



September 24, 2021

To Our Valued Spice Customers:

The team at Sauer Brands takes our commitment to becoming one of the most respected food companies on the planet very seriously. Recently, our service to you has not met that promise. As you know, there are several environmental factors that are affecting all manufacturers. We have experienced challenges that have directly impacted our operations including:

- Extended lead times on raw materials and packaging, especially those that are sourced overseas
- Weather conditions that have impacted supplies of key components
- Domestic and international freight that is difficult and much more expensive to secure
- Labor costs have skyrocketed, and the availability of skilled labor is extremely tight.

In addition to these industry challenges, the Sauer spice business has experienced several unique challenges as well:

- Much higher than forecasted demand over the last 18 months which has inhibited building sufficient safety stock, particularly over the last 4 months
- Two additional production lines that have been installed in our Richmond facility have not gotten up to speed at the pace we had planned.
- Delays in the arrival of equipment and maintenance parts for several lines from overseas suppliers, which has restricted our flexibility to react to demand changes.

As a result, our overall Fill Rates have fallen substantially below satisfactory levels. To get back on track, we are taking several actions that will enable us to improve on our overall service and inventory levels in the coming months:

- Effective immediately, and until further notice, all spice items will be on allocation. You should continue to place normal orders, and our customer service reps will advise you of quantities that will be fulfilled.
- We are pulling promotional activity for selected brands for the balance of the year. Your sales manager will coordinate these changes with you.
- We will be installing additional equipment in both our plants (San Luis Obispo, CA and Richmond, VA) that will give us additional production flexibility and redundancy across our production system for spices.
- We are going to permanently discontinue 144 low volume skus that account for less than 2% of revenues. Your CSR or sales manager will advise what skus that you currently purchase (if any) that are being discontinued.
- We have secured additional dry warehouse space to inventory raw materials with long lead times or that have been difficult to secure.
- Our pay for entry level production staff has been increased and we have implemented various bonus and incentive programs with existing staff to promote retention and vaccination rates. We have also increased headcount in our production facilities by 15%.



- We have retained an outside consulting firm to help us develop strategies to increase the speed and efficiencies at our production plants to take advantage of the available capacity and accelerate our service level recovery.
- We increased our professional staff and expanded our capabilities in Master Planning and Inventory Management for future growth and success.

For the next 75 days, we will focus our production assets on those items that account for 80% of our business. By December 1st, we expect to have re-established inventory levels that will allow us to service orders on these products at a fill rate of 97% or higher. At that time, we will renew production on the secondary SKU's representing the outstanding 20% of volume. We expect to be able to restore acceptable service levels on the remaining group of items by February 1st, 2022.

We appreciate your ongoing patience as we work to feverishly increase our inventory levels, restore service to acceptable levels, and return to Our Recipe of success.

Sincerely,

A handwritten signature in black ink, appearing to read "Annie Andrews", with a long horizontal flourish extending to the right.

Annie Andrews
AAA Service
Sauer Brands, Inc.