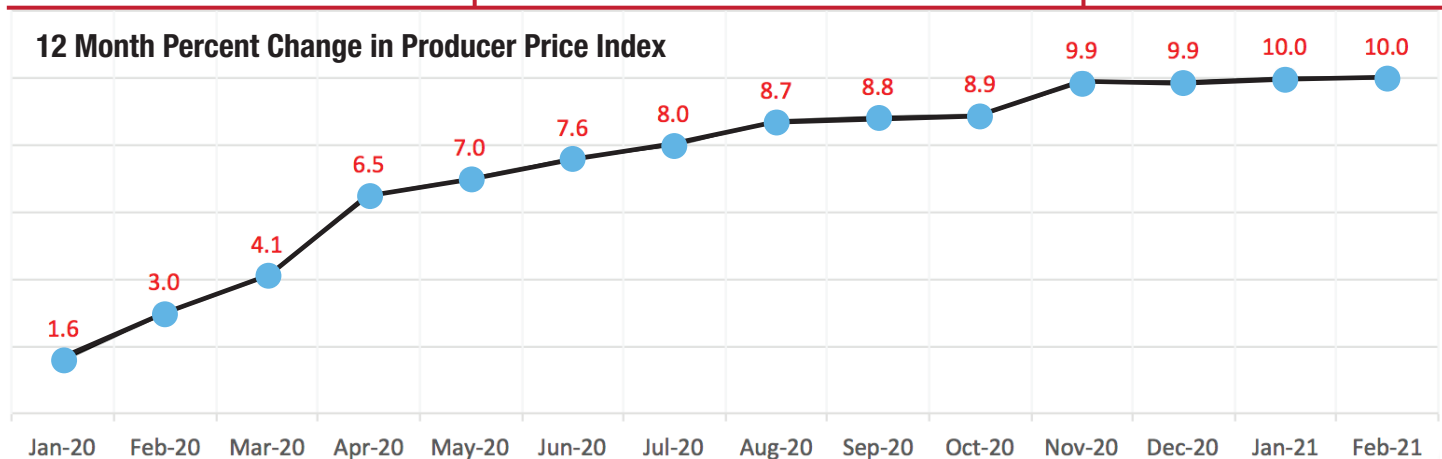
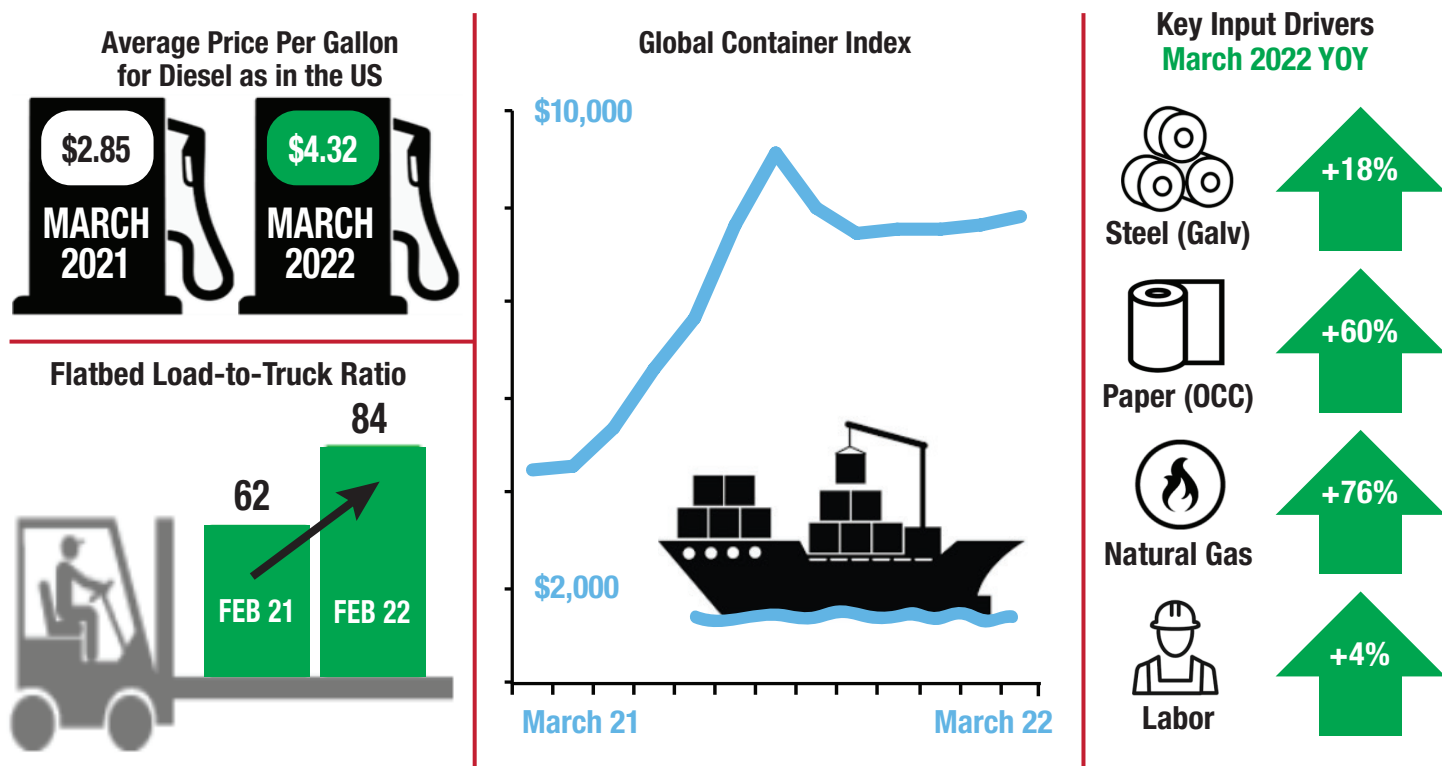


L&W SUPPLY MERCHANDISING UPDATE - Q1 2022

As the first quarter of 2022 comes to a close, three things are prominently in our focus – Inflation, Interest Rates and war in Ukraine. As we discussed in our Q4 letter, we are seeing inflation across nearly every key cost driver and it continues to grow. The Fed has recently implemented it's first interest rate hike since 2018 and is walking the tightrope of trying to get inflation in check without impacting economic growth. Lastly, the war in Ukraine continues and in addition to the tragic local impact, numerous global consequences exist as well.

INFLATION CONTINUES TO SURGE AND THE FED RAISES RATES



2018

Last Time the Fed increased interest rates. Rate was increased 0.25% in March.



1.9%

Estimated interest rate at year-end based on six additional rate hikes indicated at March meeting.



10%

12 month change in selling prices received by domestic producers of goods and services.

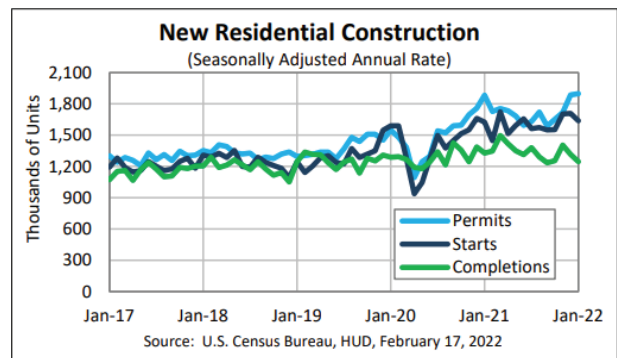


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OTHER KEY UPDATES

Demand

- US Housing Starts (seasonally adjusted) averaged over 1.6 Million in the past 12 months (3/21-2/22). Starts were 1.38M in 2020 and 1.3M in 2019. The backlog of homes under construction increased 20%+ in the past year.
- The AIA Architectural Billings Index Remained above 50 for the 13th consecutive month.



Products & Raw Materials

Wallboard

- Supply of glass mat has been short of expectations in early 2022, restricting finished good output. Manufacturers indicate it should improve, but expect overall availability to be flat to only modestly up YOY.
- Shaftwall Liner production remains significantly below demand (particularly glass mat liner).
- Synthetic gypsum production was down 10% YOY, offset by 6% higher mined gypsum and 8% higher imported gypsum.

Metal Framing

- Hot Rolled Coil prices have dropped back to near early 2021 levels, but galvanized coil (a better barometer of metal framing cost) remains up nearly 20% YOY.
- Lead times have reduced dramatically, but mills have curtailed capacity and European prices have bounced back after the Russian invasion of Ukraine. A majority of the US Pig Iron, a key raw material in steel production, is imported from Russia or the Ukraine.

Ceilings

- Non-residential construction continues to increase both month over month and year over year.

Interior Finishing

- Interior finishing production has recovered following the 2021 Texas storm, but a wide range of inputs have increased dramatically in cost.

Insulation

- Fiberglass insulation manufacturers successfully started up two loose fill production lines in the past six months. However, if housing starts continue at or above 1.5-1.6, fiberglass supply will remain tight through 2022.
- EPS Insulation manufacturers have struggled to produce effectively.
- XPS insulation tightening due to higher demand flow from limits on EPS, Fiberglass, Polyiso and Spray Foam (SPF).

Exteriors

- Acrylic manufacturers continue to close the gap between demand/supply, but Spring demand could create disruption. Silicones and air & moisture barrier production being impacted by raw material supply. Metal cladding products at 6-10 week lead times.

Fasteners / Adhesives

- Adhesive manufacturers have still not recovered from raw material issues. A key manufacturer of adhesives suffered a cyber attack in late 2021 and production of adhesives is still well behind demand.

Looking Ahead

- US Home Builders forecasting strong 2022 growth.
- Consumer confidence remains strong, but dropped slightly in early 2022 due to inflation concerns.

+4%

**Increase in 2021
Wallboard Manufacturer
Total Shipments**

Source: Gypsum Association

19%

**Increase in 2021
Wallboard Manufacturer
Liner Shipments**

Source: Gypsum Association

60%

**Percentage of US pig iron
imported from Russia or
Ukraine.**

Source: Fastmarkets

110.5

**Consumer Confidence
Index® reading in February.
Down 0.6 from January
and off from 2021, but up
over 2020.**

Source: The Conference Board

3.8%

**Unemployment rate in
February 2022 down from
4.4% in January and nearing
pre-COVID 3.5%**

Source: Bureau of Labor Statistics