

## Operational Risk

- Risk will come from expedited ramping up of capacity to meet the sudden demand
- Due to shipping concerns globally of products with chip shortages most product deliveries are delayed causing on-site disasters and delays
- Not enough trucking capacity
- Counterfeiting (or misrepresenting the origin of manufacture) will accelerate this year.
- Aging equipment at manufacturing plants and aging truck fleets are definitely an operational risk
- Increase in remote working decreases overall demand for physical capital needed to operate
- Not expecting ocean vessel timing or availability to improve for the rest of the year.
- Running machines at 80 to 90% of capacity and we're already at historically long lead-times
- MRO items are becoming harder to get back in stock
- Labor shortages and raw material/parts shortages will limit growth if not decrease overall output
- Q3 will see many of our employees return to work for that could lead to problems at our office

## 2. Quality Risk

- Risk will increase as we have to use substitute or alternate vendors to keep up with demand.
- Quality might suffer as factories continue to rush to get caught up
- Assuming raw material quality is consistent, this will not be a meaningful risk
- Increasing demand, may mean the existing Quality staff may not be able to keep up
- The challenge of hiring qualified employees may adversely impact quality risk.
- Harder to coordinate product movement requiring more personnel increasing risk of errors and quality control
- We are having a difficult time finding quality engineers, to do the testing.
- Quality will remain the same in Q2.
- Suppliers are pushing out more with fewer people allowing their quality threshold to drop
- Suppliers having adequate manpower and resources
- Labor shortages and turnover will likely impact quality even with training.
- Spike in demand can lead to quality issues
- Change in processes, equipment represents a quality risk.

### 3. Transportation Disruption Risk

- International freight is incredibly expensive and unreliable
- Driver and equipment shortages and terminal infrastructure are all issues
- Leadtime increases from Asia have "settled" in to predictable albeit plus 4 week by ocean. Air freight out of China costs 6-8x normal.
- We bring in containers of glass from China and are experience port delays/disruptions, extremely high rates, and are now facing container allocations.
- Intermodal rail lines showing increasing delays due to equipment shortage.
- International freight continues to be a problem and it show no sign of getting better especially as we move into the start of the holiday peak
- Domestically moving more volume but less tonnage as smaller shipments because of retail and consumer demand.
- Horrendous issues on the outbound side as sometimes you can only ship to certain regions at certain times. And when you can finally get something shipped it is a rush.
- Still recovering from the pipeline outage - Diesel in short supply and costs are up

## 4. Cybersecurity and Data Risk

- Cyberattacks will continue since it has become so profitable
- #1 concern of any company today. Ransomware will become a daily threat to many companies who have not created the proper protection.
- This is the #1 risk businesses will face regardless of their industry and the complexity or simplicity of their supply chain
- We got our website hacked last year
- Data risk is only increasing and we plan on spending additional resources to defend.
- We are challenged every day in cyber security. Constant vigilance is a priority
- With so many people working remotely and so many times worrying about getting things done so quickly it opens everyone up to bigger cyber issues.
- The world is producing/creating more of everything that can be hacked!
- More people returning to work in offices will decrease the cybersecurity attack surface of people working from home, and increased face-to-face communication will reduce the risk of phishing and social engineering attacks.

## Supplier Risk

- Electronics shortages and allocation mainly in microprocessors (MCUs or ubiquitous "chips") but will put a stranglehold on the growing economy by 4Q. Certain plastic resins such as nylons and engineered resins are in very short supply and have not recovered from freeze in the Gulf Coast.
- Outbreaks of COVID in producer regions are an ongoing concern
- Global capacity of suppliers is extremely tight right now, and most suppliers we work with are booked until 2022.
- Lumber availability/prices pallets.
- Increasing demand with limited ability to hire new full-time equivalent (FTEs)
- Every week brings a new challenge in terms of risk, shortages, stock-outs and allocations
- Customers are pushing for more specialized and harder to find materials with unique requirements which limit sourcing but also causes other problems.
- Lead times increasing, orders being canceled due to out of stock
- Suppliers are regaining footing after COVID and having difficulty meeting increased demand.
- Prices are increasing as labor rates increase and supplies are tight.

## Customer Risk

- Demand is extremely strong. Currently not able to satisfy all customer needs.
- We are proving to customers that counterfeit products are not the same quality as the OEM products
- Customer risk will increase next year and in the following years.
- Customer behavior may have been changed due to pandemic
- As supply issues increase, customer patience and loyalty are being tested
- Current Covid trends are helping to stabilize our customer environment.
- Customers have not reduced their expectations and they have increased them in some circumstances.
- Hard to service customer if resources, such as manpower, are not available due to unneeded unemployment comp benefits
- Difficulty in judging/determining customer behaviors as stay at home culture lingers for extended periods.
- We are in a sales bubble that is poised to pop.
- Demand is high and supply is non existent
- Lower margin customers may be lost while being able to maintain higher margin customers

## Technological or Competitive Risk

- Technologies will continue to advance
- Barriers to entry are always challenging for new companies
- The current Covid trends will enable our already competitive environment to become even more competitive!
- More competitive landscape in e-commerce expected as more companies have learned and are improving their reach to customers.
- Technology is at a breaking point. Many companies are not openly talking about it because they have wasted so much money on technology but they are doing many things outside the system. Companies are pulling out of block chain. People are going way from ERP/MRP processes because they cannot adjust the system to support the current state of the world and activities, they need to keep their companies functioning.
- Recognition of chip supply chain risks...dealing with same. Alternative sourcing of lithium.
- Everyone is trying to regain footing from COVID impacts, not expecting major new breakthroughs in immediate future
- Technology deployment accelerated during the pandemic and should make most competitors stronger.

## Government Intervention Risk?

- Trade wars will increase. It will become more regulated
- Like to see US Government and China back off on the 301 Tariffs (25%) but US and China still have issues.
- Our government is back to building bridges, not putting up tariffs.
- Regulations will increase on the state and national level.
- Concerned about increased regulation and taxes
- Reduced unemployment payments at the end of May will help hiring hopefully
- Environmental restrictions and more oversight/regulations on businesses, already underway.
- Increased taxes, regulations and pro-union policies are bad for business.
- There are lots of issues here from supplies of rare earth elements to fierce trade and political unrest. Government regulation may be tighter, but ultimately this is for the better.
- Manufacturing seems to be a target of regulatory overreach within current admin
- New regulations coming, no confidence to plan for business costs going forward, not business friendly
- Continue to decrease with more strategic and less tactical/unpredictable approach to global trade

## Economic Risk?

- Labor shortages as employees are taking new career routes
- Oil increasing. General inflation. Area labor shortages post Covid. Rolling electricity brown outs in southern China. Covid shutdowns of areas in Asia and Central America.
- We are not even close to being out of the Covid-19 woods on an international scale.
- Port Congestion, Increased demand coupled with tight capacity, means stockouts
- Commodity availability can be volatile as many commodities are sourced from Overseas
- Labor shortages are the largest risk now and are not expected to improve
- Shipments between borders will continue to improve but be outweighed by continuing labor issues.
- Expect huge increase in business returning after COVID.
- Pandemic still exist worldwide so supply issues will still be problematic
- Commodity price volatility will impact materials costs - steel and copper in particular
- Can't find labor !!! We have over 750 employees and have over 175 open positions.
- As we rebound from COVID, we have increasing costs in commodities, labor.

## Environmental Risk?

- Hurricane / monsoon season may bring extreme weather and impact material supply.
- Global warming is real and accelerating.
- Storms on the seas are tossing more containers over board with each vessel. In the last 2 month there have been over 5,000 containers lost at sea in route to the US.
- Water is a major problem in many areas/regions but is not being talked about. The West and Midwest is heading into a drought cycle which could destroy crops and foods availability for several years.
- Clearly climate change is increasing risk of extreme weather, huge loss of ice caps, etc.
- Global warming is real & we're ignoring it....again
- Unusual to have a tropical storm offshore in May, a severe drought in May, 95 deg for a week in May with hurricane season starting in June
- We are about to enter summer, when we see more storms and hurricanes in a few months.