

## Logistics and Supply Chain Update

March 31, 2020

### Supply Chain – March 31, 2020

As COVID-19 is becoming more widespread, suppliers are being affected differently in various countries and regions, with more relief seen out of China, but Europe is starting to see the impacts from restrictive policies enacted to contain the spread of the virus.

**China:** All of our direct suppliers out of China have resumed operations. While some suppliers continue to operate with a reduced staff, the vast majority are able to support our demands for Q2. No major impacts expected to our supply chain.

**European Union:** Suppliers in the EU are being impacted as the pandemic continues to force the many countries to enact stricter measures to contain the spread of the virus. We are having to work very closely with the EMEA supplier channel partners as they weave through the challenges they face short term. We do not expect impact to our supply chain as we work with them to overcome the challenges.

**South Korea / Philippines / Malaysia:** Malaysia has extended its Movement and Control Order out to April 14 and the Philippines have done the same under its Code Red Sub-Level 2 order. Some manufacturing facilities are being impacted with delays stretched out to April 14 at the earliest. We do not see impact to our supply chain.

**US:** Restrictions continue to be imposed on non-essential business throughout the nation. As this and the shelter-in-place policies expand to more cities and businesses. As we work through each challenge, we do not see impact to our supply chain.

### Logistics Update – March 31, 2020:

As COVID-19 has become more widespread, transportation services are continuing across borders but with reductions in commercial aircraft, blank ocean sailings, lockdowns, and delays in loading and unloading containers and trailers. This is now resulting in greater logistic costs; up to 2x on some lanes, and increased freight transport times. India has lockdown its borders; a complete shutdown of inbound and outbound goods which will continue at least to mid- April. China production levels have increased significantly and we are now seeing some increases in lead time with backlogs due to volume and materials. To ensure we continue to minimize impact and costs due to these conditions, we have the below guidelines in support of our customers:

- **Palletized Shipment by Ocean:** Unless agreed with our customer for additional costs, we will ship palletized shipments by ocean. Currently there is only minor impact on the ocean lead times but we are seeing some delays in unloading in the US ports with port shutdowns and blank sailings resulting in some delays in pickups. This is the most cost effective method of palletized shipment even with the expected surcharges in April. We are experiencing no delays.

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- **Heavy Shipments:** Oversea heavy air shipments (palletized > 75kg) are taking 0 to 7 days additional to pick-up and will occur a Peak Seasonal Surcharges (PSS) from 3x to 7x. SMTC has secured lines and to ensure pickup, SMTC is paying the PSS. In some situations, if faster times are needed, we are breaking down the shipments and shipping them small parcel, all be it at generally higher rates. We are experiencing no delays.
- **Small Box Shipments:** For international small individual box shipments (< 75kg) we will continue to ship small parcel air. As FedEx, UPS, and DHL are adding planes, we are experiencing only a 0-2 day increase in lead times; however, with increasing volumes in some areas such as Shenzhen we have seen recent delays to 4 days. Most carriers have now added surcharges to lanes in China. We are experiencing no delays.
- **United States Shipments:** For shipments originating in the United States, we will continue to utilize LTL (palletized > 75kg) and small parcel carriers that we can rely on to meet lead times. We are experiencing no delays in small parcel but starting to see volumes decrease and some upward lead times on LTL as drivers may not have return leg pickups after delivery. There is upward rate pressure from Q1 but declining fuel costs may help negate rate increases. We are experiencing no delays.
- **Cross docks:** remain open and are operating in both Laredo and El Paso.

### China Update

- Additional restrictions to ALL carriers of one flight per week has further reduce cargo capacity on all key lanes between China to the Americas
- Currently experiencing a 90% belly capacity loss since previous year volumes. Passenger carriers are modifying planes but we expect more rate changes, and further prolong shipment transit time.
- For cross border trucking, the key borders are open while there are some congestion but less intense compared to last week.
- For ocean all parts are open but with blank sailings resulting from return voyages there is upward pressure on lead times. Some carriers have canceled multiple services with a very short notice in the past week.
- FedEx Express has advised they will not be accepting palletized cargo out of mainland China until further notice. SMTC does not use this service
- We are not experiencing delays.

**Europe** No changes; small parcel air shipments are best alternative for air with chartered flights are the only heavy air options. Almost all Ocean shipments and ports are open. We are not experiencing delays.

**Mexico & Canada**– minimal issues with some delays in trucking due to manpower availability. With greater scrutinizing by border patrol, starting to see increase in border cross times. We are not experiencing delays.



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We will continue to watch and monitor lead times closely with pre-booking space to help ensure availability of products.

Thank you.

