

December 1, 2018

Greetings to you from Hermann Oak Leather,

This is the time of year when we share our pricing and business update for 2019. Our list prices will remain the same for next year with a few minor adjustments to the price card. We will continue the 3% discount put in place last year as long our hide price continues to remain below its long term average. Lower hide costs are being offset by rising tanning costs. Our current outlook is for hides to stay just below their long term average price.

Here are the factors we see driving hide prices. Hide exports to China have grown to 55% of the US hide production. China uses these hides to produce about 2/3 of all footwear sold worldwide. Hide prices are down mainly because Chinese boot and shoe manufacturers are using less leather. The uncertainty of the China trade talks is increasing the downward pressure on their hide market. Our unbranded native hides are not down as much as the branded hides. Unbranded hides are too expensive for footwear production. We compete with the upholstery leather for the highest quality US hides. The upholstery leather business was slower this year, but not as slow as shoe leather. US hide supplies remain in a 2-3% growth cycle. We will let you know of any substantial changes in our market.

The focus of our efforts remains leather quality. Your feedback drives any improvements we make. We need to know why you are satisfied and when you are not. Our leadership team believes developing Hermann Oak culture is key to nurturing improvement in our leather and our service. Our goal is to produce consistent, high quality leather. We believe that these improvements result in more value for your finished products. We continue to make the necessary investments in our people and in our equipment. Seeing how you mold, tool, sew, and oil our leather into your products is what gets us out of bed every morning.

Shep is still amazing everyone with good health reports. He has put in place a well-defined business succession plan that will transition Hermann Oak to his daughters, Missy and Kati. Their desire is to see the company run for your benefit as your trusted supplier. They are also committed to overseeing the culture of the tannery as the most important means of achieving your satisfaction. We wish to thank you for your business and look forward to serving you in 2019 and beyond.

Best Regards,

Jeremy Thoene  
Sales Manager

Tom Eberle  
General Manager