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Dear Mr. Customer

The following is a general update on the supply and demand issues facing the adhesives industry and how they affect the service we can provide.

Raw Material supply

At a high level, the volume of key raw materials available is close to meeting demand. However, many suppliers are still on force majeure, and it is very difficult to predict how much of each raw material we are going to receive and when.

There is still almost zero stock of raw materials anywhere in the supply chain so any delay at our suppliers, caused by issues getting their raw materials or manufacturing problems, results in an immediate delay in supplying us.

The North American adhesive industry also depends on supply of raw materials from around the world and, without a buffer of stock, becomes susceptible to disruption when any supply chain is affected by issues beyond its control.

For example, key suppliers of wax used in hot melt production are based in South Africa and Malaysia. The recent political and social unrest in South Africa have resulted in shipments being delayed or cancelled. The Malaysian market has been badly affected by a shortage of shipping containers and ships, again delaying deliveries.

Weather events, like the recent flooding in Europe and the storm that hit our Seneca plant last week, could normally be managed by using reserve stocks but now result in lost production that cannot be replaced.

Demand

The biggest challenge facing our industry is that demand for many manufactured products has increased well beyond any forecasted levels and shows no sign of declining soon.

The government is predicting a 7% GDP growth in 2021, which is more than twice the 5 year average. The US economy has bounced back strongly after the Covid impact, but global supply chains do not have the capacity to deal with this sudden growth and many industries are dealing with shortages, allocations, and rapid cost inflation.

Until stock levels throughout the whole supply chain improve, we believe the general supply/demand imbalance will continue. Our current best estimate for our business is that the imbalance will continue until at least the end of 2021.

Logistics

The sustained level of high demand has led to new pressure on the logistics industry.

Internationally there are not enough containers or ships to carry the goods required to meet demand. This has resulted in long lead times.

The ports in North America remain overwhelmed, with long delays to unload vessels.

Disruptions, like the recent Suez Canal blockage, result in significant ripple effects for months.

In North America, the shortage of truck drivers and trucks was well documented before this crisis. New truck supply (and the automotive market in general) has been affected by the lack of computer chips used in their construction. The driver shortage is now acute, especially in specialized areas like those qualified to drive tank trucks.

Freight costs have hit record highs and delivery delays are becoming the norm, not the exception.

The Rail network, important for raw material deliveries, is seeing demand so strong that empty rail cars are not being collected on time, resulting in new deliveries being delayed.

HB Fuller Adhesive supply

Demand for our products over the last 4 months has been exceptionally high and well above the forecasts most customers gave us, even as late as March/April. We are running every plant at maximum capacity whenever we have the raw material supply to do so, but the inconsistent supply of materials has often led to lower output than we would expect because of the constant need to change production plans.

We have refused to take on new business, have recruited staff and have added machine capacity but we still have Water Based adhesive orders equaling 6 - 8 weeks of available capacity with no sign of demand weakening.

For hot melts, we are currently at 100% capacity and meeting demand but any disruption in supply automatically means delays for our customers.

Summary

We understand that the key issue for our customers is clear communication on what we can supply and when it will arrive. Given all the variables affecting our ability to do these things well, we have decided that the best option is to implement allocations on our products most affected. We will maintain our commitment to keep you informed and you will receive specific information if you are affected by allocations or other sales control measures.

We hope this letter has been useful and welcome any further questions you may have.