capital. In the context of a significant growth project, I look at risk in terms of timing. To drive incremental revenue, all of these elements need to be in place and working together. You keep a risk reserve just in case they don't fall into place exactly when you think they will. Business is risky and you can't completely quantify or derisk an investment in growth, but you do your best and maintain a risk reserve to keep you out of any corners.

KALINA: Jon, what have you guys done to mitigate that risk and what else are you doing to deal with the uncertainty right now?

CROFFORD: One area is to have a healthy balance sheet that can weather some lean years. We work to pay down debt and refresh our debt with new investments with a return on investment less than 3 years in most cases. Another area to mitigate risk is to diversify. We do not have a customer with over 20% of our total sales. I've heard of multiple companies that had 1 customer with a large percentage of the total sales, the customer pulled production, and the contract manufacturer went under. Diversify your target industries. If one industry drops, you have another that increases. Mitigate risk by adding more capabilities. Right now, we're getting into overmolding of cable assemblies, ultrasonic welding and fully automated wire assembly production where a complete assembly comes off the machine. Mitigate risk by being prepared to grow. When we've grown fast, we've had to build some significantly robust training programs to try to get our skilled workforce up to speed as quickly as possible. There are risks we can't control, tariffs being one of them. On the assembly side, the impact of tariffs has created an unexpected opportunity. We were getting a lot of customers coming to us wanting to onshore. They've been building their wire assemblies or doing their assembly manufacturing overseas and they're tired of the changes, they're tired of the uncertainty. They want to have more control and stability with a "Made in the USA" contract manufacturer like TLC Electronics.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KALINA: Barb, as long as we're talking about a lot of risk from the bank's perspective, what are you guys really honing in on right now as far as how you're measuring risk and evaluating for lending?

BARB SHELDON: Recently we have focused on measuring risks associated with tariffs and the related cost increases to our clients. In addition, we are mindful of potential interruptions to our clients' supply chains. With that said, we have not seen as much impact on our smaller business clients because they typically do not have the international exposure that our larger clients do. We have actually seen some tariff benefits to our smaller clients, in that they have seen more opportunities to bid on work that previously was outsourced internationally. We are relationship based, we will continue to measure/evaluate risks through frequent conversations and follow-up with our clients. Because we are a smaller community bank, we have the ability to be more nimble and offer flexible solutions to our clients. We listen to and prioritize our client's needs, then will consider financing for business acquisitions, equipment, real estate and working capital (lines of credit), structured to their needs. Given that fixed rates have been higher over the past 5 years, we are seeing more requests for cash flow and shorter-term financing vs the demand we experienced previously with longer-term commercial real estate requests. To further assist our small business manufacturing clients, we are a Preferred Lender and provide many clients with SBA financing. Currently the SBA is working on a program specifically for manufacturers, called MARC (Manufacturing Access to Revolving Credit). Although not fully approved at this time, the purpose will be for short-term working capital needs.

KALINA: Jeremy, as Minnesota rolls out the paid family medical leave mandates and we already have the second highest corporate tax rate in the nation, what tax incentives are available for manufacturers to help lessen that burden?

MILLER: A few of the most common tax incentives are (i) the R&D Tax Credit (which is the Research and Development Tax Credit), IC-DISC, FDII and the Work Opportunity Tax Credit. The Research and Development Tax Credit is a dollar-for-dollar reduction of your tax liability based on the number of years and the amount of certain qualifying R&D costs. Usually those are things like wages, contractors, contractor payments, and supplies that have gone into development of new products, and this credit would be calculated based on a percent of qualified costs, typically between 6 and 14% depending on prior year spent. Generally, taxpayers will have a third-party firm conduct an R&D study, given some of the legwork involved in computing that and maximizing the credit. Typically, you want to have a third-party firm in your corner. You do want to be careful who you hire, since there is judgment involved and you want to make sure you have the right advisor.

The IC-DISC tax credit stands for Interest Charge Domestic International Sales Corporation. We see this sometimes with certain manufacturers and other companies we work with. It's a tax incentive designed to encourage exporting by U.S. companies. It allows certain exporters to convert ordinary income into qualified dividend income, which is then taxed at a lower rate. To qualify as an IC-DISC, an entity must be a domestic C Corp, have only one class of stock, maintain separate books and records, and also have at least 95% of gross receipts and assets related to qualified exports. They then would have to elect the IC-DISC status. This may be something to investigate if you manufacture, distribute or produce U.S. made products that are exported.

The Foreign-Derived Intangible Income deduction, or FDII for short, is related to income derived in connection with property sold by the taxpayer to any person who is not a U.S. person where the property is for foreign use. Income from services provided to persons or property not located in the U.S. could fall into this category as well. This deduction is based on income allowing certain U.S. C Corps to pay a reduced effective tax rate.

The Work Opportunity Tax Credit is a federal credit available to employers who hire individuals from certain targeted groups, such as veterans or in some cases ex-felons. This credit is generally up to 40% of the first $6,000 in wages, it's capped at $2,400 per employee, and that employee must work at least 120 hours to qualify (and this would apply to new hires only).

I also want to make mention of the One Big Beautiful Bill Act and some of the implications there. This act has offered positive tax incentives for manufacturers and this would include implementing permanently 100% bonus depreciation on qualifying assets and allowing the deduction of domestic R&D costs in the incurred year as opposed to capitalizing those over a five-year period.

KALINA: Jon, at TLC, when seeking out financing, what areas do you typically focus on? What are the things that, as you're trying to talk to a lender that you kind of highlight as TLC's strengths beyond just the balance sheet and the P&L?

CROFFORD: I've known the people at Highland Bank for quite a while and have developed a strong business relationship. They know quite a bit about TLC, and I know my business very well. To help underwriting, I like to write a detailed business plan with any loan request. Highland already knows our numbers and calculations needed for their loan committee. We create a detailed presentation for the loan committee with what our business does, why we're asking for money, how we're going to use it, what the forecasted return on investment will be, and overall numbers regarding our financials, health and projections. I've looked at equipment financing through Highland Bank. Section 179 deduction for equipment has been a huge benefit for manufacturers. Another investment I'm looking at closely is a new building. With the One Big Beautiful Bill Act that just passed, qualified production properties can accelerate the depreciation on their building compared to over 39.5 years. This is a big incentive to grow our business now and work with our bank on funding options. Along with equipment and building investments, I like to pursue acquisition opportunities.

KALINA: What is next for TLC? Any acquisitions or any new equipment that you can share with us?

CROFFORD: I'm always in acquisition mode. As mentioned, TLC has a healthy balance sheet and is growing. Part of our growth strategy is reducing overhead as a percentage of sales, along with executing our three-year improvement plan for investments and projects. In November 2023, we acquired an Ohio distributor with a strong reputation and solid customer relationships, and I've identified another one currently. We try to target about one acquisition a year. Our team has made several successful transitions so we have experience in finding the right fit. We also recently invested in a new giant piece of equipment that we call the POWERHOUSE in AUTOMATION. No other contract manufacturer in the region has this level of efficiency or full-automation built into their processes. Once we reach max capacity across multiple shifts, we will purchase another. Due to customer demand, we have also just invested in several additional pieces of equipment that will expand our fleet's capabilities. In line with our ongoing enhancements, TLC is revamping our website with a focus on delivering the best user experience.

KALINA: Jeremy, when you look at some of the operational improvements that both Jon and Justin have talked about today, they become gray areas, right? They're not clear-cut. What's your advice for manufacturers as they're making those investments, how do they best account for and make sure they're getting credit for those operational improvements when they're doing a valuation either on the buy or sell side?

MILLER: The easiest answer here is to track the impact of the change. Buyers want that certainty and data, so that's going to be really important to getting credit upon valuation. The more data that you have to support the improvements, the more credit you're going to get from a buyer or more money you'll receive as a seller. One example is if you put in a new manufacturing line or change your line around to increase output or create other efficiencies, track the results of the change. This could be having the ability to show the number of units actually going through the line or showing the average cost per unit come down.

KALINA: Justin, you touched on this before about having a strong financial relationship. How do you build that into your long-term planning or upcoming investment plans? How do you engage with your financial relationships to make sure that they're a part of that process?

LAU: I think being open with communications, keeping lenders aware of your financials and updating them on the context under which your business operates is incredibly important. The more confidence you instill through transparency, the stronger your financial relationships will be. Right now, we've got a lot of demand, but undoubtedly there will be periods where we are slower. Having that history of trust and a relationship with your financial partner is really important because if you run into an unforeseen circumstance, they really have the ability to give you some breathing room.

Kalina: Ben, what are you expecting in the next quarter or two?

HANGGE: The lower middle market has shown a lot of resilience in adapting to today's interest rate environment and the broader uncertainty we've all been navigating the past five years. Tariffs are still a concern for some, but we haven't seen much direct impact yet since most of the companies we work with aren't directly tied to global supply chains. Looking ahead, we're optimistic that activity will remain strong as businesses adjust and tariff uncertainty becomes part of the "new normal." On top of that, there are several tailwinds creating opportunities for growth, a wave of baby boomer business owners reaching retirement age and looking to sell, the reinstatement of 100% bonus depreciation for capex, continued reshoring of manufacturing, and higher demand for American made products. Taken together, these factors point to a very healthy outlook for the lower middle market.

KALINA: I'm going to ask one last question of everyone, but it'll be kind of a rapid fire. What's one key piece of advice you'd give to the manufacturers right now, whether it's financing, investment, personnel, whatever it might be?

HANGGE: Having the right advisors around you can make a huge difference. Whether it's a board, your CPA, attorney, banker, insurance advisor, or wealth manager, a strong advisory team brings expertise and connections. The right group can open doors to new opportunities and help you navigate challenges when they come up, both of which are critical to ensure a healthy and growing business.

MILLER: I would recommend any manufacturer to really focus on having a system that generates really clean data. I think that's the issue we see in the lower middle market the most on transactions is poor data and the challenges that come with that. So if you can have good data as a manufacturer, you're already ahead of the curve. I would also echo Ben that having the right advisors is vital to the success of your business.

SHELDON: Plan ahead. Communicate often with your banker or your team so that when opportunities come up, everybody's prepared.

CROFFORD: Develop a short- and long-term vision for your company, then surround yourself with a skilled team that will help turn that vision into reality.

LAU: I'd say enjoy the process. There's a lot of uncertainty and you know, everybody's coming to work every day to do their best. Enjoy the little moments and even though you might be faced with big decisions or things that seem like potentially insurmountable tasks or challenges, just enjoy the process and try to have fun while you're doing it.