Partners and Friends,

In the apparel world the supply chain is very complex. We have farmers, yarn spinners, textile manufacturers, cut-and-sew factories, suppliers and distributors. This intricate supply chain is knit together (no pun intended) by a complex transportation and logistics infrastructure. Right now, that complex supply chain is out of balance and it is creating challenges for all of us.

I'll skip right to the punchline, because I know you see it coming: *costs are rising.*

We always strive to offer you the best value possible and only raise prices when it is absolutely necessary. Today, given the significant number of items with increases in costs, price increases, unfortunately, are necessary. I want to share with you the cost drivers of those price increases.

There are four key areas that are driving cost increases:

1. **The cost of raw materials.** Cotton has increased an average of 31% year-over-year. Cotton prices, like any commodity, are driven by supply and demand. While global demand has recovered nicely, supplies have been dramatically reduced by the prohibition of Xinjiang cotton (which, by some reports, accounts for up to 20% of the world's cotton). The cost of polyester has also experienced a roughly 29% year-over-year increase.

2. **Exchange rates.** The U.S. dollar has weakened against many global currencies, including the Chinese Yuan and Honduran Lempira. We pay our global vendors in dollars. They largely pay their workers and suppliers in local currencies. When the dollar weakens, that means they are earning less in local terms than they did when the dollar was strong.

3. **Ocean transportation and logistics.** The cost of shipping goods across the ocean has increased by 293% year-over-year.

4. **Generalized System of Preference (GSP)—also better known as tariffs.** In the last few years, we moved many of our bags out of China to avoid the Section 301 tariffs. Many of our bags were resourced to the Philippines and Indonesia, as they've benefited from the GSP duty exemption. That preference expired at the end of last year and has currently not been renewed. While we are watching D.C. carefully and are cautiously optimistic, we have no way of knowing the timing of when the GSP might be renewed.

As a result of all these factors, over the last several months we've received price increases from many of our largest global partners. As always, we will do all we can to mitigate and absorb the price increases and only pass on what is absolutely necessary.

I know that all our businesses are recovering from a challenging time, and this is not a welcome message. Please know our goal is to do all we can to lessen the impact.

Best Regards,

Jordan Smith
Operations Manager

Jordan Smith

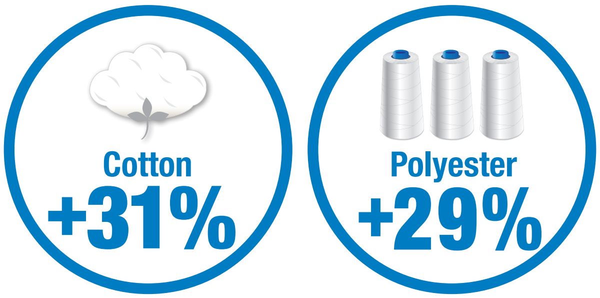
JAB TRADING QUALITY CLOTHING INDUSTRIES

COST HEADWINDS IN THE GLOBAL APPAREL SUPPLY CHAIN

In today's interconnected world, we all work together as a supply chain including farmers, yarn spinners, textile manufacturers, cut-and-sew factories, suppliers and distributors.

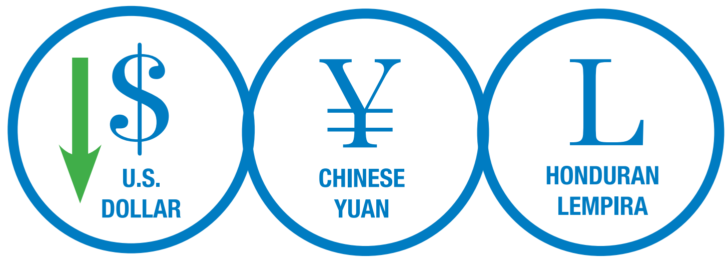
This intricate supply chain is knit together by a complex transportation and logistics infrastructure.

With that in mind, these are the factors driving cost increases in the global apparel supply chain.



1. THE COST OF RAW MATERIALS

Cotton has increased an average of 31% year-over-year. Cotton prices, like any commodity, are driven by supply and demand. While global demand has recovered nicely, supplies have been dramatically reduced by the prohibition of Xinjiang cotton (which, by some reports, accounts for up to 20% of the world's cotton). The cost of polyester has also experienced a roughly 29% year-over-year increase.



2. EXCHANGE RATES

The U.S. dollar has weakened against many global currencies, including the Chinese Yuan and Honduran Lempira. U.S. brands pay their global vendors in dollars. The vendors largely pay their workers and suppliers in local currencies. When the dollar weakens, that means they are earning less in local terms than they did when the dollar was strong.

3. OCEAN TRANSPORTATION & LOGISTICS

The cost of shipping goods across the ocean has increased by 293% year-over-year.

4. GENERALIZED SYSTEM OF PREFERENCE (GSP)

In the last few years, many bags were moved out of China to avoid the Section 301 tariffs. Those bags were moved to the Philippines and Indonesia, as they've benefitted from the GSP duty exemption which expired at the end of last year. At this time, there is no way of knowing the timing of when the GSP might be renewed.