WE CREATE FORESTS FOR YOU TO HAVE THE CORRECT TIMBER IN YOUR LIFE
ABOUT PROTEAK

- Proteak is the largest forestry company in Mexico
- Started as a forestry company…..migrating to an industrial company
- Started operations of the first MDF plant in Mexico with a capacity of 280,000 m³ supplied as a turn key project by Dieffenbacher
- It is a Public company since 2010, mainly owned by all the Mexicans thru the pension funds (+ 20 M people)
- 20,000 has (50,000 Acres) of sustainable and high growth Teak and eucalyptus, first plantation to obtain carbon credits
- We are a sustainable (eliminating the pollution of 400,000 cars) and certified company FSC®
- We believe in technology and in inherent advantages as the major differentiators to achieve only ONE thing: Be the lowest cost supplier
- We already export to 15 countries
- We make a difference in the population of one of the poorest parts of Mexico (Southwest of Tabasco), more than 5,000 families depend of our success
We Take Care of the Board in every Step
OFFICIAL TITLE OF THE PRESENTATION

Why Proteak? How an Entrepreneur Became Involved in Mexico’s Newest MDF Operation

TRANSLATION

Why A COMPANY WITH NO EXPERIENCE CALLED Proteak? How an Entrepreneur (ARE YOU KIDDING? NOTHING CAN BE DONE DIFFERENTLY IN THIS INDUSTRY) Became Involved in THE CAPITAL OF CRIME, DRUGS AND CORRUPTION CALLED Mexico’s Newest (IF YOU CAN CALL NEW A TECHNOLOGY MORE THAN 40 YEARS OLD) MDF Operation
MEXICO, HAVING THE RIGHT CLIMATE TO BE A TIMBER POWERHOUSE, IMPORTS 8 BILLION USD OF TIMBER AND PAPER
Situation of the MDF Market in 2013

- Imports of 600,000 m³
- No local production for practical purposes
- Imports mainly from
  - USA
  - Chile
- Distributors and Particleboard producers
  Imported the product
  - No Interest of putting an MDF plant in Mexico
  - Many excuses
REASONS NOT TO DO IT

Nobody will give the **MONEY** for a greenfield for a company with no industrial experience.

There is no place for a new company in the **COMPETITIVE SPACE**.

**MEXICO** is a really bad place to invest.

There is not enough **WOOD** to supply a decent size plant of MDF.
TO OBTAIN THE **MONEY** FIRST WE NEEDED TO DEMONSTRATE THE ONLY SUSTAINABLE COMPETITIVE ADVANTAGE: **WE WILL BE THE LOWEST COST SUPPLIER**

Cost Structure to supply one cubic meter to Mexico City

**Chile**

- **TRANSPORTATION:** +4,000 MILES VS 400 MILES TO MARKET
- **LABOR:** MARGINAL ADVANTAGE OF LABOR COST
- **ENERGY:** CONNECTED TO THE TEXAS NATURAL GAS (CHEAP)
- **RESIN:** USE OF NEW TECHNOLOGY TO REDUCE CONSUMPTION
- **WOOD:** HIGH YIELD PLANTATIONS

**Proteak**

The lack of experience has been compensated with an agreement with FINSA, one of the largest board producers of Europe and a turn key Project with Dieffenbacher
PROTEAK is a Public Company
Mexico has more than 250 Bn USD in savings ready to be invested in the pension fund system
We were able to raise more than 100 M USD of Equity
With the German Government help, we were able to raise the balance in a long term loan
Thanks to our strategy to close the gap in experience, we were able to raise the money
The sector with the largest is wood and paper products; 8 Bn Dollars.
The fragmentation of land ownership and legal hurdles have been the real limitations.
Limited sourcing from natural forests.
In the 20th century no real effort of forestry plantations.
In 1993 the law changed and some companies started limitedly to invest in the sector.
While in Brazil there are +12 M Acres of plantations in Mexico we have less than 100 K Acres.
In 2000 we did not have any forestry plantation talent in Mexico.
All the companies thought they needed huge...
What do you do in a Situation like this?

You change Everything

We Cheated
WE BOUGHT THE WOOD, LAND AND R&D FOR THE INITIAL PART OF THE PROJECT
We also brought the talent from overseas

The Wood

- We bought 20,000 acres of eucalyptus plantation, initially planted by a US company that needed eucalyptus
- 50 clones proven for the area
- 20 years of R&D, not put into action due to a lack of use of the wood
- FSC
- Buying agricultural land in Mexico is challenge, we know how to do it. Took us 10 years to learn how

The Talent and Results

- We brought 6 forestry engineers from South America with different specialties
- We invested in forestry equipment
- We chose agricultural land, not marginal land
- With our current footprint we will be able to source all the raw materials for the first line
- HIGH QUALITY fiber
- Growth rates above 45 m³/year, comparable with Brazil (but next to the US)
- R&D to improve genetics and usage of other fibers

We saved years compared to starting from scratch
Seedling Plantation vs Clone Plantation. Both planted the same day
30 days Old

5 months Old

14 moths Old
TYPICAL KNOWLEDGE OF MEXICO ABROAD

DRUG CARTELS AND VIOLANCE

CANCUN
THE REAL MEXICO

- 11th Economy in the World, but Goldman Sachs put it in 7th place in 2040, ahead of England or Italy

- We are different country than the rest of Latin America or development world, we rely in manufacturing not commodities
  - 86% of our exports are manufacturing goods
  - Will be the 5th largest producers of cars in 5 years

- The Growth rate of Mexico, w/o the oil effect, is above 3.5% for the last 4 years

- Solid Macro Economic fundamentals: low debt, high savings, no inflation, almost no deficit

- TPP and NAFTA

- We are in the right neighborhood
BEING THE LOW COST SUPPLIER......OUR STRATEGY IS NOT TO UPSET
THE MARKET

**MEXICO**

- Bring the capacity with a normal ramp up
- Substitute the imports in an orderly fashion
- Not use our cost advantage in the price
- Produce added value products
- Already have a participation importing product from FINSA
- We will be for the next 10 years, at least, the only vertically integrated company in Mexico

**Overseas (US)**

- Start with small efforts
- Look for added value areas where cycle times are relevant (1 day vs Chile 50 days)
- Specialty Products as Capabilities Increase
- Use our Logistical advantages in certain parts of the US
STATUS

Finding the Right Acquisition Target and convincing them
Proving Dieffenbacher we had a chance and negotiate a turn key project
Getting the money; Equity and Debt
Finding the Human Talent and Partners
Planting more than 8 million trees, 3 million more per year
Working from IDEA to First Board for 42 months
And Investing 170 M USD.......
**WHAT HAS CHANGED IN RECENT TIME?**

- Amazing results on the forestry side, great growth rates and the high quality fiber……if I may say so….at great cost, cycles of less than 5 years
- Two other MDF plants started being build in the last 24 months but using waste of natural forest or second use of wood… Risky
  - Mexico will be self supplied in 12 months
- Brazil started exporting to Mexico due to their oversupply and weak currency; that advantage is disappearing due to inflation and currency appreciation
- Prices in Mexican Pesos are strong, but in dollars they have gone down
- The US market is strong, and some added value products can and should be produced in Mexico and not South America
- Energy prices have gone down, and some components of the Resin have been impacted, so we should continue working in a target of being the lowest cost supplier
- Already planting for a second line…..will keep you posted
THANKS

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