



September 9, 2022

As everyone is aware, our fill rates over the last couple of months have been significantly lower than normal. I wanted to address the issues that have caused us to not perform up to our usual standards.

Unfortunately, we have an almost perfect “imperfect” storm. PMC/Zerega has experienced significant supply chain issues on multiple fronts. First, we are facing persistent rail service delays due to railroad labor issues that cause us to shut down lines periodically due to low semolina inventory. This wreaked havoc in our production schedule and impacted our ability to maintain good levels of safety stock. Second, we have dealt with a severe labor shortage in staffing our production lines. While hiring has recently improved, we are focused on training and retaining new employee who reach full productivity at about month 3. Third, a global board shortage has significantly increased the lead time required to secure corrugated packaging from less than 8 weeks to more than 16 weeks. Fourth, persistent drought and supply chain issues have greatly impacted our ability to source tomato powder which has impacted our ability to produce Tricolor Rotini. Finally, we had several issues with “phantom” inventory stemming from our migration in June to our new ERP system. Items were showing as in stock when they were not, failing to trigger our scheduling and production teams to produce those items.

While the above outlines the issues, we want to assure you we are more focused on the key actions we are taking to improve our fill rates. First, we have completed a full physical inventory at our plants and all third party warehouse locations. This will ensure that our scheduling team is producing product based on our min/max demand plan models. Second, we have increased our safety stocks of corrugated and film to ensure we have the necessary packaging materials on hand to fill orders. Finally, we have prioritized and increased safety stock levels on our highest volume items. While you haven’t seen the effects of these actions, a lot of progress has been made and we expect that over the next few weeks you will see a major improvement in our service levels.

We certainly understand the problems this causes for the entire system. Getting us back to be a premier service provider is our top priority.

Thank you,

Steven Goldstein

Vice President – Foodservice

Philadelphia Macaroni Company