



June 18, 2021

To all Dichtomatik Customers,

I am very aware that many of you have, are, or likely will experience delivery delays from Dichtomatik. I want to share with you the causes for these delays and the steps our Supply Chain teams are taking to try and mitigate them.

Post Covid-19 demand: As restrictions are easing across the USA and Canada, the industrial manufacturing market is resuming production. The pent-up demand is driving rapid increases in orders. This increase is outpacing capacity and factories are struggling to keep up. The result is longer production lead times.

Raw Material shortages: The primary feedstocks and raw materials used to produce sealing products are in increasingly short supply. Increased demand for new orders has put significant strain on chemical and cold-rolled steel manufacturers. Materials facing critical or near critical availability levels include Silicone, EPDM, FKM, NBR, and HNBR. Metal cans for oil seal production are being rationed globally. This circumstance adds additional lead time to production.

Labor shortages: Many of Dichtomatik's products are manufactured in southeast Asia; primarily Taiwan and Vietnam. These countries are still experiencing Covid-19 outbreaks. As a result, the influx of workers from other countries in the region that many companies rely on to staff the production plants has been virtually stopped. This constrains capacity as factories cannot easily add additional shifts or production lines. That adds to lead time but also adds cost. The labor that is available is short in supply and much more expensive to employ.

Congested freight lanes: The air and sea shipping lanes from Asia to North America are full. The surge in orders and resulting production happened at a pace that overwhelmed the international freight forwarding and logistics companies. For products that are produced and shipped, the time required to get them from the factory and in a container (or on a plane) has ballooned in most cases by weeks. Again, this adds additional lead time to all orders.

Delays at ports and in the transportation system: Once shipments finally move from the Asian factories to North America, they are faced with a backlog of vessels seeking to get into port and offload their containers. This delays the return of these containers back to Asia for loading of new shipments. Once offloaded, the containers have to be moved. In our case containers are most often moved inland via a combination of train and truck to our facilities. Those networks are also running at or beyond normal capacity.

I want to assure you, our valued customers, that Dichtomatik is taking a very proactive approach to these issues that affect our ability to supply your needs. Dichtomatik has taken the following steps to mitigate the effects of these cost and lead time drivers:



- Increasing lead times in our system so quotes more accurately reflect real delivery dates
- Increasing safety stock levels to offset variations in shipment delivery dates
- Regularly evaluating availability of "A" and "B" items in our inventory and taking preemptive action when shortfalls are forecasted
- Leveraging capacity at all approved supplier factories and internal factories
- Meeting frequently with our primary suppliers to evaluate the potential risk to their production in the following areas:
 - Covid-19
 - Water availability
 - Electrical grid reliability
 - Labor availability
 - Capacity utilization
 - Status of shipping port systems
 - Freight cycle times
 - Raw material availability
- Monitoring other potential disruptors to market production such as:
 - Geopolitical events
 - Tariffs and Trade policy
 - Currency Exchange rates
 - Labor disputes at US ports

In summary, we are experiencing an unprecedented combination of delays and escalating costs in every step of our supply chain. Industry experts in all of the above-mentioned areas do not expect a return to pre-Covid efficiencies until 2022. Until the supply chain stabilizes, we will continue the steps and actions taken to maintain consistent and reliable deliveries to every extent possible.

We appreciate your business and understanding as we all work through these market conditions. While it is difficult in the current environment, Dichtomatik will always do everything we can to exemplify our motto of "We Are Service."

Sincerely,

Jerry McLain
Vice President – Sales and Marketing