



To
our business partners

Bad Oeynhausen, 06.01.2023

Information concerning chances and risks

Dear valued business partners,

in recent years, the crises had been very challenging for all of us. A small virus has suddenly mutated into a global litmus test for society, economy and politics, the terrible Russia/Ukraine conflict has shown the instability of peace in our enlightened European social order and our industrial location Germany has become more aware on global supply chains and imported energy. It was extremely important for us to use this information letter to communicate the status of our company transparently with our business partners and to ensure reassurance. In retrospect, this was successful. In the aftermath of the pandemic years, we decided to briefly continue this information in this form.

As a component manufacturer for, among other parts, the medical technology, pharmaceutical industry and biotechnology, we are part of the global efforts against Covid19 - on the one hand, we are responsible for helping to maintain medical facilities for immunocompromised patients, and on the other hand we support the active ingredient manufacturers with laboratory analysis devices and assemblies in their research, development and production. Our coupling systems are required in intensive care units in all parts of the world and our hygienic components technology is used in the research and production for Covid19 drugs and vaccines.

The pandemic seems to be manageable, so that from 2023 we will also refrain from stricter regulations than the current legal requirements in our company. However, protective measures such as room air filters, decentralized break times and Plexiglas protective panes on tables remain in place, as well as the free supply of respiratory masks to our employees if desired.

We noticed the Russia/Ukraine conflict directly on the order side; however, this does not pose an economic threat to us. Rather, we are concerned about the indirect effects on cost increases for the raw materials and their consequences.

At the beginning, after February 24, the year 2022 was characterized by price volatility and supply uncertainties in the gas and electricity sectors. The producer price index, which has been rising steadily since the beginning of the pandemic, was at peak values of over 45% in late summer and is driving the German inflation rate to double-digit values, which led to a wage-price spiral in the negotiations between the parties to the collective bargaining agreement (or actually, in this economic situation, correctly: price-wage spiral and vice versa). Companies from energy-intensive industries, that are unable to pass on these cost increases, have already shut down, suspended or closed their operations in the second half of 2022 - e.g. restaurants, bakeries or clinker kilns. Nevertheless, the suppliers relevant to us, such as steel manufacturers, foundries, converters and finishing companies, are currently continuing to produce and pass on their cost increases in the form of significantly higher sales prices. The energy price limits decided by politicians at the end of 2022 represent an intervention by the state in free competition and market-driven pricing, but could help Germany as an industrial location at the expense of the German social community to bridge the medium-term, strong fluctuations in the energy market.

As part of our internal assessment of the general situation and the economic environment, we see the following scenarios:

- Cost blocks such as materials, machines, tools, wages and energy will continue to rise due to second-round effects.
- Companies, whose current rates of price increases are exceeding their overall profit margins, will face economic problems, if they do not continuously monitor their costs and prices closely and adjust them as needed.
- The poor material availability will not improve before spring 2023.
- The backlog of orders and the shortage of skilled workers in industry and trade are contradictory to the job market for a long time.
- There will be no downtime due to energy shortages in economy - but there will be due to high energy prices.
- In the medical sector, the planned hospital reform will lead to high investments in technology that is eligible for upfront flat rates.
- The wave of investments in biotechnology due to Covid19 will ebb to pre-pandemic levels.
- The population's fear of the future leads to a drop in consumption; the price increases eat up monetary reserves.

We haven't experienced such jumps in costs for half a century, since the oil crisis in the 1970s in Germany, Europe and the world. Just as the German economy coped with and survived this situation back then, we are certain that we will survive this turbulent time together - but with severe cuts and changes.

We wish you, your families and your company all the best, health, God's blessings and a wise mind to get through this time with optimism, solidarity and tolerance.

Fritz Althoff GmbH & Co. KG