

Report on development of the procurement market situation VI

Einsiedeln, October 12th, 2021

Dear customers

We are aware that the issue surrounding the situation on the procurement market has now found its place on every daily agenda. Perhaps for some of you, another report may seem a bit "monotonous" and repetitive. Nevertheless, we would like to contact you with another letter, because the situation is still extremely tense and an easing is not in sight. The most important points summarized:

- All well-known manufacturers refer to delivery times of up to 52 weeks, situational even allocation. Not to forget the subsequent manufacturing time by STEINEL.
- If a component of your product to be procured is allocated, this means (see attachment) that your order has been registered, but your delivery date has not yet been set. It is "first come, first serve". If you postpone your order, you lose delivery priority.
- Underestimating the situation on the procurement market is dangerous for all partners in the value chain. Be vigilant!
- Ideally, place orders and/ or forecasts for the year 2023, but at least on a rolling basis up to 14-16 months in advance.

Only with clear and direct communication in our cooperation with you will we be able to master this intensive phase in the best possible way - and hopefully without interrupting deliveries.

Starting position

A large number of influencing factors, some of which also have reciprocal effects, are contributing to the worsening situation on the procurement market:

- Rising demand for electronic components
- Shortage of raw materials, allocation and price increases
- "Power Cut" at Chinese suppliers

There are various drivers for the increasing demand for electronic components as well as plastics. In addition to continued investment in 5G, IoT (Internet of Things), AI (Artificial Intelligence) and VR (Virtual Reality), the home office effect has also contributed to a marked increase in demand for mobile gear (PCs, monitors, laptops, tablets, smartphone), consumer electronics and wearables. Cloud computing, huge investments in medical devices and the post-pandemic recovery of the automotive industry as well as the transition to electromobility in the automotive sector are further reasons.

The shortage of raw materials and components in the electronics industry no longer focuses mainly on the active semiconductor market, but has spread to the entire supply chain, including passive components in particular. The shortages lead to allocations and price increases of components. If orders are postponed or cancelled, the customer will lose delivery priority with the manufacturer. Increased freight & logistics costs are also having an increasing impact on product prices - a 40' container costing over USD 16,000 at the moment.

In China, at least twenty different provinces are currently experiencing the most severe energy crisis in over a decade. In September 2021, a mandatory peak-hour "Power Cut" was imposed by the government, causing power outages across the country. The main cause is a shortage of coal, which still accounts for over 50% of the energy mix in China. The energy crisis is further exacerbated by the declared goal of achieving climate neutrality by 2060. Coal prices have risen massively (partly due to trade dispute with Australia, economic recovery after COVID-19). However, due to government-set electricity prices, the price increase cannot be passed on to customers, which means a loss-making business for power plant operators. Some sources suspect that

indirectly price increases of products "Made in China" are to be brought about. Many large companies have reduced their capacities or even temporarily stopped production as part of the "Power Cut".

The situation is critical because the large global companies Apple, Samsung and Huawei together require more than 50% of the world's total semiconductor production. Several manufacturers have announced investments in new production facilities, including some companies outside China, in order to reduce dependency. Due to the shortage of raw materials, the completion of the new plants will take longer, which further exacerbates the effects of the ongoing shortage.

Impact

The current shortage of components means that STEINEL has to coordinate orders and capacities with the suppliers at an early stage. Based on your binding orders or forecasts, we therefore enter firm and binding orders with our suppliers on a rolling basis for sometimes more than 12 months. However, since orders can no longer be postponed or cancelled without losing the correlated delivery priority, we depend on your active, binding cooperation:

1. Provide us with framework contracts, purchase order and/ or binding target figures until at least mid 2023.
2. Rolling forecasts should cover a period of at least 14-16 months.
3. Store in your ERP/ MRP an average replenishment time in electronics of at least 40 weeks plus! Specialties can have lead times of over 52 weeks.
4. Start early with product developments and plan with us in parallel the material procurement of all materials, so that a SOP and error-free market launch succeeds.

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

By taking an active part 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 schedule and that both parties go into the future stronger than before. If you would like a joint meeting to assess the market situation and discuss the necessary steps, 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

- NZZ: «China erlebt die schwerste Energiekrise seit Jahren: In Fabriken und Wohnungen geht das Licht aus / [China is experiencing its worst energy crisis in years: The lights go out in factories and homes]»: [Link to article \(DE\)](#) (04.10.2021)
- Reuters: «Some Apple, Tesla suppliers suspend production in China amid power pinch»: [Link to article](#) (EN, 27.09.2021)
- Rebound Electronics: « Rebound Market Insight Q3 2021.pdf» (EN, 05.10.2021).
- TTI, Inc.: «Passives and Discretes Market Update Q4 2021.pdf» (EN, 28.09.2021).

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

Previous references

- 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](#)