

Return Drivers on Teak Plantations

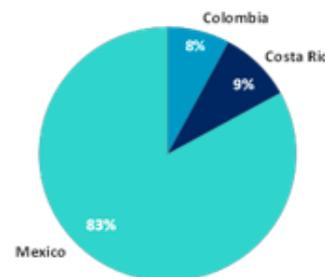
Key facts

- Founded in 2000 in Mexico
- Public Company since June, 2010 (TEAK.CPO:BMV)
- Over 16,500 has. under management
- Two Business Divisions
 - **Teak:** 8,800+ has in Mexico, Colombia and Costa Rica
 - **Industrial Wood:** MDF (Medium-Density Fibreboard) Plant and Eucalyptus Plantations in Mexico
- All plantations are FSC-Certified

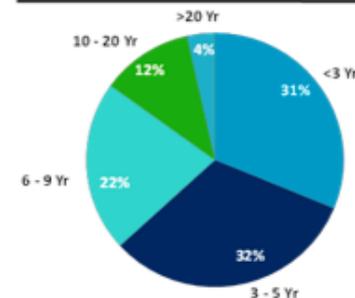
Teak Business Division

- 15 years of experience planting in diverse communities and conditions
- Delivering best-in-class growth rates
- 6 years marketing Timber and Manufacturing Products to 15 destinations worldwide
- First FSC-certified operation in Mexico

Ha Distribution by Geography



Ha Distribution by Age

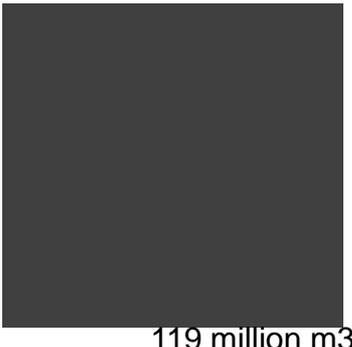


Tropical Hardwoods

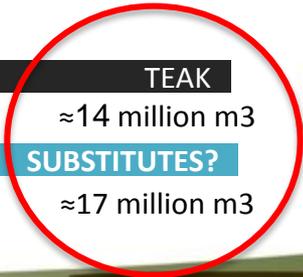
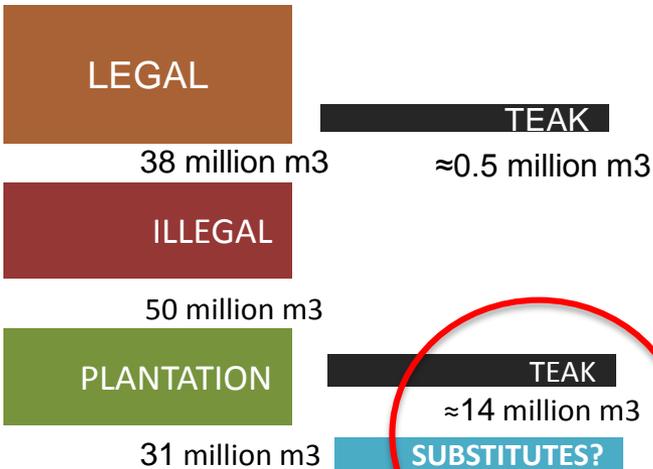
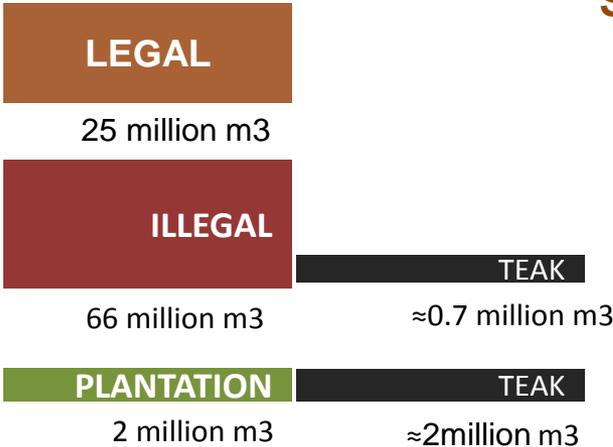
2015

2030

Demand

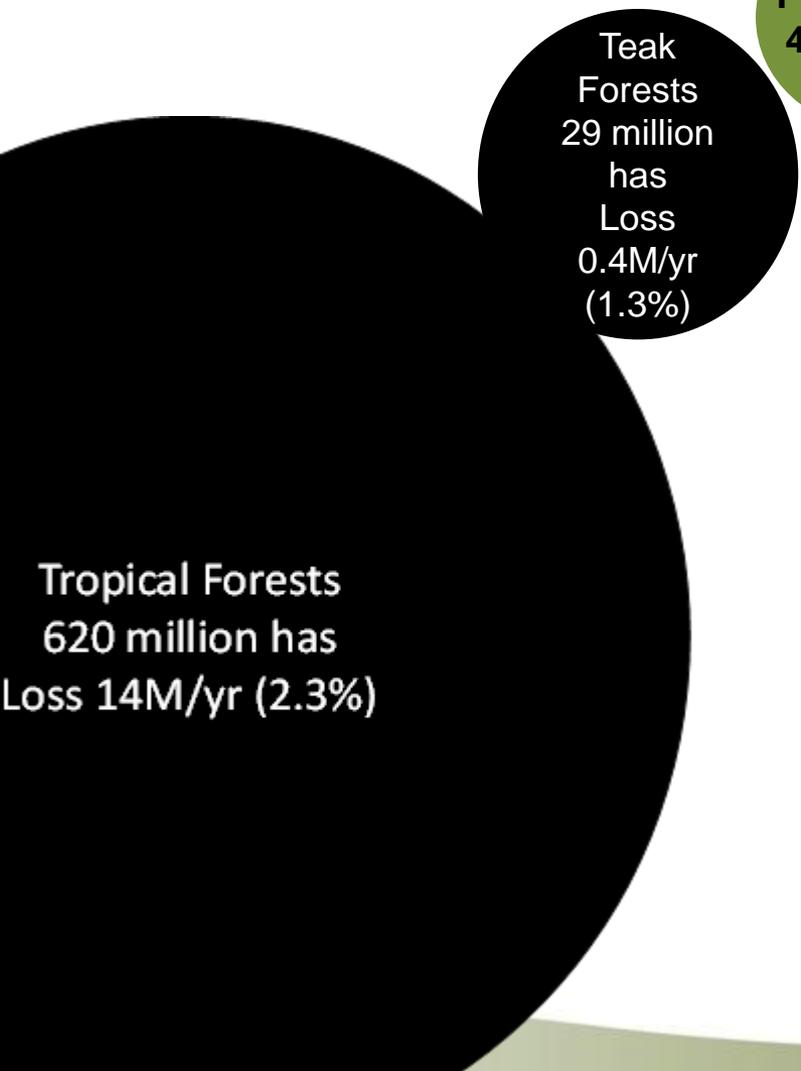


Supply



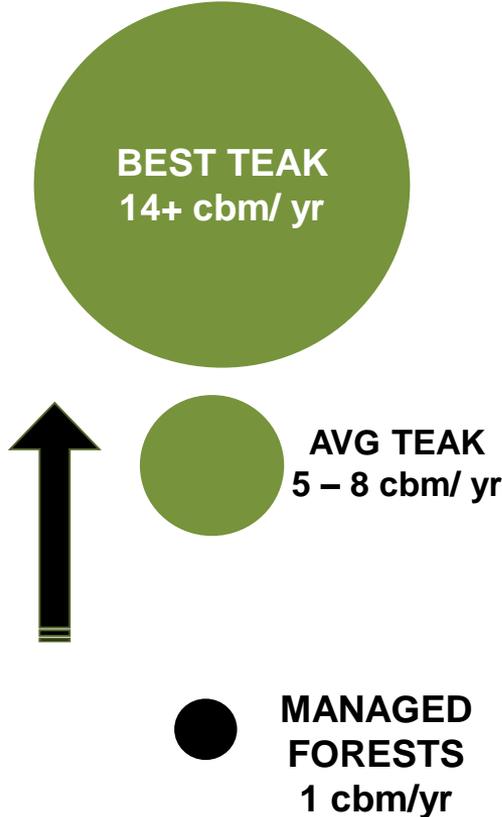
Why is Teak relevant

FOREST AREAS

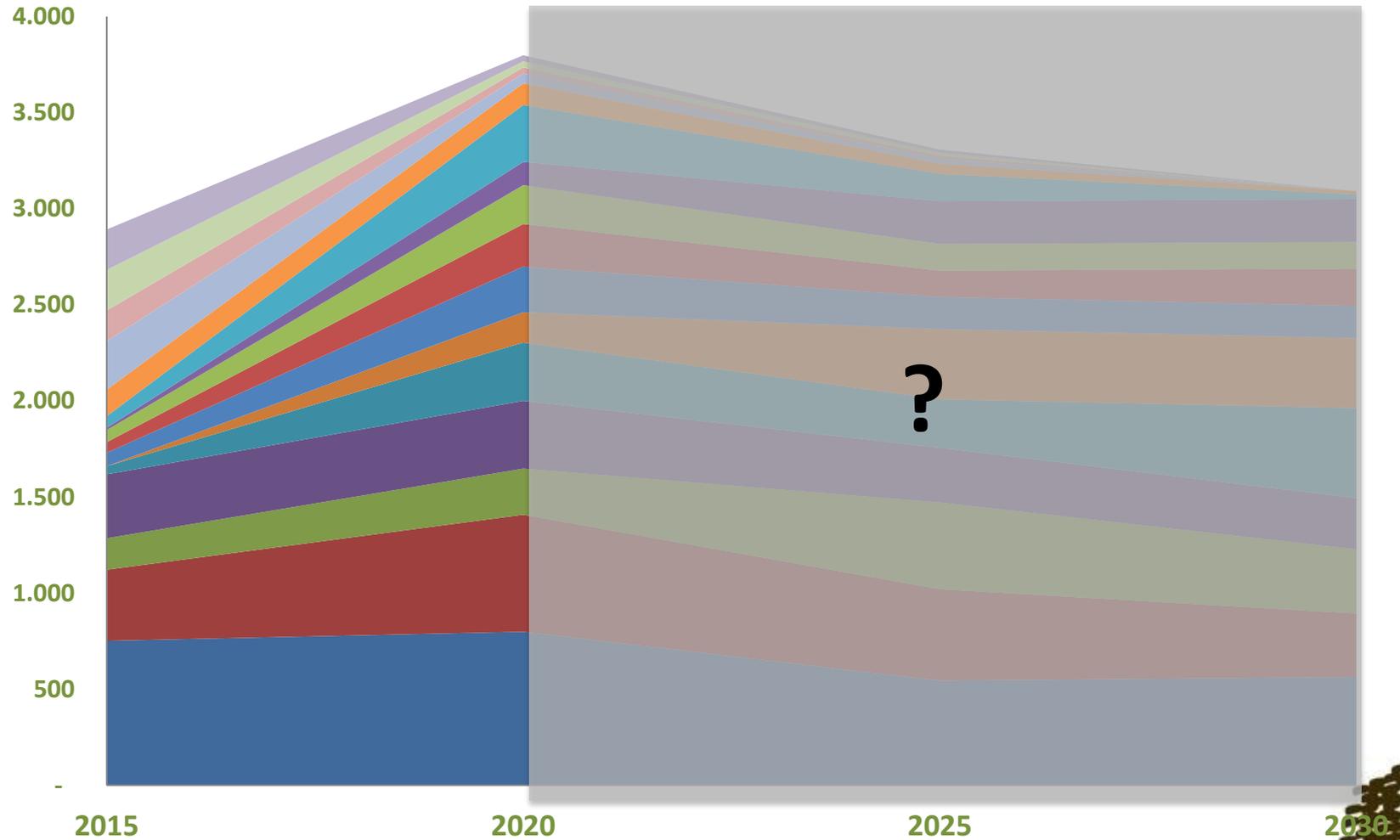


Teak
Plantations
4.1 million
has

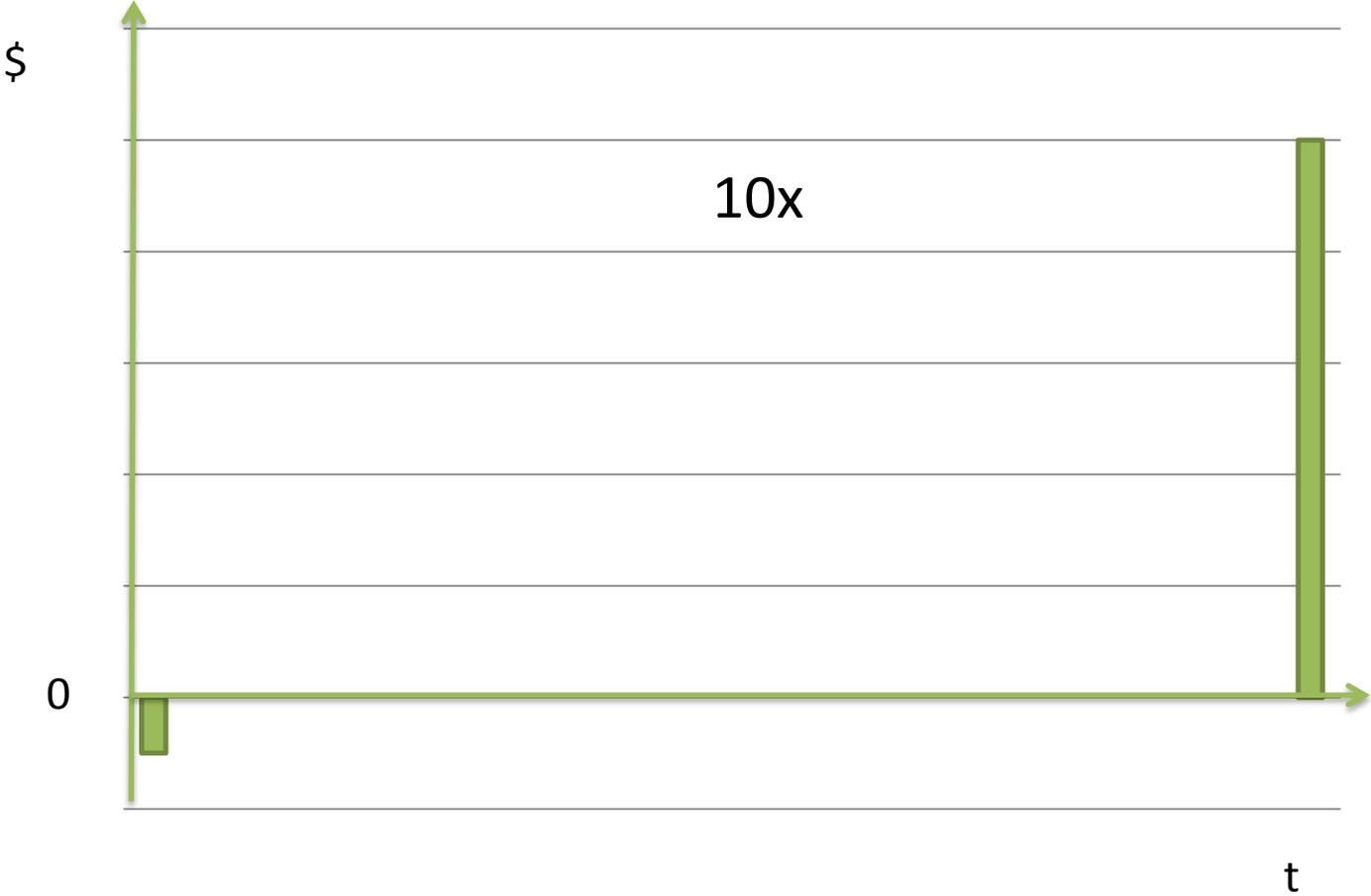
TEAK PRODUCTIVITY



In the shorter term, we nevertheless expect some increase on the supply side



Teak Investment 101



And the factors that matter are not just the forestry ones. Extraction and logistic costs can determine the success or failure of a Plantation.

Forestry Drivers



Commercial & Logistics Drivers

Quality Land Availability	✓
Rain regime	✓
Land Tenure Security	✓
High Efficiency	✓
Mechanizable Land	✓

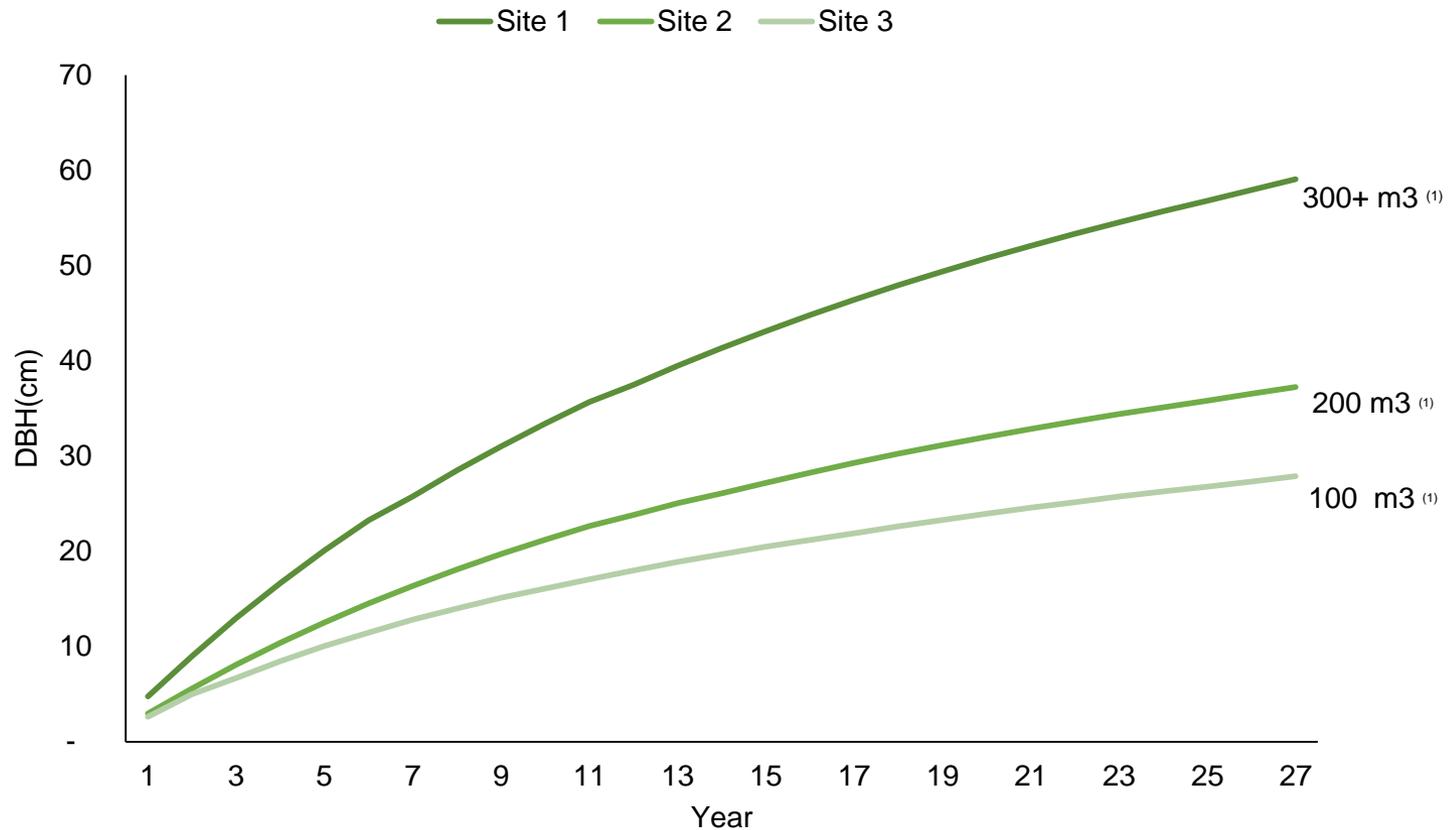
Port Accesibility	✓
Road Infrastructure	✓
Export Facilities	✓
(No) RL export restrictions	✓
Brand Leverage	✓

- ✓ 10%-20% Standing Value
- ✓ Mostly Fixed Costs
- ✓ Upfront (0-18 mo)

- ✓ More than a 100% of the value
- ✓ 100% Variable Costs
- ✓ Back Ended



Not all Teak plantations are the same. Site and silviculture largely define quantity and quality of harvest.



Note: (1) Volume harvested
Source: Proteak



Key factors affecting teak investments



Selecting and acquiring the right land

- Combination of growth potential, logistics and cost structure
- Teak can “afford” better sites when optimal conditions exist
- Logistical differences can affect considerably returns - specially in early sales
- Integration with industrial consumers is usually not usually considered in projects - maybe its time to do so



Implementing best forestry practices

- ✔ Proper preparation, based on years of research and experience
- ✔ Genetic material selected for specific site conditions
- ✔ Informed thinning decisions oriented at optimizing value
- ✔ Site-specific fertilization
- ✔ Intensive silviculture and dynamic decision-making
- ✔ Thorough cost control
- ✔ Research and Development—we are decades behind many other species, therefore potential for gains are huge!



Managing sales to capture value

- Not all teak is the same, nor consumers
- Value is generated by finding the right consumer for each type of wood and delivering timely and with precision
- Important to optimize each log by cutting it for a diverse consumer base
- Risky and lengthy process, but it pays off
- Industry must move towards new markets (e.g. Asia beyond India, substituting hardwoods in developed markets, etc.)

A TALE OF TWO INDUSTRIES: COFFEE VS CEMENT

Cement	Coffee
Value is distributed among the value chain	Most value captured by intermediation
Intermediaries viewed as partners—focus on market development	Intermediaries viewed as counter-party—focus on negotiation
Producers collaborate in developing better market conditions	Producers highly-fragmented, seldom acting together



Operating efficient logistics

- Logistics viewed as an opportunity to communicate with final users
- To go beyond selling a commodity, quality information is needed
- Scale allows for more creative logistic solutions and investments in equipment
- As with other timbers, teak has to be viewed as a part of a multiple value chain



Accurate inventories and intelligence

- Management and investors require accurate and timely inventories to assess value and make decisions
- Many of these decisions have a huge impact on returns and are irreversible
- Delicate balance between costs and value of information—technology can greatly help reduce costs
- Market conditions must inform both plantation value and management decisions

