



SUPPLY CHAIN | STATE OF THE INDUSTRY UPDATE

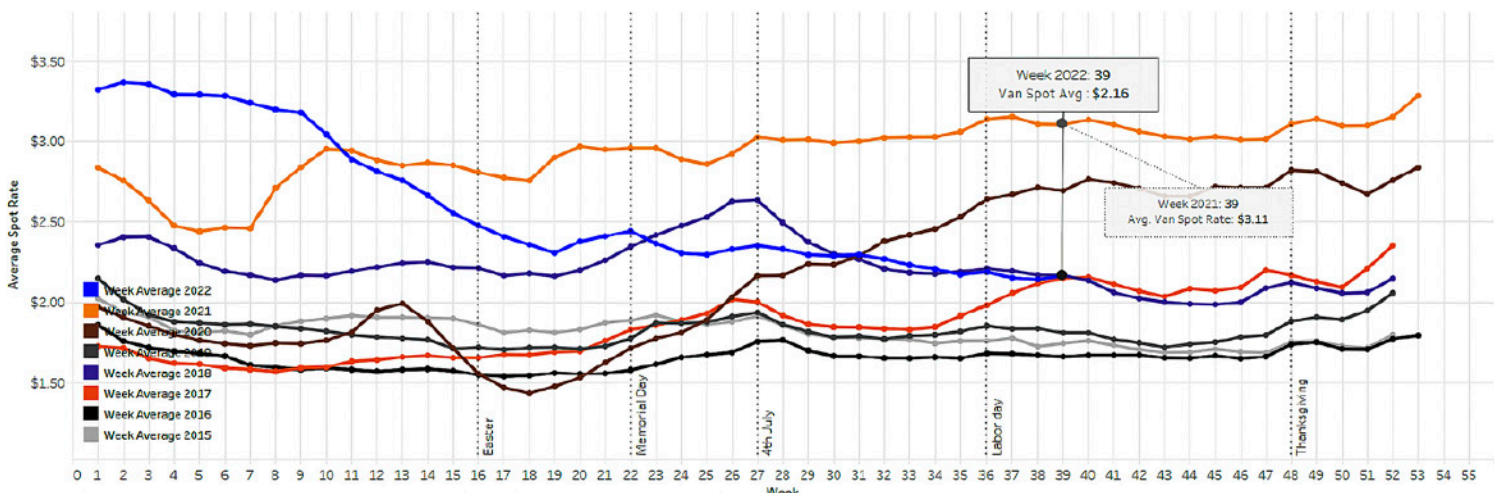
COVID has disrupted supply chains around the world and many supply chain challenges will continue to persist from transportation, labor, raw materials, market demand to rising costs.

To keep you informed, a quarterly “State of the Industry” supply chain update will be provided.

Transportation

- Demand for trucking continues to soften (see graph below). On Demand (‘Spot’) rates are nearly a dollar less than last year at the same time. While most of our DON transportation partners have contracted rates, we do move some product with ‘market’ rates. Moreover, softening rates are beneficial to our negotiations as rate contracts come to term.
- In September, a major railroad strike was avoided at the last minute. This strike would have caused major disruptions to the nation’s entire supply chain through a ‘ripple effect’ as shippers would have moved rail freight onto a trucking infrastructure that does not have enough capacity to handle it. DON Logistics had taken what steps we could to keep our product moving, but some disruption would have been unavoidable. This ‘near miss’ strike has exposed weak links in the national supply chain as it continues to adjust to a post-COVID world. DON will continue to assess strategies to keep our product moving.
- Next August (2023), UPS contracts are up for drivers and other UPS workers. It is a way’s off, but all eyes are on these negotiations as a UPS shutdown would have critical impacts to the nation’s supply chain also.
- Fuel continues its slow descent from record high pricing this year. Fuel surcharges are coming down and reducing price pressure on carriers. However, continued conflict between Russia and Ukraine, along with OPEC production manipulation, may adversely affect falling fuel prices.
- Labor continues to be tight for trucking companies as finding and retaining qualified drivers is a challenge, the same as in many parts of the US economy.

WEEKLY AVERAGE VAN SPOT RATE



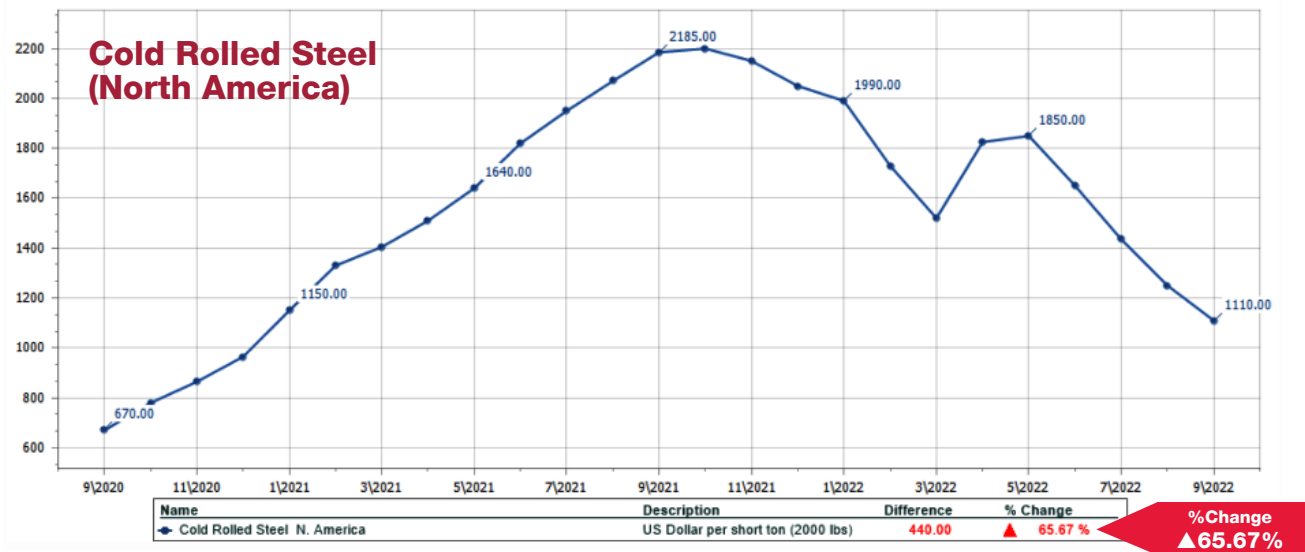
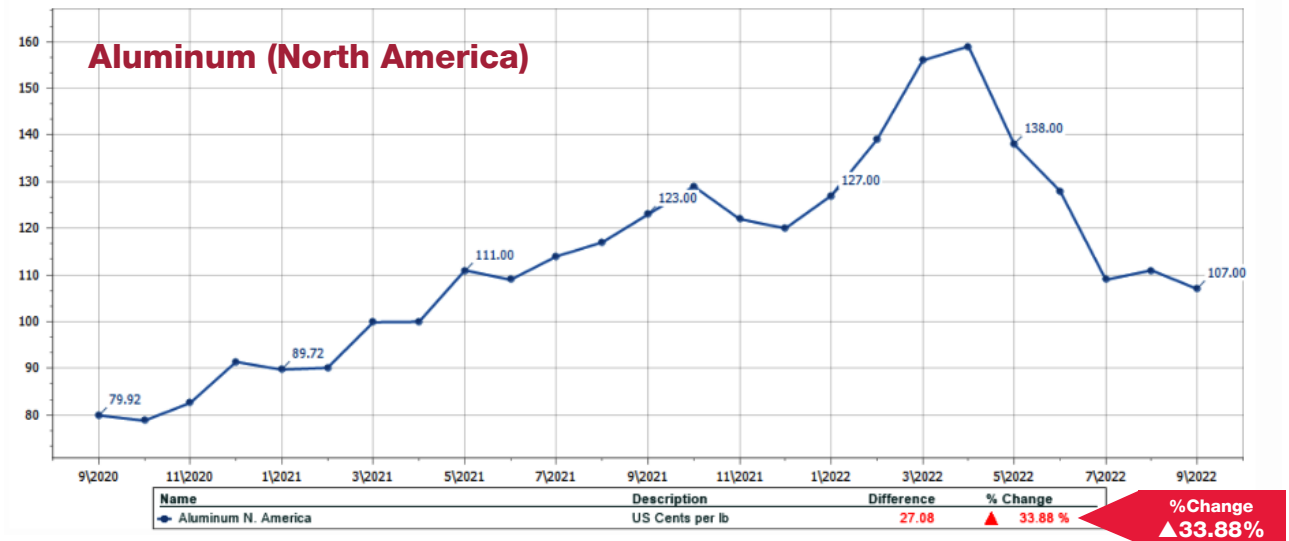
Raw Materials and Pricing

While pricing is certainly up significantly over PY and continued to increase the first half of the year, metal prices have begun to stabilize and even decrease in certain areas. Pricing still remains at an all time high given past history but the stabilization of the market is encouraging.

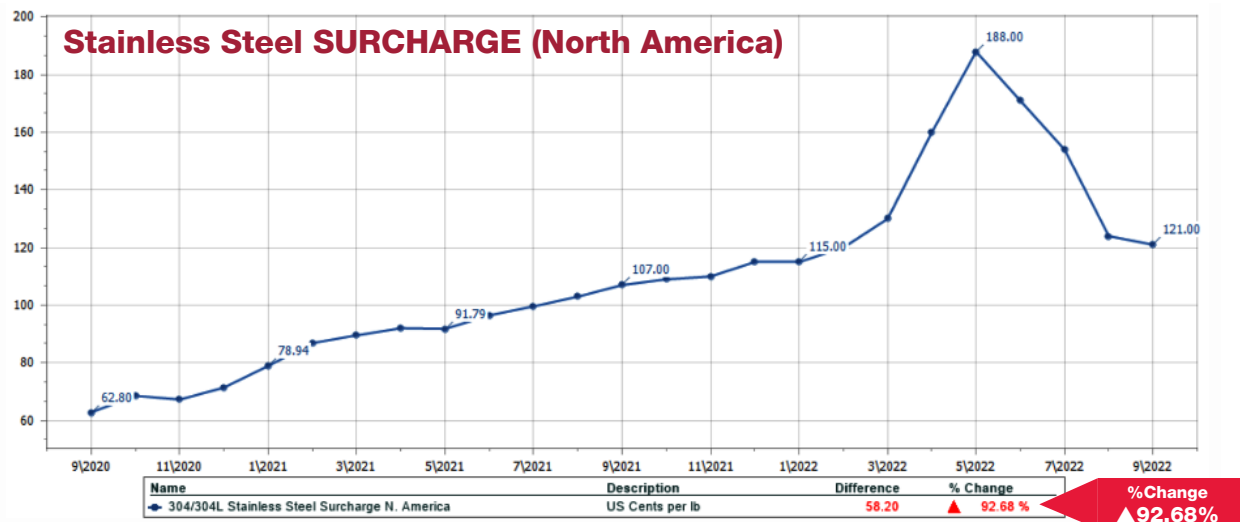
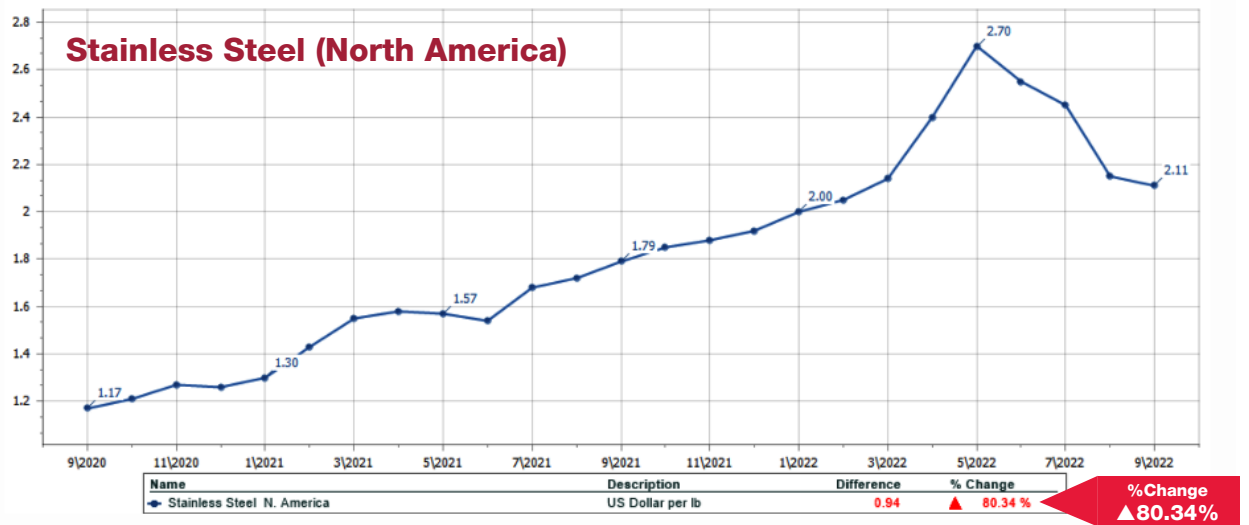
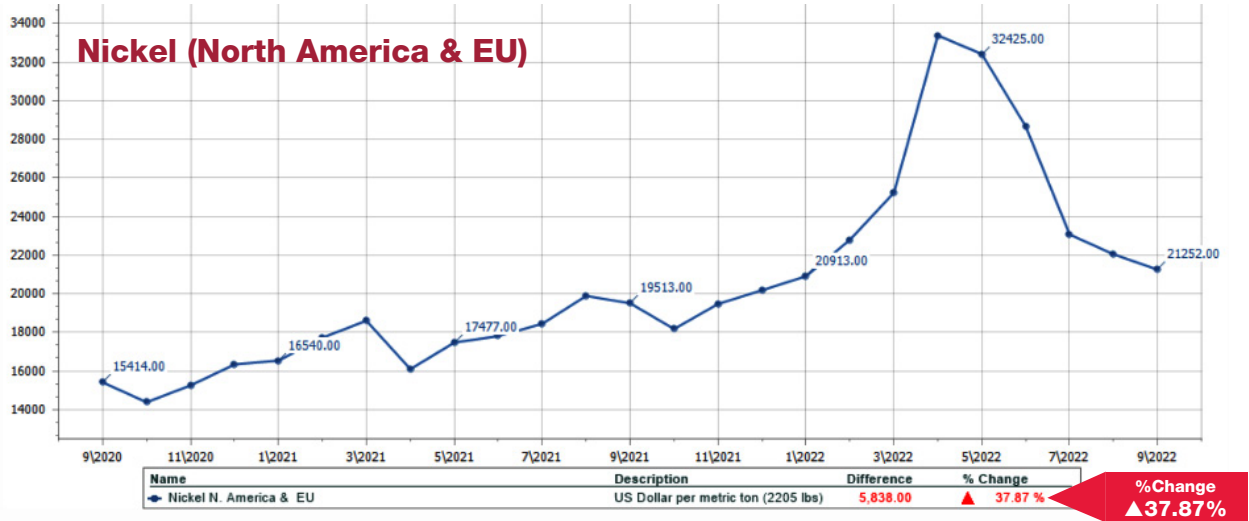
Aluminum prices have fallen 30% since hitting record highs in March 2022. With regards to aluminium price predictions for 2022, Shanghai Metals Market (SMM) said that prices will fluctuate but will not “rise or drop steeply” in the third and fourth quarter of the year.

While oil prices remain elevated globally due to sanctions on Russia (the third largest petroleum-producing nation globally), prices have softened significantly over the past 30 days. The national average price of diesel fuel has dropped nearly 7% over the past month as oil prices soften but remain 50% higher over last year.

Steel prices continue to fall and are at the lowest point since December 2020. Hot rolled coil (HRC) steel — a good benchmark for the steel industry — is down 19% over the past 30 days and down more than 50% from all-time highs in August of 2021. Cold rolled steel continues to fluctuate and is down in July from the highest point in 2021. Nickel is also down from its highest point in April/May 2022.



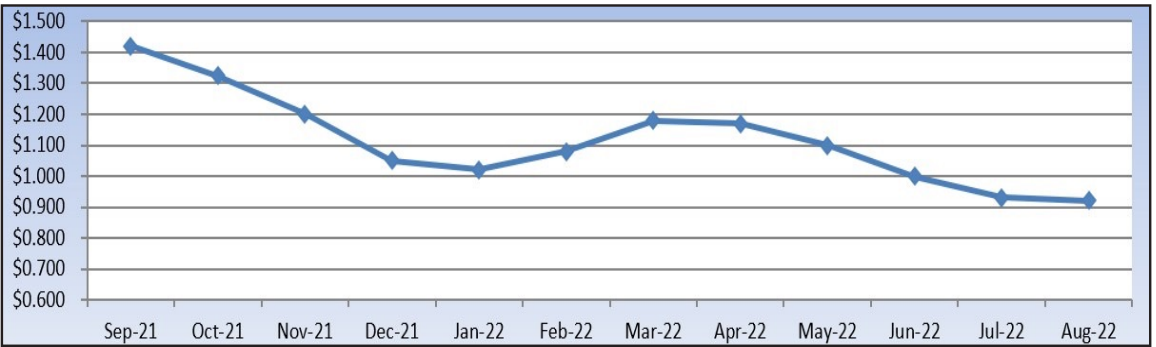
Raw Materials and Pricing (cont.)



Food Packaging Substrates: Cost Trends

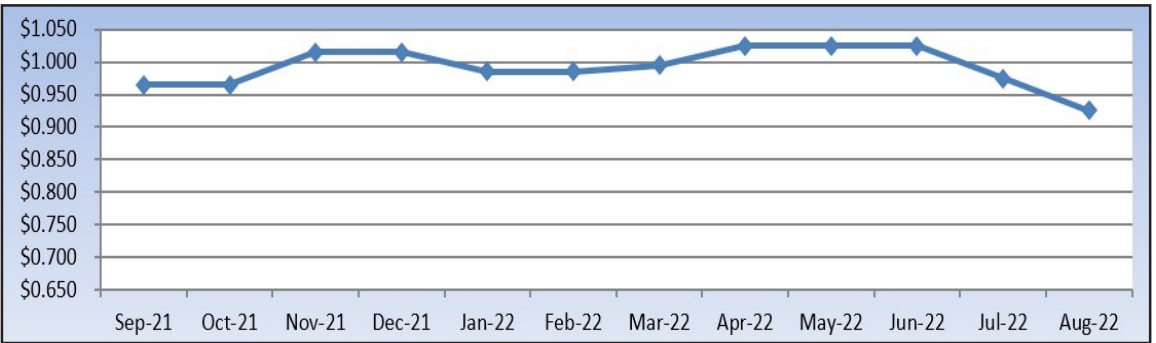
PP CDI (Chemical Data Index)

Sep-21	\$ 1.420
Oct-21	\$ 1.325
Nov-21	\$ 1.200
Dec-21	\$ 1.050
Jan-22	\$ 1.020
Feb-22	\$ 1.080
Mar-22	\$ 1.180
Apr-22	\$ 1.170
May-22	\$ 1.100
Jun-22	\$ 1.000
Jul-22	\$ 0.930
Aug-22	\$ 0.920



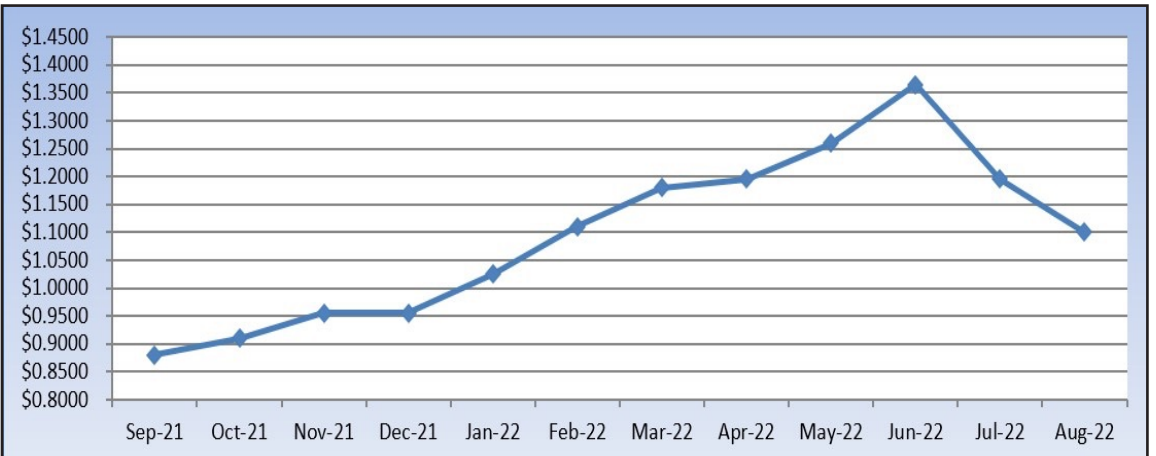
PVC CDI (Chemical Data Index)

Sep-21	\$ 0.965
Oct-21	\$ 0.965
Nov-21	\$ 1.015
Dec-21	\$ 1.015
Jan-22	\$ 0.985
Feb-22	\$ 0.985
Mar-22	\$ 0.995
Apr-22	\$ 1.025
May-22	\$ 1.025
Jun-22	\$ 1.025
Jul-22	\$ 0.975
Aug-22	\$ 0.925



PET CDI (Chemical Data Index)

Sep-21	\$ 0.8800
Oct-21	\$ 0.9100
Nov-21	\$ 0.9550
Dec-21	\$ 0.9550
Jan-22	\$ 1.0250
Feb-22	\$ 1.1100
Mar-22	\$ 1.1800
Apr-22	\$ 1.1950
May-22	\$ 1.2600
Jun-22	\$ 1.3650
Jul-22	\$ 1.1950
Aug-22	\$ 1.1000



A note about Quoting and Surcharges:

With the constant fluctuation in pricing, some manufacturers are putting expiration dates on quotes of just a few days to ensure pricing is up-to-date at the time of order.

Suppliers and AutoQuotes alike are having a hard time keeping up with the ever changing raw material and finished good pricing. In effect, some manufacturers have chosen to load a surcharge as a separate line item in quotes and in AutoQuotes as a way to ensure their pricing is accurate. This will also allow them to quickly change their pricing should the market start to return to normal soon.

Import Supply Chain

Port Update

In the US, carriers intend to blank as many sailings in October 2022 as they did in October 2021. This measure is utilized to ease pressure on the receiving port and inland infrastructures. Additional effective capacity may be released by carriers into the trade if West Coast port and inland congestion continue to ease, allowing vessels to get back on schedule.

In China, no significant disruptions have been reported in regard to COVID-19 closures or lockdowns. As of now, China ports and their respective transportation are not significantly impacted under the government-imposed restrictions. Terminals are operating at full capacity.

Elsewhere in Asia, terminal throughput remains at or near capacity throughout most of the region for ocean and air freight. Other Asian gateways (Chennai, Ho Chi Minh, Kuala Lumpur, Melbourne, Taipei, Singapore, and Seoul) are not reporting congestion currently.

Longshoremen Update

Negotiations continue between ILWU and the PMA but have been stifled. Recent events are pointing to the possibility of expanded work slowdowns. As previously reported, the only significant development was in July when both sides reached a tentative agreement on health benefits for the estimated 22,000 ILWU members. Pay and automation are the critical remaining issues to be finalized before a contract can be reached. The ILWU contract expired on June 30th. Both the ILWU and PMA continue to work diligently to renew the contract. At the present time, laborers continue to work without a contract. The ILWU and PMA jointly announced that there would be no work stoppages or lockouts while the contract is being renegotiated.

Rail Update

The pending strike by rail workers on September 16th was temporarily averted. Despite this good news, the threat of a rail strike is still possible. Union members have yet to ratify the tentative agreement, which many laborers have not approved. Until the agreement is approved by union members, the earliest a rail strike could occur is on September 29th. The tentative deal was negotiated by the unions. The tentative contract agreement between railroad management and laborers is essentially just “kicking the rock down the road” and will soon need to be addressed to avoid an all-out strike.

Freight Reductions

Freight indices showed a container shipment cost decrease in the past week. Rate indices across most trade lanes have continued their downward trend for two (2) months. Additionally, fuel costs continue to decrease globally; however, additional charges are expected to remain high into the winter for ocean freight. Equipment shortages coupled with continued high demand and globally limited infrastructure challenges will keep price pressure up but expect some volatility through the end of the year. In summary, despite seemingly good news with the softening of ocean/ground dray rates, these ongoing infrastructure challenges are adding cost to the equation for all importers in the form of equipment fees, per diem/storage charges and other transportation fees.

Chinese New Year Update

The actual date for CNY 2023 is on Jan. 22, 2023; this is one week earlier than last year. The majority of IMCO's factory sources affected by CNY will start shutting their operations down towards the end of Jan (some as early as mid-Jan) until mid-Feb. IMCO already acquired valuable info from each factory source and is working closely with DON's SCM team to ensure the necessary resupply is ordered, pre- and post-CNY. Communication with regards to business forecasts remains very helpful for the IMCO team.



DON Advantages

Due to many ongoing global factors, the supply chain continues to experience disruption that has impacted the ability to get products into DCs and out to customers. DON Teams are making every effort to limit the impact of these factors and get products to customers.

A huge part of DON's Advantage is the ongoing conversation with many suppliers to develop both short-term and long-term solutions. Most of the short-term solutions pop up quickly and DON takes advantage where applicable.

Below is a list of activities that DON teams are proactively doing in response to the ongoing supply chain issues:

- Weekly supply chain and forecast meetings with Strategic Suppliers.
- Dedicated team of supply chain analysts monitoring customer critical items.
- Communicating forecasts for current and seasonal demand to key suppliers to make sure suppliers are prepared.
- Requiring key suppliers to proactively notify DON of backorders so we can source alternative product and minimize shortages to customers.
- In general, adding new suppliers and product where applicable to support customers with a solution.
- Operations is aggressively recruiting and retaining associates to keep staffed, allowing loads to be ready on time.
- Adjustments to some transportation modes (final mile and LTL) and market schedules to allow more processing and transit time to provide consistent delivery schedules.
- Negotiating through line haul rate increases to keep carriers that provide consistent service on our lanes while mitigating cost increases as much as possible.
- Implementing and expanding delivery update communication emails to allow carrier, operations and sales to track overall delivery progress through each day.

Even during challenging times, DON continues to remain steadfast at being customer-focused and finding solutions to help our customers succeed.