

## Receipt Paper Market Update

February 5<sup>th</sup>, 2020

Dear Valued Customers,

The last two years will be remembered as a uniquely tumultuous period for the receipt paper industry. Price, inventory, quality, and regulatory issues have all played a factor in an ever-changing marketplace. While much of the chaos is behind us, we must remain agile enough to adapt to changing market conditions.

The emergence of disruptive elements in the marketplace poses new risks beyond cost and supply that is threatening the reputation and quality perceptions of the entire industry. This is being driven by a small but visible portion of the North American market that is selling products with poor quality, performance, and value. Rising receipt paper roll prices in 2018 has opened the door of opportunity for these less scrupulous sellers to capitalize on the end-user desire to avoid cost increases, which encourages what we believe are deceptive trade practices in some cases. While today these inferior products are a small portion of the marketplace, Iconex wants to alert you to the emerging situation so you are better informed and equipped.

Iconex remains committed to providing only high-quality receipt paper solutions while conducting business with the highest levels of integrity. As such we are proud to be one of the more than ten founding members of the Paper Receipt Converters Association ([www.paperreceipts.org](http://www.paperreceipts.org)). PRCA is a nonprofit trade association representing the manufacturers of paper receipts. PRCA promotes the value of paper receipts; encourages the use of best manufacturing practices throughout the industry; and works with legislators and governmental agencies to promote the industry's well-being.

Iconex will not join in the use of inferior materials to make cheaper paper rolls because they carry significant risks and a poor experience for end-users. Iconex products remain a superior value that is easily recognized by knowledgeable customers operating in an honest and level playing field. We want to share some of our observations to elevate your ability to recognize offers of risky products. The main areas of risk lie in poor quality thermal paper, mislabeled BPA-containing coatings, short rolls, and illegal imports.

We have seen the effects of poor-quality thermal paper firsthand in the field and in our test lab. Poor quality thermal paper does contribute to a need for more printer cleaning, less legible receipts, printhead residue, printhead abrasion, and compromised printer lifespan. Regrettably, these end-user problems have returned in the form of low-quality thermal papers made by secondary and tertiary coating mills offered at discount prices. The most successful thermal paper coating companies of the world today are the providers who refined their thermal paper products to run more cleanly and less harshly in point-of-sale and ATM printers. Unexpected printer maintenance costs, premature printer failures, and out-of-warranty-scope repairs can be linked to low quality thermal paper products.

The North American marketplace largely converted to BPA-free thermal papers due to the unfavorable public perception of BPA. Regional regulations, especially California Proposition 65, hastened the switch. The lower cost attraction of BPA-containing thermal paper has caused such products to re-appear in the marketplace. Paper rolls containing BPA rarely, if ever, are clearly marked or advertised as containing the restricted chemical, even though California Proposition 65 requires clear disclosures. We doubt that most end-users and many resellers even realize that they are buying BPA-containing paper rolls. However, the public relations and regulatory enforcement risk are so significant that educated and responsible buyers in the United States want BPA-free paper rolls. The BPA subject is so sensitive that no retailer, restaurant, or financial institution wants to face public reports about their receipts containing BPA. In California and some other locales, the risk is magnified by potentially violating the law. Several companies have received California Proposition 65 notices of violation, an occurrence which requires the accused violator to spend time and money on their defense. Most Proposition 65 violation notices name multiple companies in the supply chain, including the end-user, the distributor or dealer intermediary, and the paper roll converter. It is easy to be BPA-free compliant, but today's reality is that we all need to be sure to buy verifiable BPA-free thermal paper rolls to avoid the risk of public relations or regulatory problems.

Another way to lower paper roll costs and prices is to loosen specifications to sell "short rolls". This occurs when paper rolls are manufactured to be shorter in length than advertised. There are instances where receipt paper is sold without any disclosure of the roll length. Obviously, the end-user loses by not getting the full value of the product they thought they were buying. This misleading practice appears to be making a comeback. Protect yourself by sourcing product that discloses the roll length on the carton label and verify that the rolls inside meet the advertised specification. Deceptive labeling and advertising of product is unethical, and we believe illegal.

Finally, and perhaps most alarmingly, evidence is emerging about some thermal paper products arriving in the United States without paying the required import tariffs. Thermal paper that is produced in China is subject to antidumping and countervailing duties ranging from 33-200 percent. These duties are owed regardless of where the thermal rolls are slit and converted to finished rolls. Under U.S. Customs and Border Protection Rules, the tariff is applied based on the source

of the thermal paper coating operation. Converting these mill rolls into finished receipt paper rolls in a different country does not relieve the legal burden of paying the United States import tariff. Avoiding import tariffs is illegal, and anyone downstream in the supply chain could be held liable for paying tariffs due.

The PRCA has taken an aggressive approach to identifying, exposing, and reporting unlawful trade practices to protect customers in the North American marketplace. Its members have partnered with the law firm of King & Spalding with a specific focus on these deceptive and illegal practices. We know it is important that buyers know the real value of what they are sourcing. A marketplace of healthy competition free of unfair, deceptive, and illegal trade practices is best for everyone.

Sometimes it can be difficult to recognize inferior quality paper rolls, deceptive offers, and illegally imported goods. Iconex will open our substantial technical resources for your use. If you suspect or inadvertently purchased poor quality or illegally imported goods, please contact your Iconex sales representative. He or she will arrange for technical analysis of your sample and share the laboratory findings with you.

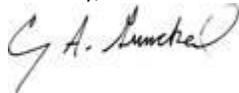
From an availability perspective, coating chemical sourcing is not facing a crisis shortage, but the new normal is quite a different situation than the period preceding the fall of 2017. Only a portion of the original Chinese capacity for leuco dye has returned to operation, with on-going restrictions, however the major suppliers have been working over the last year to secure new sources to repair a once fragile supply chain. We are also closely monitoring the effects of the coronavirus outbreak in China although is still too early to determine any market implications at this time.

The sustained improvement in the global availability of thermal paper supply is now being tempered by higher input costs. In fact, at least four of the largest thermal paper mills have recently announced a 10% price increase across all thermal grades. The announcement was prompted by rising global costs for pulp combined with increased logistical costs.

Iconex carefully listens to its customers, suppliers, and publicly available information, including very high-level dialogue with the world's leading mill suppliers, before concluding price impacts for the foreseeable future. Of course, raw material markets can and do change abruptly. We do remain committed to adjusting our receipt paper roll prices responsibly, up or down, as the market changes.

We look forward to making 2020 a success for both of us, together. Thank you for your support.

Sincerely,



**Craig A. Gunckel**  
Chief Executive Officer

---

