

Report on development of the procurement market situation VII

Einsiedeln, March 4th, 2022

Dear customers

As STEINEL, we are shocked by the recent news about the Russian invasion in Ukraine. We stand in full solidarity with the Ukrainian nation at this difficult moment.

We deliberately choose this moment for a further assessment of the situation, as the war in Ukraine has far-reaching effects on the situation in the procurement market as well as on the global economy in general. In the following, we update our assessment of the situation and provide an overview of the effects and recommendations for action.

Situation assessment

The current situation is "stagnant to sobering", which means that there has been no improvement in the availability of electronic components since STEINEL Solutions' last status report in mid-October 2021. On the contrary, we see additional emerging risks. The most important points from our assessment of the situation are summarised below:

- The Ukraine war threatens supply routes: train routes ("Iron Silk Road"), truck bottlenecks, blocked airspace.
- Ukraine and Russia are important suppliers of noble gases in chip production. Possible effects are not yet foreseeable (see attachment/ references).
- STEINEL does not source any materials directly from the crisis area (Ukraine).
- All STEINEL plants in the border region (Romania and Moldova) are not directly affected by the current events.
- The zero-covid policy has already led to lockdowns this year (Baise, Tianjin). Hong Kong is currently threatened by such a scenario.
- The supply backlogs, especially for chips, are still enormous. The additional production facilities created worldwide will not be able to compensate for the backlog in 2022 as hoped.
- Price increases in the electronics sector continue unabated (shortage of energy and raw materials).
- STEINEL is once again expanding SMD production capacity and investing in a state-of-the-art wave soldering system at its Einsiedeln site in Switzerland.

Impact

The continuing shortage means that many components are still in a so-called allocation. This means that delivery times of up to 80 weeks and more are estimated for components. In some cases, suppliers are no longer giving any dates at all, and this also applies to orders that have already been placed.

The uncertainty surrounding component delivery dates means that STEINEL still has to coordinate orders and capacities with suppliers up to 70 weeks in advance. Based on your **binding** orders or forecasts, STEINEL places firm and binding orders with our suppliers for sometimes more than 16 months on a rolling basis.

This shortage is affecting OEM and EMS providers alike and is causing real difficulties for companies. Those who postpone orders or have not placed them are putting their company at grave risk: orders can no longer be postponed or cancelled without losing the delivery priority that correlates with them, which means that you are once again last in the queue. In addition, some components are subject to the so-called «NCNR» status (Non Cancable Non Returnable).

Recommendations for action

Due to the points mentioned above, we continue to rely on your active, binding cooperation:

1. Provide us with framework contracts, purchase orders and/ or binding target figures for the period up to **December 2023**.
2. Store an average replenishment time in electronics of at least 45 weeks plus in your ERP/ MRP! Specialities can even have lead times of over 60 weeks plus.
3. Start product development at an early stage and plan the procurement of all materials with us in parallel to ensure a successful SOP and error-free market launch.
4. From the point of view of STEINEL Solutions AG, there are no signs of the situation easing; we expect the situation to remain difficult until certainly summer 2023.

We also ask for your understanding that it is not always possible for us to confirm binding dates and, in some cases, prices. This is due to the fact that, despite early and binding orders placed by STEINEL Solutions with suppliers, more and more orders are not confirmed by the manufacturers either in terms of dates or prices.

We are proud to say that those of you who have followed our recommendations for action since December 2020 and have adhered to the "delivery times" have come through the crisis with virtually no delivery disruptions. Thank you for the trust and the good partnership!

By actively participating and acting in accordance with our recommendations for action, you are making an important contribution to ensuring that we can continue to produce and deliver on time and that both parties can move into the future stronger. If you would like a joint meeting to assess the market situation and discuss the necessary steps, please contact our sales team.

Please do not hesitate to contact us if you have any questions.

STEINEL Solutions AG
Your Sales Team

Attachments/ References

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- Automobil Produktion: «Kein Ende in Sicht. Alle Infos zur Halbleiterkrise in der Autoindustrie / [No end in sight. All info on the semiconductor crisis in the automotive industry]»: [Link to article \(DE\)](#) (22.04.2021, updated 11.02.2022)
- Rebound Electronics: « Rebound Market Insight Q1 2022.pdf» (EN, 03.02.2022)
- Handelsblatt: «US-Regierung rechnet mit Chipkrise bis Ende 2022 und will Preisabsprachen untersuchen / [U.S. government expects chip crisis by end of 2022 and wants to investigate price collusion]»: [Link to article \(DE\)](#) (26.01.2022)
- ZDNet.de: «US-Handelsministerium: Chipkrise zieht sich bis ins zweite Halbjahr 2022 / [U.S. Department of Commerce: chip crisis drags on into second half of 2022]»: [Link to article \(DE\)](#) (26.01.2022)
- Elektroniknet.de: «Passive Bauelemente - 2022 wird zum Tanz auf dem Vulkan Teil 2 / [Passive components - 2022 will be a dance on the volcano Part 2]»: [Link to article \(DE\)](#) (24.01.2022)
- Autohaus: «Studie zu Halbleitermangel: Chip-Krise ist 2022 nicht zu Ende / [Study on semiconductor shortage: chip crisis will not end in 2022]»: [Link to article \(DE\)](#) (17.12.2021)
- H+I Auslese Die Wirtschaftszeitschrift: «STEINEL Solutions AG: mit smarterer Beschaffungswirtschaft Risiken in Chancen verwandeln / [STEINEL Solutions AG: turning risks into opportunities with smart procurement management]»: [Link to article \(DE\)](#) (01.11.2021)
- Nikkei Asia: «Ukraine conflict puts chipmakers on alert over supply of key gases»: [Link to article](#) (25.02.2022)

Previous references

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- Reuters: «Some Apple, Tesla suppliers suspend production in China amid power pinch»: [Link to article](#) (EN, 27.09.2021)
- TTI, Inc.: «Passives and Discretes Market Update Q4 2021.pdf» (EN, 28.09.2021).
- BBC News: «Why is there a chip shortage?»: [Link to article](#) (EN, 27.08.2021)

- Report as of November 06, 2020: [Link to PDF](#)
- Report as of December 18, 2020: [Link to PDF](#)
- Report as of January 29, 2021: [Link to PDF](#)
- Report as of April 27, 2021: [Link to PDF](#)
- Report as of June 22, 2021: [Link to PDF](#)
- Report as of July 23, 2021: [Link to PDF](#)
- Report as of September 02, 2021: [Link to PDF](#)
- Report as of October 12, 2021: [Link to PDF](#)