



July 3, 2024

To: All HF Group Library Binding Customers,

It has been some time since we have communicated. After the abnormal period of 2020-2023... 2024 has started to feel a bit more normal. We hope the same for all of you.

We wanted to communicate on several topics:

Technology updates:

Accounting Software:

We are on the cusp of implementation of a new accounting system. In short, our accounting software is 25 + years old, which poses several concerns. Reliability and security are highest on the list, so we have undertaken a project to update the software starting with the Indiana facility.

Indiana has used a 20+ year-old custom order entry system that is integrated with our LARS bindery software and reliability became a concern. We will be moving to Sage 100 for order entry through invoicing in the coming weeks. Our testing phase is about complete.

Once we have completed the Indiana implementation, we will move forward with updating our systems with the same software in our North Carolina and Nebraska facilities, likely 3Q & 4Q.

How will all of this affect customers? First you will no longer receive a packing list for any product. Second, the invoices will look very similar to our old invoices but may include a few more lines and details. We will no longer be able to customize them as we currently do for some accounts, but invoices will include the necessary details. For those customers who have, in the past, had invoices held for deliveries, our new system and process will not allow us to hold them.

Our goal was to upgrade our accounting systems for safety and reliability. We understand this rollout may be an adjustment for some customers. For others, you will experience very little difference other than the look of the invoices. Please contact your Customer Service representative with questions.

Cyber Security and cloud computing:

Our investment continues in "cloud based" hosting and backup services (ABLE included) in order to try and protect our systems and yours. Cyber security is so costly these days and yet essential. It represents a cost of doing business that customers rarely see or hear about but always count on us to ensure. We recently have installed new firewalls at our corporate data center and at our Indiana plant. North Carolina and Nebraska upgrades are scheduled in the coming months. While new technology is essential, continuing to run our legacy software like bindery production and ABLE library, on new platforms is mandatory. There are no new technology applications coming for Library Binding, so maintaining these systems and making sure they function in new server and operating system environments is mandatory.

For an industry with roots in "low tech" and hands on production, in 2024, technology costs are a large component of our business and our services.

Volume & Price trends:

We continue to see consistent demand for binding services. The trend, of course, still shows declining journal binding, and a higher mix of monograph rebinding. Budgetary allocations for binding have trailed off a bit after the pandemic catch-up period.



Pricing has, for many years, been tied mostly to volume. The more volume of binding, the lower the per item pricing. The pressure to raise prices has not been just about material and labor costs, although those pressures in the last few years have been unprecedented. Pricing is also a reflection of volume. Many aspects of our service are tied to fixed costs that do not change when volume decreases. Additionally, less volume impacts our schedules and our transportation capabilities. As of this time, and assuming we do not have a surprise repeat of large and frequent raw material cost increases, we do not anticipate price increases until 2025, with the exception of contractual updates or special circumstances.

As always, whether your library is binding twice per month, monthly or quarterly... we continue to ask that shipment sizes remain as consistent as possible.

Labor market and staffing insight:

Like so many employers across the country, we find it difficult to attract, train, retain and build our workforce, especially as we prepare for turnover that comes from retirements. When you add the fact that bookbinding, book manufacturing and preservation is not exactly the most exciting work for today's younger workers, it adds complexity to our maintaining an experienced, efficient workforce. We are very, very fortunate to have so many long-serving employees. Without their efforts and dedication to HF Group and our customers, our survival through the pandemic would have been questionable. And while our performance at times has been spotty over the past 2-3 years, it is not due to the lack of effort of those experienced staff, but rather to the challenge of training and adding to that experience level. We very much appreciate your patience.

Material \ Component high (or low) lights:

- Binders board companies are undergoing consolidation meaning fewer sources and products.
- Cover materials, including Library Summit, have been steady but are at the mercy of changes in the paper and textile markets and they have been unpredictable to say the least.
- Printing paper suppliers reducing SKU's and they are changing their ordering rules, insisting on larger quantities, and less "converting," leaving that up to the end user. This keeps the price of paper down from the supplier but adds cost internally to convert to the proper sizes.
- Adhesive options are shrinking as well due to consolidation of adhesive manufacturers and the changing landscape of regulations on raw materials. Adhesive prices are predicted to increase.

Other news:

Many of you may have heard that we re-entered the market for preservation of County and Municipal records of all types. This has created a bit of growth for us again, adding some diversification of services. Beyond this addition, we continue to look for ways to broaden the base of our business and minimize the negative impact of our more mature segments, including Library Binding.

While we do not say thank you often enough, this update comes with our sincere thanks for your ongoing relationship and support. If you have any questions, please contact any of us or your direct customer service representative.

Sincerely,

Jay Fairfield

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