



November 30, 2018

Dear Valued Customer,

As 2018 comes to a close, we are looking forward to a new and exciting year for each of us. After a couple of less stressful years, this past year has been full of challenges and unfortunately, our industry suffered some significant hits to our collective cost structures. Hardwood lumber costs, labor costs, and the impact of the various tariffs made this a very tough year financially. The Chinese plywood import tariffs of 182% and the new tariffs on several other import items have clearly affected Conestoga and the vast majority of our customers.

With so much pressure on costs, Conestoga will be making a number of changes to our pricing structure for 2019. First, design charges for most door and drawer front designs will be increasing .75 to 1.50 list per unit based on door complexity. As you know, Conestoga employs a Design plus Material pricing methodology and the design element is a flat rate per piece that covers our labor and overhead. Despite major increases in labor and benefit costs over the last several years, we have held design pricing constant since 2014. However, as we try desperately to hire new employees in a very low unemployment world, we find that we have to pay considerably more to attract new production workers. I am sure that most of our customers can relate, because without a doubt, this is generally the number one concern expressed by business owners and managers today.

Price Change - List	Slabs	A Category	B Category	C Category	5 Piece MDF Miter
Door Design Charges	\$ 0.50	\$ 0.75	\$ 1.00	\$ 1.75	\$ 2.00

We will also be adjusting material prices. For most of the year, we saw our lumber prices increase weekly and many species jumped considerably. Fortunately, the most popular products we sell are seeing some of the smallest adjustments. This includes our Paint Grade and Paint Grade Hybrid materials as paint and primer programs continue to grow in popularity. Cherry and Walnut by contrast, did jump considerably but these two species are less than 10% of our production. In addition, our Alternate Material programs have remained stable given the strength of the US Dollar compared to the Euro, so these programs will see minimal adjustments. Lastly, Specialty products such as mouldings, face frames, drawer boxes and other items will see pricing changes that are in alignment with the species ordered. Please realize that Conestoga has already experienced 100% of these material increases during 2018 and we are hoping that lumber costs will finally stabilize during 2019. The material pricing adjustment chart is attached at end of this letter.

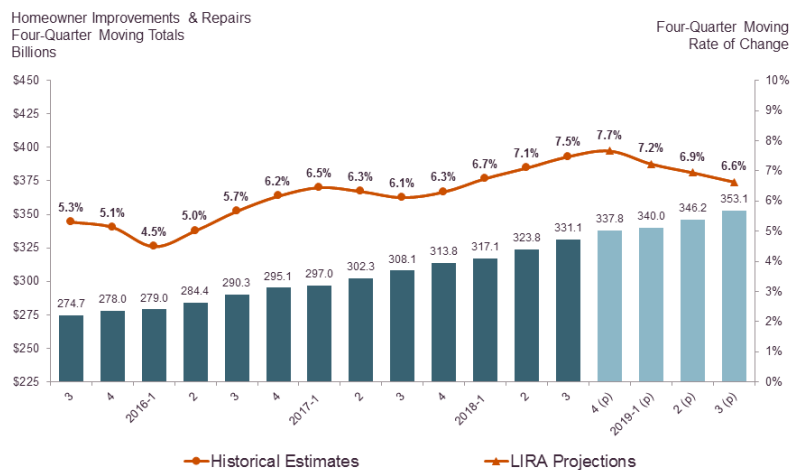
Given the huge shift in consumer preferences, our industry faces a couple of unique challenges. First, offshore competition has become incredibly intense. As consumers remain committed to simple Shaker designs in white paint, each and every supplier can provide an option. And as we know, consumers sometimes have a difficult time understanding the value of custom kitchen manufacturing. They see a \$5,000 kitchen versus a \$15,000 to \$30,000 kitchen and then make their decision on price alone.

Secondly, the plywood and component tariffs do not currently affect these imported kitchens, as there is an exclusion for RTA cabinet kits provided certain basic guidelines are met. This dynamic only serves to widen the spread between imports and US kitchen manufacturers. As a result, a number of initiatives are underway.

With the support of the KCMA (Kitchen Cabinet Manufacturing Association- [www.kcma.org](http://www.kcma.org)), many of the members and large cabinet manufacturers are currently evaluating pursuing a lawsuit similar to the plywood industry. In short, these organizations are claiming that import cabinets are being “dumped” into the United States at prices significantly lower than domestic production costs. In many cases, complete import cabinets sell below US material costs alone, excluding labor and overhead. If this lawsuit were to occur, chances are it will happen in early 2019 and if successful, it will certainly change the competitive landscape for our industry. Similarly, discussions are underway related to hardwood components, i.e. cabinet doors, drawer fronts, drawer boxes, etc. However, this will be a bigger challenge as many organizations in the U.S. source these parts from China and do not want to give up the cost advantages. Companies such as Conestoga have seen an enormous amount of production move offshore, similar to what happened to the U.S. Furniture industry. It is very challenging, but stay tuned and we will keep our customers updated. You can also reach out to the KCMA if you would like to become more involved.

Lastly, the economic outlook for 2019 is one of caution. Several key economic organizations are predicting a mild slowdown by the end of the year and housing will likely be impacted as interest rates climb and consumers start tightening up their spending. In addition, due to the labor shortages and tariffs, the cost of home building is climbing significantly. It is always hard to predict what will happen, and fortunately, the younger generation is reaching an age where a home purchase makes sense. This will hopefully spur new home (cabinet) sales and generate remodeling activity. Shown below is the most recent outlook for Remodeling for all product categories. While the rate of growth is slowing, the overall spending is increasing which is a great sign for our industry. Regardless of what happens we all must be prepared and face the challenges head on.

### Leading Indicator of Remodeling Activity – Third Quarter 2018



Note: Historical estimates since 2015 are produced using the LIRA model until American Housing Survey data become available.  
Source: Joint Center for Housing Studies.

Shown below are the 2019 material price adjustments.

	Current Published A	4-Feb-19 Published A	% Increase		Current Published B	4-Feb-19 Published B	% Increase		Current Published C	4-Feb-19 Published C	% Increase
Alder	\$ 12.75	\$ 13.30	4.31%		\$ 18.25	\$ 19.35	6.03%		\$ 19.60	\$ 20.55	4.85%
Alder - Rustic Knotty	NA	NA	NA		\$ 16.50	\$ 17.50	6.06%		\$ 17.40	\$ 18.25	4.89%
Bamboo ( Caramelized)	\$ 16.10	\$ 17.70	9.94%		\$ 21.10	\$ 23.20	9.95%		\$ 24.65	\$ 27.15	10.14%
Birch, Red	\$ 13.30	\$ 13.80	3.76%		\$ 20.00	\$ 21.00	5.00%		\$ 21.85	\$ 22.70	3.89%
Birch, White	\$ 9.60	\$ 9.80	2.08%		\$ 14.70	\$ 15.10	2.72%		\$ 16.35	\$ 16.70	2.14%
Cherry	\$ 12.95	\$ 14.35	10.81%		\$ 20.55	\$ 23.00	11.92%		\$ 21.85	\$ 24.25	10.98%
Cherry - Rustic Knotty	NA	NA	NA		\$ 17.35	\$ 20.10	15.85%		\$ 18.75	\$ 21.15	12.80%
Cherry - Value	\$ 11.05	\$ 12.25	10.86%		\$ 17.90	\$ 20.05	12.01%		\$ 19.25	\$ 21.40	11.17%
Hickory	\$ 8.30	\$ 8.85	6.63%		\$ 12.20	\$ 13.35	9.43%		\$ 14.00	\$ 15.05	7.50%
Hickory - Rustic Knotty	NA	NA	NA		\$ 11.65	\$ 12.75	9.44%		\$ 13.75	\$ 14.80	7.64%
Maple, Hard	\$ 13.45	\$ 14.35	6.69%		\$ 20.50	\$ 22.45	9.51%		\$ 22.05	\$ 23.70	7.48%
Maple, Hard - Rustic Knotty	NA	NA	NA		\$ 18.95	\$ 20.75	9.50%		\$ 20.65	\$ 22.20	7.51%
Maple, Soft	NA	NA	NA		\$ 13.75	\$ 14.10	2.55%		\$ 14.40	\$ 14.60	1.39%
Mahogany (Sapele)	\$ 23.00	\$ 23.00	0.00%		\$ 29.75	\$ 29.75	0.00%		\$ 36.85	\$ 36.85	0.00%
MDF 1-Piece	\$ 3.40	\$ 3.40	0.00%		NA	NA	NA		NA	NA	NA
MDF 1-Piece w/ISGP	\$ 4.95	\$ 4.95	0.00%		NA	NA	NA		NA	NA	NA
MDF 5-PIECE	\$ 6.20	\$ 6.20	0.00%		\$ 9.20	\$ 9.20	0.00%		\$ 9.70	\$ 9.95	2.58%
Oak, Red	\$ 9.00	\$ 9.30	3.33%		\$ 14.35	\$ 14.95	4.18%		\$ 16.50	\$ 17.05	3.33%
Oak, Red - Quarter Sawn	\$ 14.40	\$ 14.15	-1.74%		\$ 22.65	\$ 21.95	-3.09%		\$ 27.15	\$ 26.45	-2.58%
Oak, Red - Rustic Knotty	NA	NA	NA		\$ 12.05	\$ 12.55	4.15%		\$ 13.40	\$ 13.85	3.36%
Oak, Red - Value	\$ 7.90	\$ 8.15	3.16%		\$ 13.60	\$ 14.15	4.04%		\$ 15.65	\$ 16.15	3.19%
Oak, White	\$ 11.05	\$ 11.25	1.81%		\$ 16.45	\$ 16.75	1.82%		\$ 18.30	\$ 18.55	1.37%
Oak, White - Quarter Sawn	\$ 15.95	\$ 15.70	-1.57%		\$ 24.40	\$ 23.60	-3.28%		\$ 28.70	\$ 27.95	-2.61%
Paint Grade	\$ 7.35	\$ 7.65	4.08%		\$ 10.80	\$ 11.50	6.48%		\$ 11.45	\$ 12.05	5.24%
Paint Grade Hybrid	\$ 7.25	\$ 7.50	3.45%		\$ 10.55	\$ 10.90	3.32%		\$ 11.25	\$ 11.60	3.11%
Paint Grade Hard Maple	\$ 9.10	\$ 9.55	4.95%		\$ 12.35	\$ 13.25	7.29%		\$ 12.70	\$ 13.45	5.91%
Paint Grade Hard Maple Hybrid	\$ 8.30	\$ 8.60	3.61%		\$ 11.10	\$ 11.50	3.60%		\$ 11.75	\$ 12.15	3.40%
Pine, Knotty	\$ 8.55	\$ 8.55	0.00%		\$ 10.70	\$ 10.70	0.00%		\$ 12.25	\$ 12.25	0.00%
Walnut	\$ 12.60	\$ 13.20	4.76%		\$ 20.30	\$ 21.65	6.65%		\$ 24.05	\$ 25.30	5.20%

New pricing will go into effect with orders received on or after February 4<sup>th</sup>, 2019. We will mail you the new pricing pages and update the online ordering systems very soon. While it is never easy to share this kind of news, we must make these adjustments in order to offset the millions of dollars in cost increases we absorbed in 2018. We will continue to make every effort to improve our performance to help minimize increases in the future, and we continue to invest in new products, programs and equipment to keep our customers competitive in the marketplace. Thank you very much for your business and support and we look forward to serving you and your business in the upcoming year.

Respectfully,



Chris Watson

COO – Conestoga Wood Specialties, Corp.