

QUALITY SINCE 1881

Hermann Oak Leather Co.



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SKIRTING
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SPLITS

Dear Customer,

The hide market declined this past summer, as mentioned in our previous letter, and has declined further this fall. When prices have been up high and return to earth, they usually overshoot on the low side for a number of months before rising again to settle back in where they should. Given current prices for cotton and nylon, we expect hide prices to rebound some next year, though not a great deal. These factors point to decreasing leather prices another 3% in the short term.

A price decrease this late in the year would be offset in a few short weeks by the cost increase we typically implement in January. Instead of whipsawing prices, we will just lock prices in at that which you are paying today. These prices are 3% lower than January 2015, and the new price card reflects this. We expect to be able to hold these prices for 2016, barring a repeat of the hide market two and three years ago (which we believe is a very low probability).

We are reinvesting money in our factory, spending over \$700,000 this year to install five new drums, a new lime paddle, a new measuring machine, a new scudding machine, a new fork lift, and new electrical service. While much of this is replacement of equipment that has worn out, the new equipment is also planned to improve quality. We are a capital-intensive business, operating in a chemical environment that is corrosive and hard on machinery. This requires a lot of maintenance as well as replacement of worn-out machines.

My treatments are progressing well. After four months of general chemo, meant to treat the entire body, my CT scan showed no residual cancer. I am now undergoing five weeks of radiation along with low-dose chemo as a "mop-up" operation to treat the specific site. I pack a two-pound pump on my hip, and am receiving no grief on the street. While not much fun, it has allowed me to work most days and stay involved in the business I love. Our people continue to do a great job in spite of either my absence or attendance, and are constantly making improvements and solving problems. We are fortunate to have them.

Regards,

Shep Hermann