



## Materia Do Brazil (MATEBRAZ)-C Ron Clifford's Counter Proposal

When Ron Clifford learned about the Matebraz's Board decision he immediately called EVANS and BOWER to express his disapproval. As head of Composites in the US he argued that it was uneconomical to create a new production site for a largely unproven new high tech product in emerging countries.

For him Brazil is not a major player in the aircraft industry and the resources of BMG composite division should be more useful in China for instance where the potential market was three time larger than Brazil. The Texas operations could continue to export, at least in the next few years since there was 1000 tons of extra capacity in the Houston plant and it did not make sense to build an additional plant in the American region. On top of that the return of exporting from Houston was much larger than the return calculated by Da Silva for a new factory. To support his position Clifford produced a cash flow statement reproduced in exhibit 1. Ron added that with his solution there was no political risk involved and was less sensitive to the traditional Brazilian inflationary environment not to mention potential security issues in a country well known for its mafias .



**Exhibit 1**  
**Estimated Cash Flow for exporting ARAMZK-6**  
**To Brazil from Houston (000 US\$)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>EXCHANGE Rate BRL/\$</b>	2.13	2.18	2.21	2.25	2.28	2.31	2.35	2.38	2.42
<b>SALES tons</b>		150	200	200	250	250	300	300	
<b>SALES price/tons in BRL</b>		5400	5400	5400	5300	5300	5200	5200	
<b>SALES per ton in \$</b>		2475	2439	2404	2325	2292	2216	2184	
<b>SALES (000\$)</b>		371227	487831	480795	581356	572971	664863	655274	
<b>Variable costs in \$/kg</b>		1610	1610	1610	1610	1610	1610	1610	
<b>Variable Costs (000 \$)</b>		241560	322080	322080	402600	402600	483120	483120	
<b>Gross Margin (000 \$)</b>		129667	165751	158715	178756	170371	181743	172154	
<b>Market &amp; admin in BRL</b>		325000	350000	350000	375000	375000	400000	400000	
<b>Market &amp; admin in \$</b>		148949	158093	158813	164535	162162	170478	168019	
<b>Saving due to Economies of scale (\$)</b>		20000	20000	20000	20000	20000	20000	20000	
<b>Earning Before Taxes EBT (000 \$)</b>		718	27658	22902	34222	28210	31265	24135	
<b>Taxes 50%</b>		359	13829	11451	17111	14105	15633	12067	
<b>Working Capital Requirement</b>		-61624	-19356	1168	-16693	1392	-15254	1592	
<b>Terminal value</b>									108775
<b>FREE CASH FLOW (000 \$)</b>		-60547	22130	35520	34639	43706	31644	37794	98291
<b>Cumulative Free Cash Flow</b>		-60547	-38416	-2896	31743	75450	107094	144888	243179

**Exhibit 2**  
**Exchange rates and Inflation in Brazil and the USA**

		<b>EXCHANGE RATES</b>			<b>INDICES</b>	
		<b>Brazilian Real BRL/US\$</b>				
		<b>Inflation</b>	<b>Inflation</b>			
		<b>US</b>	<b>BRAZIL</b>	<b>USA</b>	<b>BRAZIL</b>	
2000	1.95	3.40%	7.0%	100	100	
2001	2.33	2.80%	6.8%	102.83	106.84	
2002	3.55	1.6%	8.4%	104.44	115.84	
2003	2.9	2.3%	14.7%	106.83	132.96	
2004	2.65	2.7%	6.6%	109.7	141.73	
2005	2.36	2.7%	6.5%	112.71	150.92	
2006(est)	2.13	2.4%	4.6%	115.4	157.9	



**Exhibit 3**

**Landed cost per Kilo of export to Brazil from Houston  
(\$/kg, 2006)**

FEEDSTOCK	500
LABOR	400
OTHERS	300
shipping	120
import duties 22%	290.4
<b>Total landed costs (\$/kg)</b>	<b>1610.4</b>
Working Capital/ Sales =60days	16.6%