

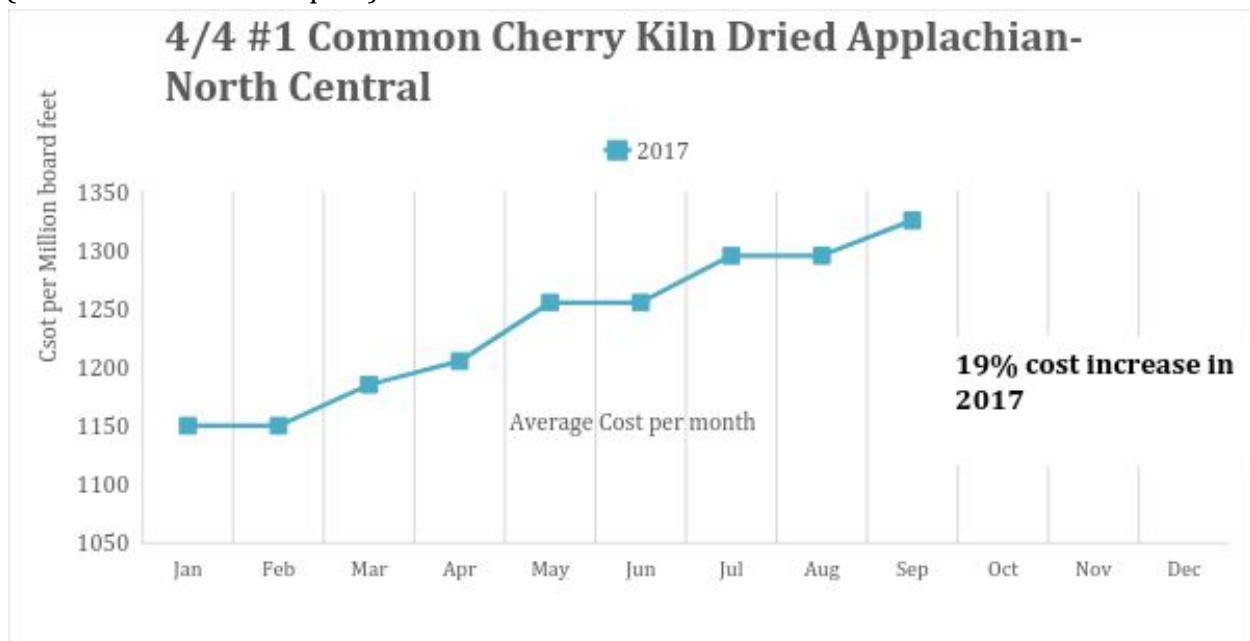
October 23, 2017

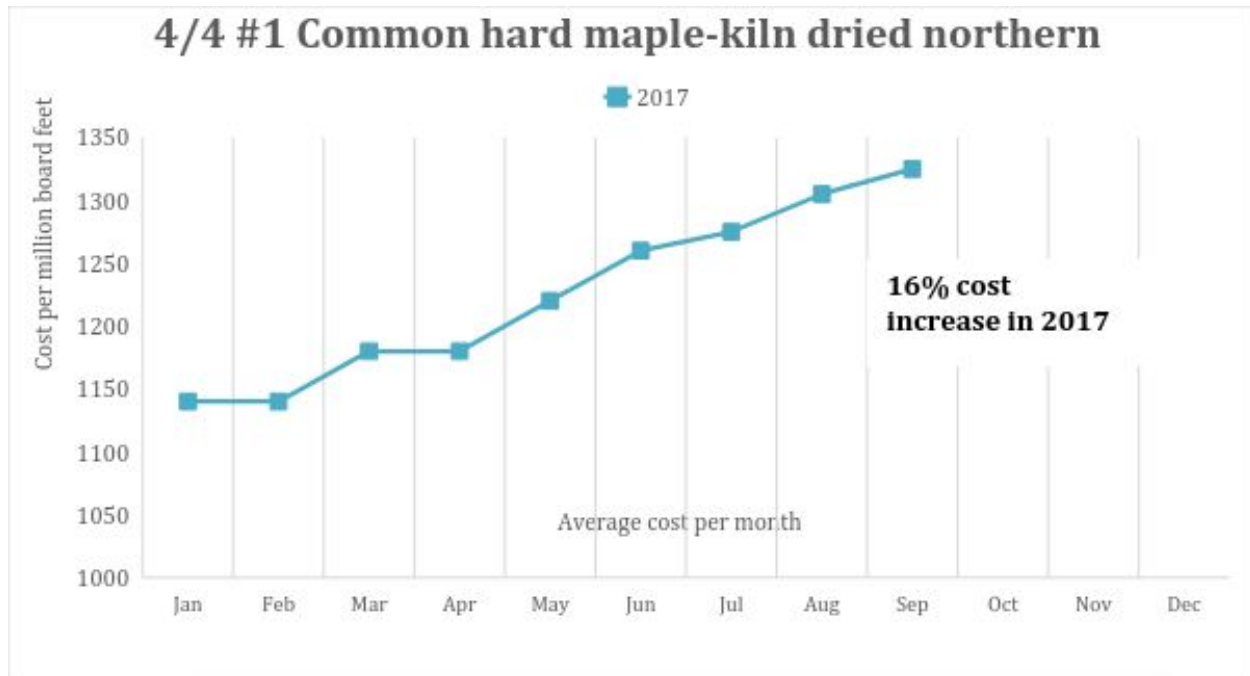
Dear Valued Customer,

I hope this communication finds you well and that your business has experienced growth and prosperity over the course of the last year. The past two years have been interesting, with periods of both strong growth and then subsequent slowdowns. Overall, this year has been reasonably strong for many of our customers and from all indications; the last quarter of the year should finish at a strong pace.

The growth and success of the industry over the last year has generated demand pressures for many of the primary raw materials in the US. Exports into many markets such as China have also increased greatly where they are experiencing growth rates about 3 times that of the US market. If this year finishes like anticipated, their import volume of US hardwoods will have grown by over 18% compared to 2016. Their emerging middle class are consuming hardwoods at a record pace and they are on track to account for more than half of the export usage compared to the rest of the world. Most of these materials are being used for flooring and other non-cabinetry applications, which have created especially large demands for white & red oak, hard maple as well as some cherry.

The US economy has also been tracking at a respectable growth rate of 2.1% and US single-family housing starts will reach the 850K unit level for the first time since 2007. All signs are that the economy is tracking in the right direction and that housing starts are growing at a sustainable pace. All this is good news for the industry, but demand for raw materials has surpassed the supply in most regards and as a result, raw material prices have increased significantly in 2017. The charts below show some of the material increases that we have seen for two major wood species this year as reported by HMR (Hardwood Market Report) data.





Due to our dependence on lumber for 90% of our raw material costs, we cannot absorb increases of this nature without making pricing adjustments on our own products. As a result, we are forced to increase material charges for a number of species that will affect doors, drawer fronts, mouldings, and front frames. We understand fully that this news will be unwelcome but despite our substantial efforts to offset rising costs through improved productivity and material yields, an increase is unavoidable.

Be aware that our increases are backward looking, meaning we are raising our prices only to the extent that we have already experienced actual increases ourselves. Fortunately, we have been able to offset some industry increases through internal yielding and purchasing initiatives. However, given the nature of this decision, we will be evaluating material costs on an ongoing basis until some stabilization occurs.

Material adjustments - average *across material pricing categories.*

Alder	4.5%	White Oak	5.8%
Bamboo	n/c	White Oak – Qtr. Sawn	5.7%
Birch, Red	n/c	Paint Grade	4.0%
Birch, White	3.5%	Paint Grade – Hard Maple	4.9%
Cherry	8%	Pecan/Hickory	5.8%
Hard Maple	6.5%	Walnut	3.4%
Soft Maple	2.5%	MDF	2.8%
Red Oak	5.7%	Paint Grade Hybrid	4.0%
Red Oak – Qtr. Sawn	5.6%	Paint Grade HM – Hybrid	3.4%

We continue to follow the Chinese imported plywood anti-dumping ruling and will need to react should the ruling be upheld. We have already seen increases in excess of 30% for our imported materials, and to a slightly lesser degree, domestic plywood. Fortunately, we only use the imported materials in some specialty programs – i.e. drawer box bottoms and certain cabinet components; but the vast majority of door panels come from domestic suppliers. It is inevitable that we will make pricing adjustments on these parts in early 2018 once we have the full story.

It is interesting to note that at a couple of recent Lumber Industry Association meetings; very little discussion took place related to the domestic cabinet market. Eighty percent of the speakers and round-table discussions focused on the export markets, labor shortages, and environmental/regulatory issues. This would indicate that we as an industry are losing a certain amount of negotiating power with the lumber producers because we are simply not the same percentage of their business that we were before.

Nowhere is this more evident than in the huge mix shift from stains to paints, which has led to a large increase in the use of MDF for center panels. Further, raised panel doors continue to decline while flat-panel doors increase, further reducing the amount of lumber used in the construction of our products. While helpful in many ways, it has had an impact on the lumber industry and they are managing their businesses accordingly.

We would also suggest that if you have not done so recently, please take a look at the Alternate Material Collections we now offer: Strata, Allure, 1-Piece and 5-Piece MDF, and High Gloss. While these programs are susceptible to exchange rate volatility, they are made from MDF substrates that have historically been more stable than the solid lumber products. These programs are excellent options for the next generation of buyers because they include extremely attractive products and are affordable.

Thank you very much for your business, and we will continue to do everything possible to overcome these cost pressures on our customer's behalf. We remain optimistic for the industry over the next few years, but do anticipate continued pressure on lumber pricing as the demand continues to rise in both the US and export markets.

Sincerely,

Chris Watson

Chief Operating Officer