

Global Thermal Paper Update

May 4, 2018

Dear Valued Customers:

Thank you once again for your continued support.

The thermal paper market continues to evolve and as a result we felt compelled to provide an update. I hope that you continue to find the information helpful and relevant as you plan for your business in the remainder of 2018. In our March update we noted that there would be a potential end to the rapidly rising costs and that there would be no reversal of the most recent price increases. This is what has occurred in the last 60 days. We also mentioned the possibility of additional increases in 2018. In fact, in the last two weeks several global thermal paper suppliers have announced additional increases. Based upon all the facts we know today it is highly likely that market prices will be stable or rising for the balance of 2018. We believe the increases are being driven by the factors outlined below.

Leuco Dye

Until recently Connect, Chameleon, and Fukang, three of the largest producers, have all been supplying leuco dye to the global marketplace. In the last week we learned that Chameleon has been shut down due to a waste leak in their industrial park that is expected to last through May. We estimate that the combined production had reached nearly 70% of the available capacity but with Chameleon now down we estimate that number to be impacted in the near term by at least 10-15%. Exacerbating the situation is the shortage of MAP, an intermediary chemical used in the production of leuco dye.

It's also important to note that the Chinese government is taking a more aggressive approach to environmental conditions in China. As the world's largest producer of industrial chemicals, we project this change in policy will affect their production which ultimately affects the price. Another complicating factor is the Shanghai Cooperation Organization (SCO) summit that will be held in Qingdao on June 9th and 10th. It is expected that most of manufacturing companies in the region, including chemical companies, will be forced to stop operations for at least 2 weeks before the summit. The forced shutdown is an attempt to improve air quality in the region prior to the arrival of summit visitors.

The Chameleon shutdown, the constraint on intermediary chemicals, increased regulatory pressure, and pent-up demand are signals that the pricing for leuco dye will remain high for the foreseeable future.

Iconex continues its commitment to providing solutions for our industry. In addition to the partnership with our major paper suppliers on the development of a mitigation strategy for leuco dye, we are also actively evaluating new technologies that would minimize the dependency on leuco dye.

Pulp

A primary component of all paper-based products including thermal paper is wood pulp. According to RISI, all five primary types of pulp have risen an average of 9% since October 2017 and 22% since April of 2017. Pulp price increases are primarily due to a rise in global demand and diminishing capacity. Demand is impacted by a reduction in the print and publishing sector but it's being offset by China's use of virgin materials and a greater demand for the packaging materials associated with e-commerce and delivery of online orders. Many producers have recently retired inefficient assets which has permanently removed capacity from the marketplace.

Bond Paper

In a similar trend bond paper production has also seen a shutdown of inefficient high cost capacity with an emphasis on printing, writing paper, and uncoated free sheet grades. As reported in RISI, the North American paper producers have permanently retired 2.46 million tons of capacity which is having a direct impact on bond paper supply. These machine closures represent approximately 18 months of demand decline. The closures have created a very tight market for bond papers and when compounded with rising pulp prices, we anticipate that there will be an increase to bond paper prices very soon.

Transportation

There are multiple issues that are impacting the transportation market in North America. Strong demand and tightening capacity along with increased emphasis of government regulations have shifted rates quickly since late 2017. Capacity remains tight and it appears that will be the trend for the next twenty-four months. The ELD (Electronic Logging Device) mandate has added additional pressure fueling the need for new drivers. With demand at its highest point since 2005, wages for new and existing drivers will certainly increase in the remainder of 2018. Many of you are already feeling the early effects, therefore it's imperative that we 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.

In addition to the direct material cost pressure, Iconex is not immune to the real inflationary issues that are challenging all businesses such as labor, transportation, interest rates, commodity items, currency fluctuations etc. To deal with these costs we continue to execute our strategy of being the lowest cost provider of paper receipts by reducing waste and improving efficiencies. Our team will continue to work diligently to minimize these inflationary cost factors without risking adequate supply or sacrificing quality for all our customers.

As mentioned in previous communications, Iconex's highest priority continues to be ensuring adequate supply for all our existing customers. To date we have successfully executed our paper sourcing strategy which in turn has prevented supply interruptions that could have severely affected your business operations. Your trust and commitment give us the confidence to continue our strategy until the situation stabilizes and is ultimately resolved. In summary, this market continues to experience rapid change, supply is still a primary concern, and market prices will be stable or rising for the balance of 2018.

It remains our responsibility to provide you, our customers, with as much detailed and proactive information as possible. 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