



January 22, 2018

Dear Customer,

Unfortunately for some of you, our first greeting of the New Year must be combined with some unpleasant news.

An exceptional situation has arisen in our industry and we need to inform you of the effects on you, our valued customer as well as give you full transparency so you will better understand the details.

The exceptional circumstance is that the main and active chemical used to manufacture direct thermal paper known as color former has fallen into short supply. Here is what transpired over the past few months.

- 4 of 5 known manufacturers of color former are located in China and account for nearly 90% of the world wide capacity.
- Of these 4, the largest manufacturer was shut down in the middle of September, 2017 by the Chinese Government due to environmental concerns. However recently we learned that this manufacturer has re-started its factory in January, but we still remain uncertain to how the re-start will bring supply back to normal levels. Even with the re-start, we are still concerned about how long it will take to get supply back into the USA, which leaves us with many unknowns.
- The Production of yet another high-yielding producer of color formers located in China was also shut down in mid-December and again this decision was done at the hand of the Chinese Government. It is presently unknown when this manufacturer will re-start.
- Two other smaller manufacturers of this key chemical are also facing the same risk of being shut down by the authorities due to various reasons.
- As if the shutdowns were not bad enough by itself, these manufacturers of color formers have also been challenged with procurement of an intermediate chemical used in the manufacturing process of color formers. This has further exasperated the shutdown situation, causing lack of supply, shortages for some, and uncertainty about the recovery.

#### **What does This Mean for You and Us?**

- Since the first announcement of a shutdown in September, Kanzaki through the help of its parent company Oji Imaging Media has been able to secure supply of color formers allowing the flow of products to continue ongoingly and without interruption.
- However since the other factory has been shut down and those coming back are not at full utilization, there may be slow deliveries in the foreseeable future.

### What's Next!

- \* As you can imagine short supply challenges of color former availability and the need to secure the intermediate chemical have caused the color former prices to explode upward.
- \* These color former prices have reached a level that Kanzaki can no longer absorb within its price structure, which is already challenged by input price increases in paper, chemicals, transportation etc. No thermal maker could have even imagined the prices this color former would rise to.
- \* In consideration of these factors Kanzaki has no choice but to pass along the increased cost coming from the color former procurement via a surcharge on those products using color formers.
- \* As we proceed, we hope for a market re-balance however Kanzaki will need to implement a surcharge of 8.5% on all thermal paper and film grades effective on shipments on or after February 1, 2018.
- \* Please note that we will be reviewing the market and market pricing regularly and will confirm back to you any change to the surcharge at the end of each quarter.

We at Kanzaki are uncertain how long this situation will last however we do commit to you, our valued customer, that we will continue to monitor global pricing of color former ongoingly. We promise you to be a quality minded strong and viable supplier to our long standing and loyal customers who have supported Kanzaki over decades. We assure you that as the market changes we will inform you quickly so you can make the appropriate plans with your customers.

If you have any questions, please feel free to contact your Kanzaki Sales Representatives or our Customer Service Group or even me.

As always, thank you for your continued support of Kanzaki and I am certain that we will get through this together.

Sincerely,



Stephen P. Hefner  
President & CEO