GVH Distribution

Family of Companies

November 3, 2022
RE: GVH 3rd & 4th Quarter Market Update

Dear Retail Partners,

As we roll into fourth quarter and the Holiday season approaches, we can finally communicate some improvements to you regarding the supply chain in our update! We wish our customers nothing but success during the Holiday's and assure you that GVH continues to be proactive in ensuring our customers' supply needs are fulfilled.

SUPPLY CHAIN

Over the summer we have seen several vendors reduce lead times, and finally begin to improve fill rates, and even in some cases, reduce the amount of substitute products we need to keep on hand! There are still a handful of problem categories, and freight is still a big concern as fuel prices are trending in the wrong direction. Since summer, overall fill rates and lead times have seen a net improvement. The cost of containers has also reduced significantly, which has provided some help when importing products from Asia. Overall GVH is optimistic about the supply chain based on recent improvements. For holiday volumes, we have loaded projections we received from customers, and either planned for them, or ordered in inventories where needed. Below we have outlined some categories that are still a major concern, as well as provided updates on categories where we are seeing improvement.

SMALL PAPER PRODUCTS AND PAPERBOARD

These categories are the hardest to procure right now. Donut boxes, turkey boxes, custom printed boxes, and containers, pan liners, soup cups, hot cups, and bakery and deli sheets are all an adventure to procure. On custom prints where GVH has been unable to secure additional inventory, we are bringing in stock products. Where the stock item is unable to be procured, we are recommending varied sizes, item types, and alternate suppliers to stay in the best stock position we can for the holidays. We expect the outlook to continue to decline on these types of items going into 2023, until volumes start to decrease after the holidays, and baking season. Paper is still a challenging area in general with extended lead times still in play. We have seen some small pockets of relief, but not on the higher volume products where we need it. GVH is still actively seeking new partnerships with capacity in the paper world, if you have recommendations or contacts, we will welcome them!

ALUMINUM AND FOIL PRODUCTS

Aluminum is another area where we are still experiencing sporadic product shortages, and GVH is holding much more inventory than we would under optimal circumstances. We started our holiday ordering incredibly early for these product types, and have most of what we expect to need, less any surprises, on hand or in route currently. There have been shortages on foil rolls, and some heavier gauge aluminum items so far, especially with vendors where aluminum/foil items are not their main product types. We are not sure when things will become more consistent in the aluminum products world but have done our best to prepare for the worst.

FRONT END PAPER BAGS

GVH has stayed consistently in supply with 1/6th and 1/7th front end paper bags. There are still some struggles, as all major manufacturers suspended their white bags due to raw material shortage. Also, the "hometoter" bags are difficult to come by. One of our primary paper suppliers, Packaging Container, Inc. (PCI) was recently acquired by Rockford Package Supply. They have struggled heavily since the pandemic, and the Oregon fires that effected their facility, so our hope is the acquisition and additional resources will be a positive for GVH. There are allocations still on front end paper, but suppliers are much more open to new business, and increased volumes. In 2022, new equipment, and capacity was added for paper bag suppliers in addition to the labor situation improving.

FOAM (POLYSTYRENE)

Foam is an area at GVH where we have experienced some significant improvements with our suppliers. Nearly all of the suppliers have lifted allocations on most product types and are even ready to take on new business including custom prints for some segments of their business. However, one of our major suppliers still has inconsistent inventory and extended lead times. Quarter four is not as high volume for foam cups and containers as the summer months, so this is a good time to add capacity where needed. GVH has seen a steady supply of foam hinged containers as well.

Foam tray supply still varies vastly on region of the country. Overall, the supply chain has improved, and like foam cups and containers, volume is heavier on these products in the summer months. GVH has seen steady and consistent in supplying our Western US and Midwest branches, but supply has been much more sporadic in the East, and we are still utilizing a lot of subs to fill the gaps. Across the country, freight carriers still have a large impact on foam trays and delivering on time. Carrier costs are still high, and we turn trucks constantly since these items are so high cube. GVH regularly meets with our suppliers when carriers consistently miss appointments to ensure they are held accountable, and where we can make accommodations to get carriers in, we are doing it. Each of our branches is doing everything within their power to secure inventory on lines where we see consistent delivery delays.

GLOVES

We have seen glove prices trending downward! Most glove types have benefited from lower container costs currently and are beginning to show small decreases. We have not experienced recent issues on supply with most glove types, and are optimistic heading into the holidays, despite glove volumes increasing this time of the year. Nitrile right now is the exception. GVH is in a solid inventory position on nitrile gloves, but it has required substituting some of our regularly carried nitrile glove brands for different brands of nitrile gloves. It would not be a surprise if we have to continue to do this in Q4, but we do not expect to have large gaps in supply on nitrile.

T-SACKS, PRODUCE AND POLY BAGS

Towards the end of the summer, we started to see lead times reduced further on poly bags and t-sacks with most of GVH's larger suppliers. This has been a welcome relief! We are proceeding with cautious optimism for our highest volume products. We are still having to implement some substitutions for custom printed bags (especially if they have multiple colors). We have been told for lower volume custom prints on both t-sacks and poly bags, to expect significantly longer lead times, as suppliers allocate capacity to their highest volume items, for the busiest grocery time of the year. GVH has secured or ordered t-sacks and poly bags to make sure our customer base is covered for the holiday season, even if an alternate custom, or stock t-sack is required to fill gaps. After Q4, right now GVH expects capacity to continue to free up.

CAN LINERS

Can liner lead times have reduced as well, and with some snags, overall GVH has seen improvement in supply chain. We still have longer lead times on can liners than we would like, so it is difficult to accommodate unexpected demand, but the overall picture has improved since the last market update.

LABELS

In Q1, 2023 a major US paper mill will be closing who is a primary supplier of label liners and will impact the supply chain for pressure-sensitive labels. Many of our vendors have communicated they are trying to find alternative solutions to the paper liner as well as find additional suppliers. GVH continues to find alternative solutions and is also increasing our inventories due to not only the shortage of material, but also increased lead times.

LEGISLATION

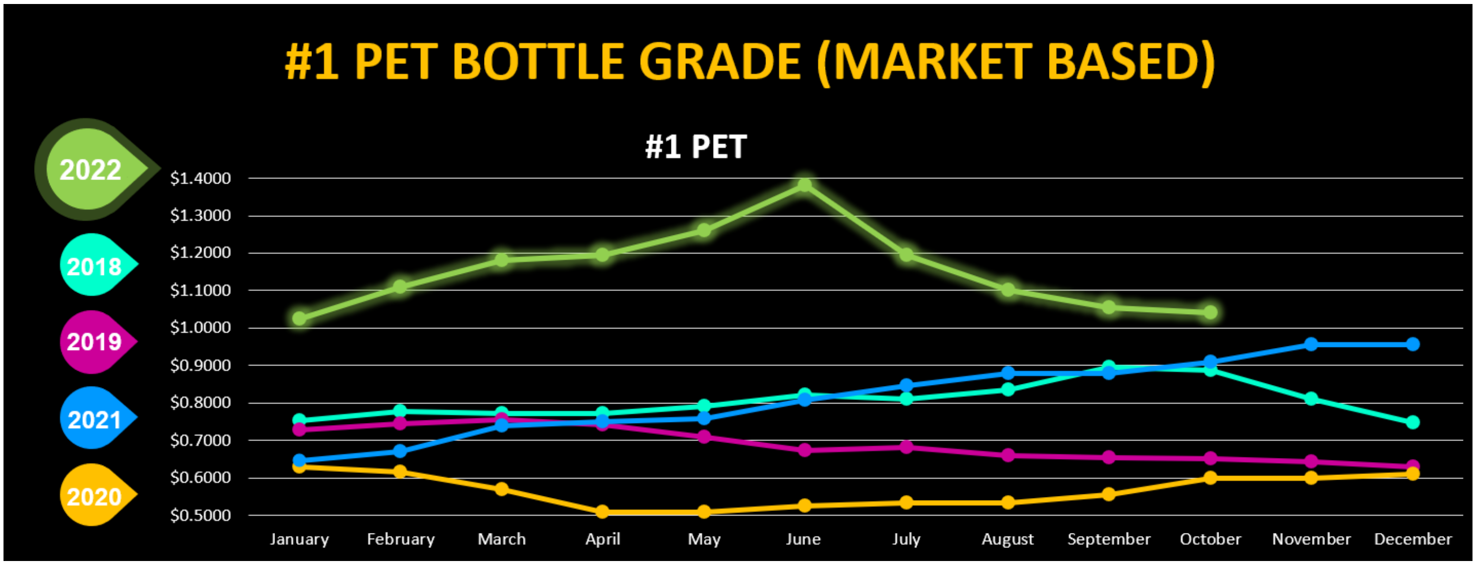
California outlawed pre-checkout bags, taking effect 2025. Starting in 2025 grocers must offer paper or compostable bags to shoppers for product, meat, and other in-store items.

MARKET TRENDS

GVH continues to cover pricing and market trends for all the substrates that impact the products we provide so you can be aware of what causes market changes. The below resin pricing graphs is just one component of how a vendor calculates the cost of goods. Other factors include, but not limited to are supply and demand, availability of resin, freight, manufacturing and operating costs, labor, and surcharges. We are seeing resin pricing decrease, however the other factures that play into price are continuing to rise. GVH has received price decline notices, but not in the same frequency as we saw increases over the past two years. We continue to reach out to our vendors requesting them to review their pricing. Please review the following substrate market trends to see what is affecting the costs of goods and supply.

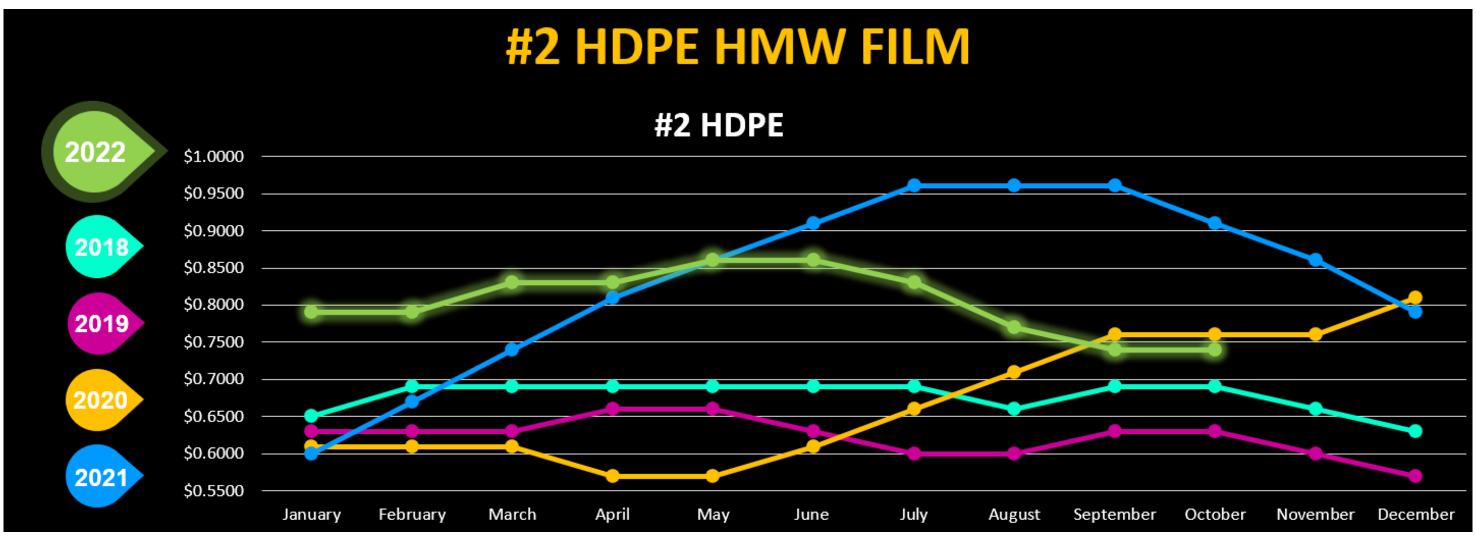
PET MARKET

- Products: Clear Take-Home Food Containers & Bottles, Cups, Cater Trays
- Vendor examples: Pactiv, Placon, Anchor Plastics, Inline, Fabrikal, Sabert, Dart, Fineline, D&W Finepak, Genpak, WNA, Berlin, Karat Packaging



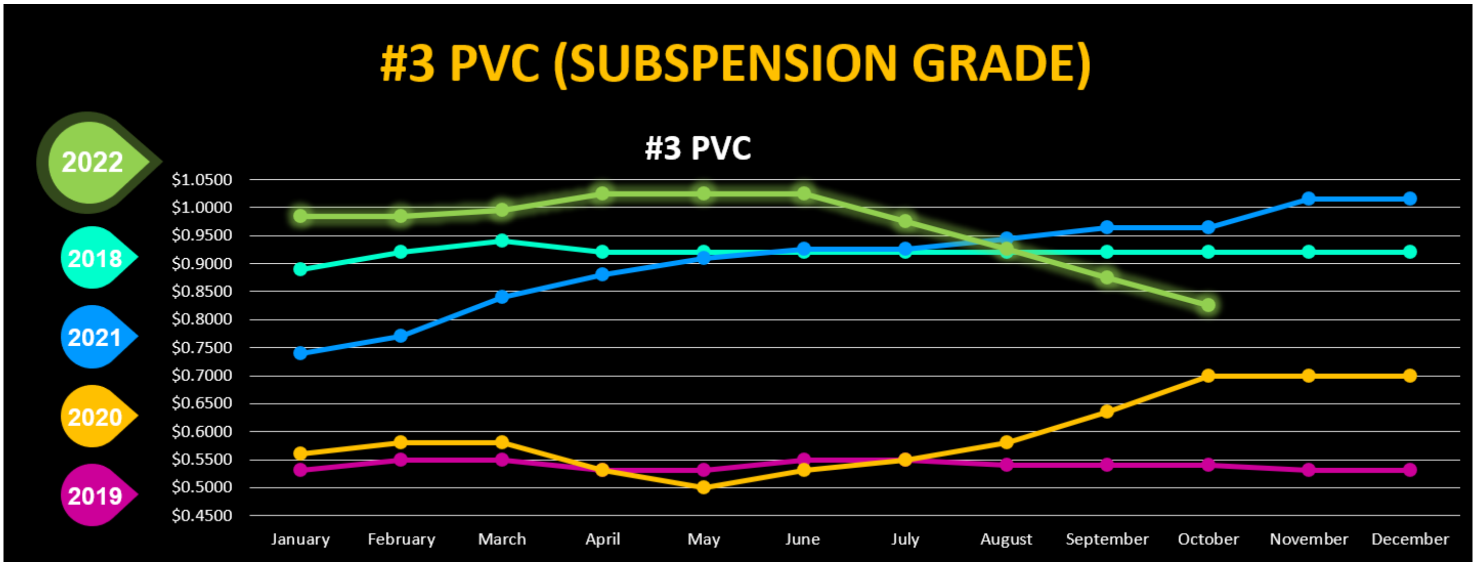
HDPE FIILM

- Products: T-Sacks, Poly Bags, Can Liners, Produce Bags
- Vendor examples: Hilex, Crown Poly, Elkay, Berry, Heritage



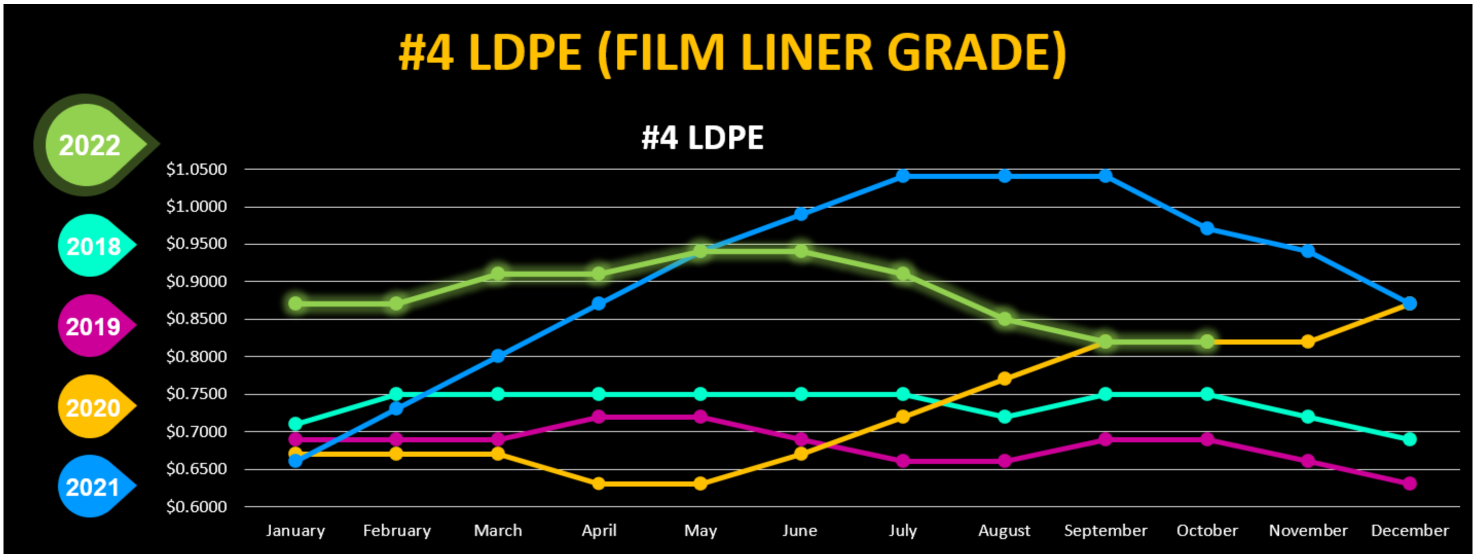
PVC

- Products: Meat Film & Pallet Film
- Vendor examples: Berry Global, Anchor, Xtraplast, Red Rock



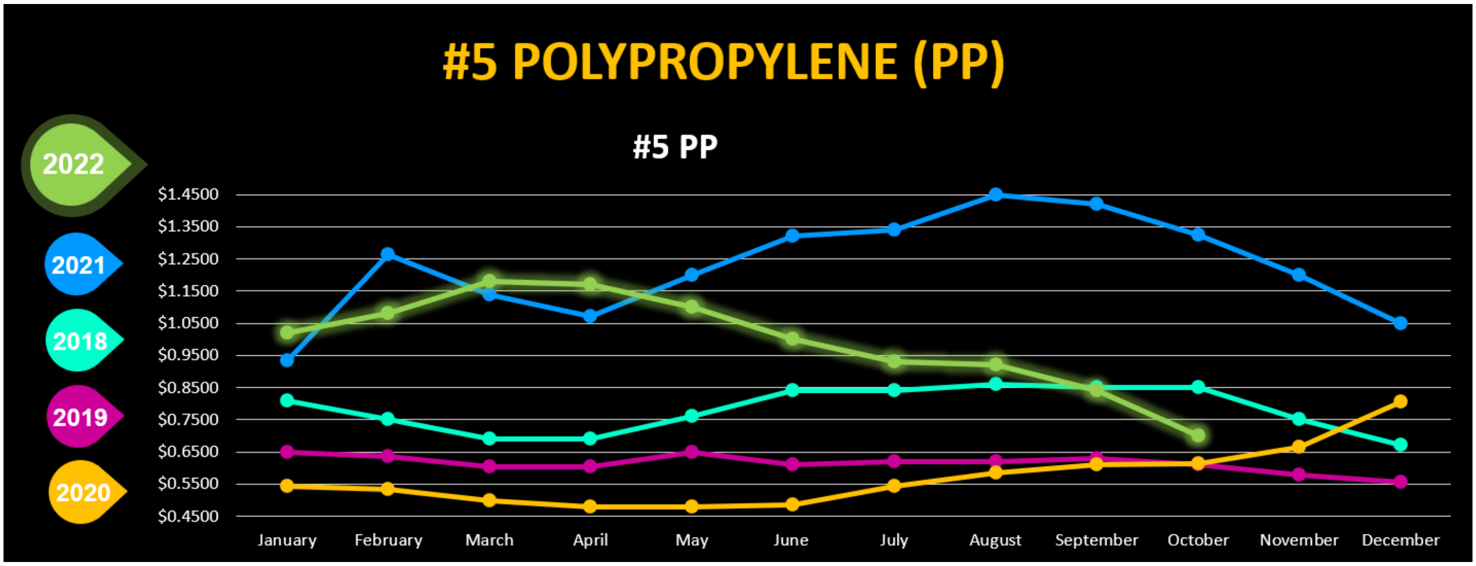
LDPE

- Products: T-Sacks, Poly Bags, Can Liners, Produce Bags
- Vendor examples: Hilex, Crown Poly, Elkay, Berry, Heritage



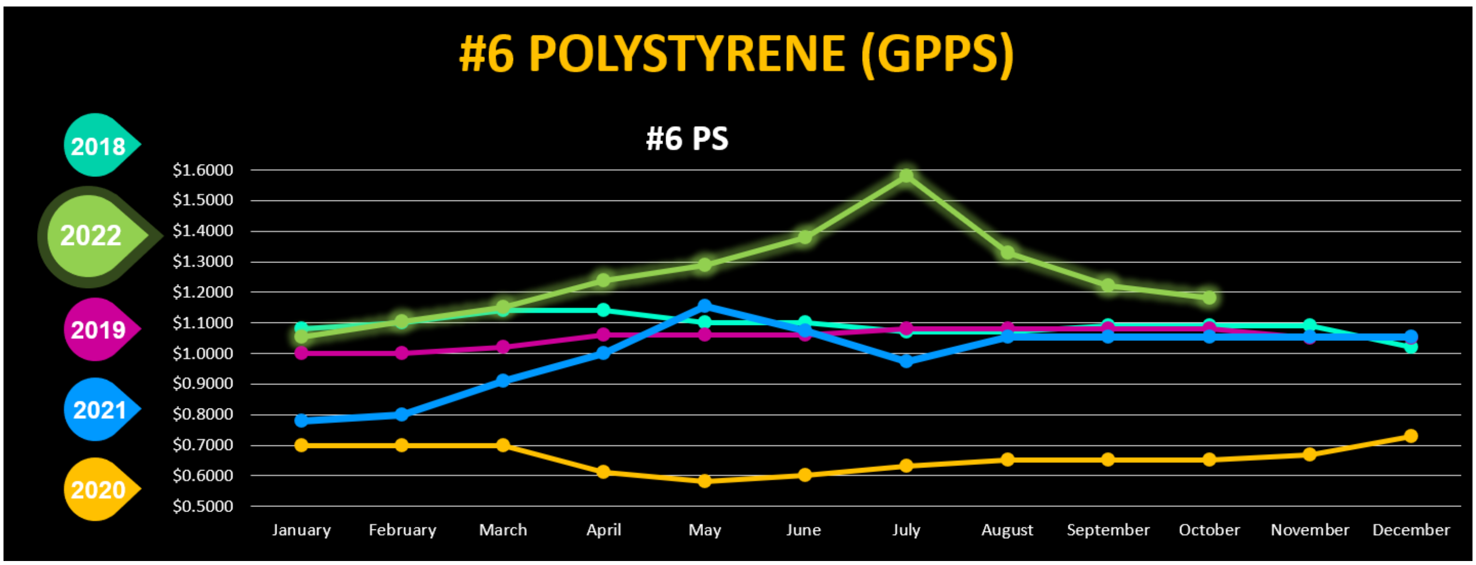
POLYPROPYLENE

- Products: Take Out, Reusable Containers, Deli Cups, Roasters & Rib Containers, Cater Trays, Cutlery
- Vendor examples: Pactiv, Placon, Anchor Plastics, Genpak, Fabrikal, Sabert, Dart, Fineline, D&W Finepak, WNA, Berry Containers, Kari-Out, Innopak, Amercare, Karat Packaging



POLYSTYRENE

- Products: Foam Trays & Foam To-go Containers, Cutlery
- Vendor examples: CKF, NPX One, Pactiv, Genpak, Dart, Fabrikal, Easypak, D&W Finepak, Wincup, Amercare



We hope you find this information useful for your business. As always, GVH is committed to working with our retailers and vendor partners so we may provide solutions. We appreciate your support and value our relationship, and please reach out to us with any questions!

Sincerely,

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