

Report on development of the procurement market situation II

Einsiedeln, April 27th, 2021

Dear customers

We have already contacted you in Q4 2020 and in January 2021 with situation reports on development of the procurement market. Thanks to active cooperation of our customers with early orders, framework contracts, etc., we have been able to navigate across the «storm of the procurement market» well to date, with a few exceptions- and thanks to the acceptance of targeted special measures, such as special costs. We would like to take this opportunity to thank you for the trust you have placed in us so far, for acting in accordance with our recommendations and for the good cooperation.

Unfortunately, the situation on the electronics market has not calmed down yet, but can now be described as precarious. Since the advent of semiconductors, there has never been such a market situation and this time all product areas (active, passive and electromechanical parts) are affected at the same time.

Our intention with this letter is to make you aware of the difficult and unstable supply situation, to sensitise and create understanding for what is happening in the market currently and can have short/ medium and possibly also long-term effects on your products and customers. We are convinced that together and as partners we can manage the damage prevention in the best possible way.

What is the initial situation?

Many manufacturers or distributors publish information letters stating that situation in procurement market is not «normal» and that there are significantly longer delivery times (see the attachments/ references). There are two main reasons for this - the **lack of raw materials** and the **Covid pandemic**.

If bottlenecks are due to lack of raw materials, the respective manufacturers hope and believe that the situation will ease again by the end of 2021 or in the first half of 2022 at the latest. If, however, the problems come from Covid impairments, other natural events, factory fires or accidents, the affected manufacturers are usually no longer so confident.

The sum of both effects is then the straw that breaks the camel's back. In concrete terms, we receive short-term adjustments to delivery dates, sometimes no date at all, or our suppliers unexpectedly fail to deliver on confirmed date. This accumulation of events makes our capacity management extremely difficult and results in unwanted, unplanned backlogs. The problem is therefore not necessarily solved with delivery of raw materials, but extends through the downstream processing stages and logistics channels. Delivery and supply bottlenecks can therefore not be ruled out on our part, even though we are doing everything we can to counteract the issue.

What measures is STEINEL taking?

To ensure capacity, several measures have already been implemented or are in implementation phase:

- Active communication & information at all levels (shareholders/ stakeholders and employees)
- Increase in personnel in purchasing, sales and operations (production)
- Investments in additional production capacities
- Investments in additional production monitoring & logistics systems

What is the recommended course of action for our clients?

In order for us to secure the supply chain and thus your sales markets, it is essential that we:

1. Receive framework contracts, purchase orders and/ or binding planning figures (forecasts) from you until well into 2022. We recommend the average replenishment time in electronics to be 40 weeks plus, by specialities up to 50 weeks plus.
2. Plan and materialise joint development projects and/ or new product launches for 2022 already now (procurement approvals).

In case of uncertainty, we are of course here to discuss the market situation and the necessary steps in a meeting with you in order to enable a deeper understanding and to be able to answer your questions in a targeted manner. Should you wish to do so, please contact our sales team.

If you have any questions, please do not hesitate to contact us.

STEINEL Solutions AG

Your Sales Team

Attachments/ References

- Elektronikpraxis:
 - «Großbrand bei Renesas, Feuer in Fab: Chipmangel bei Autoherstellern verschärft sich / [Major fire at Renesas, fire at Fab: Chip shortage at carmakers worsens]: [Link to article \(DE\)](#) (25.03.2021)
 - «Winterstürme in Texas, Stromausfälle beeinträchtigen Chipproduktion bei NXP und Infineon / [Winter storms in Texas, power outages affect chip production at NXP and Infineon]»: [Link to article \(DE\)](#) (24.02.2021)
- Bloomberg: «How a Chip Shortage Snarled Everything From Phones to Cars»: [Link to article](#) (EN, 29.03.2021)
- CNBC: «How the global computer chip shortage happened»: [Link to article](#) (EN, 02.03.2021)
- Fusion Worldwide:
 - «Wafer Shortage to Continue in Q1 2021 as IC Market Impact Grows»: [Link to article](#) (EN, 16.12.2020)
 - «The Greensheet»: [Link to current edition](#) (EN)

Upon request, we will provide you with a dossier of various letters from our suppliers.

Previous references

- Technical article: "The Outlook for the Electronic Component Supply Chain in 2021" (Michael Knight, President, TTI Semiconductor Group): [Link to article](#)
- Technical article: "Why does the current container shortage happen?" (Kuehne+Nagel): [Link to article](#)
- Preliminary information from STEINEL as of November 06, 2020: [Link to PDF](#)
- Preliminary information from STEINEL as of December 18, 2020: [Link to PDF](#)
- Preliminary information from STEINEL as of January 29, 2021: [Link to PDF](#)