

Receipt Paper Market Update

August 6, 2018

Dear Valued Customers:

With peak season upon us we wanted to provide information regarding the major factors impacting the receipt paper market. We remain committed to providing the most accurate and insightful information as it develops. We also know that many of you are using the information to plan your business for not only the remainder of 2018 but 2019 as well. To provide the best information we are continuing to monitor several key factors affecting price and supply including leuco dye, pulp, and transportation.

Leuco Dye

As reported in our last update Chameleon shut down due to a waste leak in their industrial park but they did not resume production before the end of May as originally projected. We have since learned that Connect, the largest provider of leuco dye, was shut down in June and has not been running consistently or at full capacity for the last two months. Both companies are not currently producing but have projected that they would resume production soon. At the time of this publication we have not confirmed that either company has resumed production and we are monitoring their progress daily.

As evidenced by these latest shutdowns the Chinese government continues to enforce environmental compliance and regulations to address the severe pollution conditions across their manufacturing sector. Over 40% of all companies have been shut down or inspected. As this focus continues it is now affecting additional chemicals and their respective suppliers. Blue leuco dye, BPS, and MAP are chemicals needed for the thermal coating process that are now seeing an impact to their supply availability. From nearly the beginning of this shortage blue leuco dye has been subsidizing the industry. Many paper mills have been blending small amounts of blue leuco dye with black to maximize their output capacity.

Due to these issues we expect supply to be very tight for the remainder of the year. In fact, one of the major global thermal paper suppliers just announced a reduction of imports into North America for Q4. Be confident that Iconex has been working very hard on your behalf to minimize this impact and is still well positioned to serve your business needs for the balance of the back-to-school season and more importantly the upcoming holiday season.

Many of these issues are familiar from previous updates but it's important to understand that until these issues stabilize for an extended period we will not see any significant change to the thermal supply availability in the market. With supply impacted by closures and a continued emphasis on environmental compliance we are not anticipating any price relief in the near term. Several thermal paper suppliers have now begun exploring alternative long-term global sources for their chemical needs.

Pulp

Demand and price for pulp have continued to escalate since April rising nearly 6.7% due to the increased demand from Chinese usage. Industry experts however predict that as we enter Q3, the slower period for China, that pulp prices will level off in Q4. We are still seeing that producers have recently retired inefficient assets which has permanently removed capacity from the marketplace.

Bond Paper

Low basis weight uncoated free sheet grades, the specific grades of paper used for receipt applications, are in a severe shortage. The capacity for low basis weight bond paper is being replaced permanently by more profitable products across several major suppliers. The action leaves all converters scrambling for the limited domestic sources remaining or seeking new global sources to satisfy the demand. We expect supply to be very tight for the remainder of 2018 and that pricing will be volatile as a result. It is very possible that substitutions will be necessary for several products. It is our greatest intention to minimize the impact on your business operations by leveraging our scale and resources on your behalf. We will be sure to communicate any direct impact proactively through your Iconex Sales Representative should that become necessary.

Transportation

According to the data released by the US government in early July, transportation costs spiked nearly 8% in June. This supports the information published in our previous update regarding the shortage of drivers caused by increased demand and an emphasis on governmental regulations. With nearly 75% of all goods in the US moved by highway, this shortage will continue to increase the pressure on driver wages as freight companies work feverishly to add new drivers to meet the current demand. Our goal is to collaborate with our customers so that we can maximize our carrier utilization to offset the impending cost pressure. Working collaboratively, shippers, customers, and carriers can create opportunities to increase the number of hours drivers spend driving versus non-productive activities.

Summary

To deal with these direct and inflationary costs we continue to execute our strategy of being the lowest cost provider of paper receipts by reducing waste and improving efficiencies. Our team continues to work diligently to minimize these cost factors without risking adequate supply or sacrificing quality for all our customers. In summary, the market remains unsettled, supply is still limited, and several key cost factors continue to escalate.

We hope that these updates continue to provide clarity. I remain personally committed to managing these uncontrollable market circumstances as they evolve. As always, you can also find the latest market information by contacting your Iconex Sales Representative or visiting www.iconex.com.

We appreciate your valued business and continued support!

Sincerely,



Craig A. Gunckel
Chief Executive Officer