



Manufacturing Status Update 20

October 26, 2023

Note: This is update #20 which reports our recent capacity expansion activities, capacity constraints and improved lead times.

We are pleased to report our lead times are now slowly recovering. Lead times are now 48-52 weeks for standard product. Based on current market conditions, we forecast lead times to drop by about 2 weeks each month. These lead times are subject to change at any time and are only guidelines which can vary for a variety of reasons. A confirmation copy of the order is sent after the order has been processed which states the actual delivery commitment that may differ from the date requested on the purchase order. A blog post on our website defines 'standard' product and quantities.

We forecast all quoted orders now to ship on time. Quoted lead times include late delivery, if any. However, existing orders are shipping an average of 12 weeks late with 97% of late orders shipping within 16 weeks of original promise dates.

Based on current forecasts, we expect to achieve on-time delivery in Q3 of 2024 and be able to provide 6 month lead times on standard products. Management of AP Tech and SMC appreciate the urgency of this product delivery crisis and are attempting to improve this forecast.

Due to late shipments, we are unable to expedite orders or commit to deliveries shorter than our standard lead times today. Manufacturing time has been, and is being, fully allocated for orders without a buffer (time reserved) to enable shorter deliveries. When asked for our best delivery, that is what is quoted, the first time that it is asked. Many ask us to try again for a better delivery but, unfortunately, we are unable to comply with such requests.

The supply chain is recovering but shortages still remain. There are some materials through finished goods used in our products still in short supply, but the situation has greatly improved. We are still experiencing late shipments from our suppliers which result in product shipments later than promise dates. We have expanded our qualified suppliers and single source suppliers are now minimized. These steps are adding significantly to our capacity. Unfortunately, everything takes time to implement.

Regarding a noteworthy specific shortage, AP Tech has previously alerted our customers to an industry wide shortage of PCTFE. PCTFE is the standard seat material for AP Tech valves and regulators. AP Tech and other suppliers have a single source of the raw material supply. That source started allocating material to customers such as AP Tech and other industry suppliers. We have initiated several actions to address the shortage. As a result of our actions, we have enough PCTFE to meet our demand, and we have active containment and corrective actions to increase supply. However, PCTFE is still a supply risk that we must monitor closely.

AP Tech continues to operate two 10-hour shifts during the work week, in addition to a single shift on Saturday. We continue to add more clean room space and production staff. The completion of our first clean room expansion was reported at full capacity in update #16. Our second clean room expansion is now complete and operational. From April 2021 our total capacity has increased by 200%.

SMC, our parent company, is collaborating closely with us on many fronts, including parts supply. As reported in update #18, we are pleased to announce our BCP¹ manufacturing facility at the SMC USA headquarters in Noblesville, IN is now manufacturing a limited number of AP Tech parts. The BCP factory's capacity and range of products will continue to expand with the addition of UHP (ultra-high purity) parts. The new Noblesville BCP cleanroom is completed, and we expect to ship first products to stock in December of 2023. Machine tools have been added in SMC Vietnam and our other key suppliers, feeding our factories with more parts.

This update provides our current status which is subject to change. More detailed monthly updates are available from AP Tech by request.

We appreciate your continued support of AP Tech. As the industry grows, we plan to grow our capacity faster. The Napa facility has already doubled capacity since 2021. Our new BCP facility provides our customers with multiple manufacturing locations and increased capacity creating a more resilient supply chain and improved lead times.

¹BCP is an acronym for Business Continuity Planning which concerns planning to maintain product supply when facing adversities such as natural disasters or a pandemic such as COVID. Separating manufacturing sites by geographic location rather than having all in one area is a BCP fundamental.