

Teleconference – Webinar on Brazil

Part II

June 22, 2010 – 11:00 am EDT



You should be able to listen to this presentation through the speakers of your computer.

A copy of the slides of this presentation will be available on the web to all participants in this teleconference/webinar

Introduction



Mario C. Winterstein
Business Development Director

Purpose:

- Focus on developing business in Brazil
- Recognize the realities of this market both in terms of opportunities and threats
- Develop innovative ways to address a unique market
- Find ways to group common interests
- Combine resources to implement action plan
- Explore opportunities by sharing local talent

Implementing the Plan

Marketing Innovation

Agenda of this Webinar

- Update on the overview of the Brazilian market (February webinar)
- Report findings of the last webinar
- What did we learn at Feira da Mecanica?
- Implementing an Action Plan
- Question & Answer session

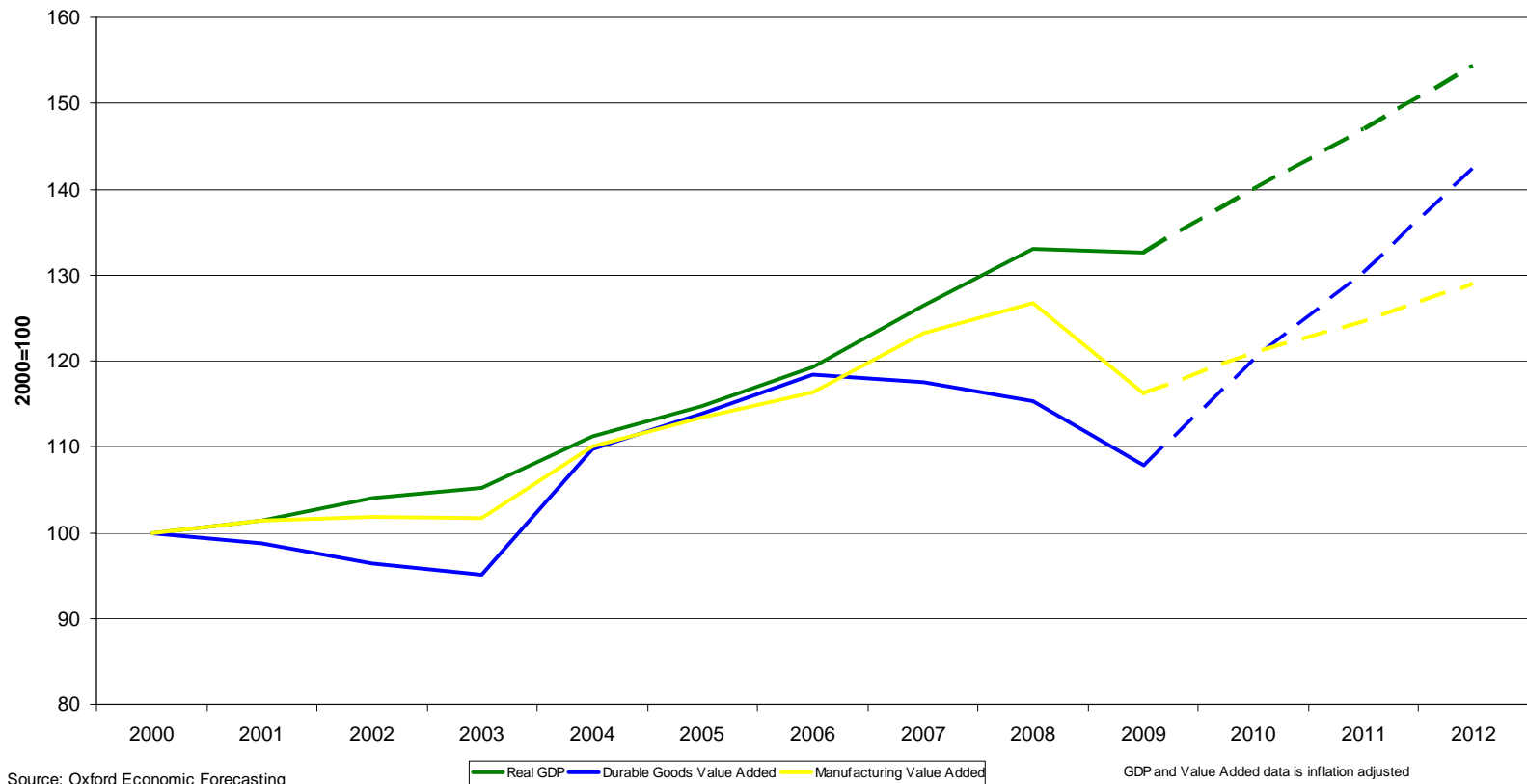
Please feel free to ask questions by writing them in the Chat area of the screen. We will try to answer them during the Q&A session at the end of the webinar.

Update of the Overview of the Brazilian Market



Overview of the Brazilian Market

Brazil's Growth in Real GDP and Manufacturing Value Added
Index Year 2000 = 100



Positive Projection based on energy industry growth and investment in infrastructure in preparation to 2014 World Cup and 2016 Olympic Games

Overview of the Brazilian Market

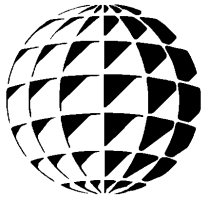
➤ SWOT Analysis for AMT Members in Brazil

<p><u>Strengths:</u></p> <ul style="list-style-type: none">➤ U.S. Reputation for quality➤ Brazilians look up to U.S. trends➤ Reputation that U.S. products are easy to use➤ U.S. practices widely accepted in Brazil➤ Most of your contacts can speak English➤ Brazilian currency is pegged to the Dollar	<p><u>Weaknesses:</u></p> <ul style="list-style-type: none">➤ Perception of irregular attention to this market➤ Lacking local presence➤ Lacking long-term commitment (Service)➤ Product adequacy (levels of automation)➤ Aversion to bureaucracy
<p><u>Opportunities:</u></p> <ul style="list-style-type: none">➤ Growing market➤ Substantial government incentives in infrastructure investment➤ US subsidiaries (represent a “wedge” into market)➤ Technology-hungry customers: processes➤ Dollar value x other currencies➤ Well educated work force. Manufacturing and Engineering are valued careers➤ Professionals are good team players	<p><u>Threats:</u></p> <ul style="list-style-type: none">➤ European Culture (Metric system, CE Certification, etc.)➤ Bureaucracy➤ Small market share in the last several years➤ Foreign competition➤ Local competition➤ Protectionist government on some fronts➤ Socialistic labor practices

U.S. Participation in the Brazilian Market

➤ Myths and Reality

Myth	Reality
I cannot compete in that market because of the high duties and taxes imposed by the Brazilian government on imported equipment	All imports pay the same duties/taxes regardless of country of origin. Duties and taxes are paid by the importer (customer) not the exporter. Most of the taxes are imposed on the Brazilian built equipment as well.
Certain countries receive preferential treatment over the U.S. when it comes to importing capital equipment	Duties are imposed based on type of equipment not based on country of origin. The only exceptions are for countries with whom Brazil has a bilateral agreement (Free Trade).
Brazilians prefer European made equipment	Historically, European companies have been a lot more aggressive than U.S. companies
Brazilian production equipment builders influence the Brazilian government to limit imports of manufacturing equipment	Arguably, Brazilian government protects its industry using WTO approved measures and incentives
I can handle my sales and service for Brazil from the United States	You have to be present in the market to succeed. Commitment is of essence in this market



Major Industrial Centers



Overview of the Brazilian Market

➤ Brazil Machine Tool Consumption History (Highlighting Information of BRICs & Mexico)

(Values in Millions of Dollars)

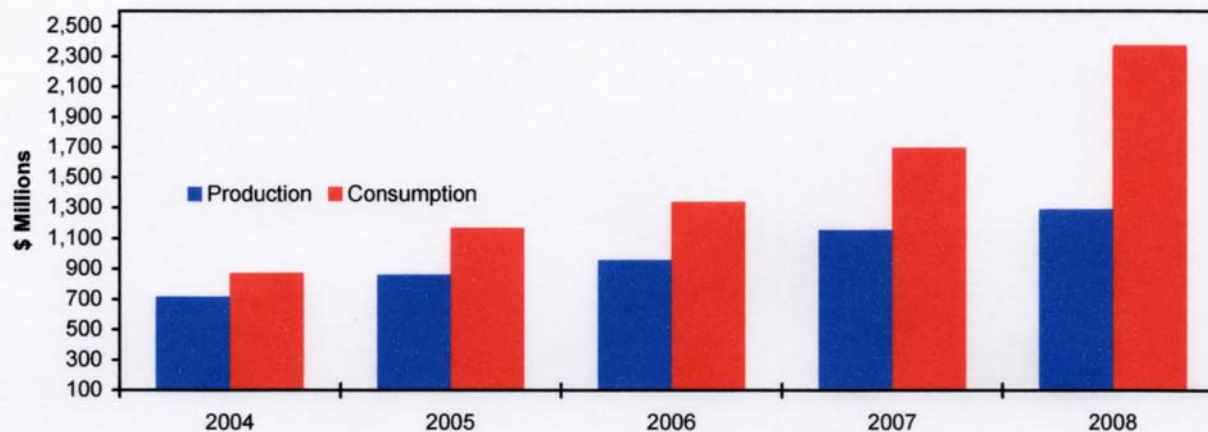
Country	2002	2003	2004	2005	2006	2007 (r)	2008 (p)
China PRC	5,185.8	6,568.7	10,386.7	10,776.0	13,167.1	16,181.6	19,441.4
Germany	4,430.7	4,615.1	5,109.4	5,494.1	5,152.9	7,463.3	9,806.2
United States	3,784.5	3,974.5	5,081.4	5,933.0	6,361.2	6,425.2	6,919.7
Italy	3,198.8	3,120.4	2,752.4	3,304.0	3,807.4	5,160.9	5,319.9
Japan	1,214.6	1,600.5	3,285.4	4,057.8	4,203.3	4,741.3	4,884.6
South Korea	1,940.2	2,839.8	3,165.5	3,799.3	5,121.7	4,084.6	3,805.2
Taiwan	1,029.0	1,302.7	2,620.2	2,256.4	2,887.9	3,564.4	2,649.6
➔ Brazil	781.9	747.3	870.8	1,167.6	1,422.9	1,695.5	2,372.7
India	184.4	289.1	569.6	911.0	1,150.2	1,706.1	2,010.9
France	1,068.9	1,064.2	1,231.3	1,530.0	1,458.8	1,580.6	1,891.1
Russia	325.8	396.8	450.2	629.6	803.5	1,197.7	1,836.7
Mexico	916.9	825.6	935.9	1,188.8	1,245.9	1,694.6	1,548.2

Source: National Machine Tool Trade Associations or Government Sources

Overview of the Brazilian Market

➤ Industry Overview

Figures contain machine tool parts and accessories



(Values in millions of Dollars)

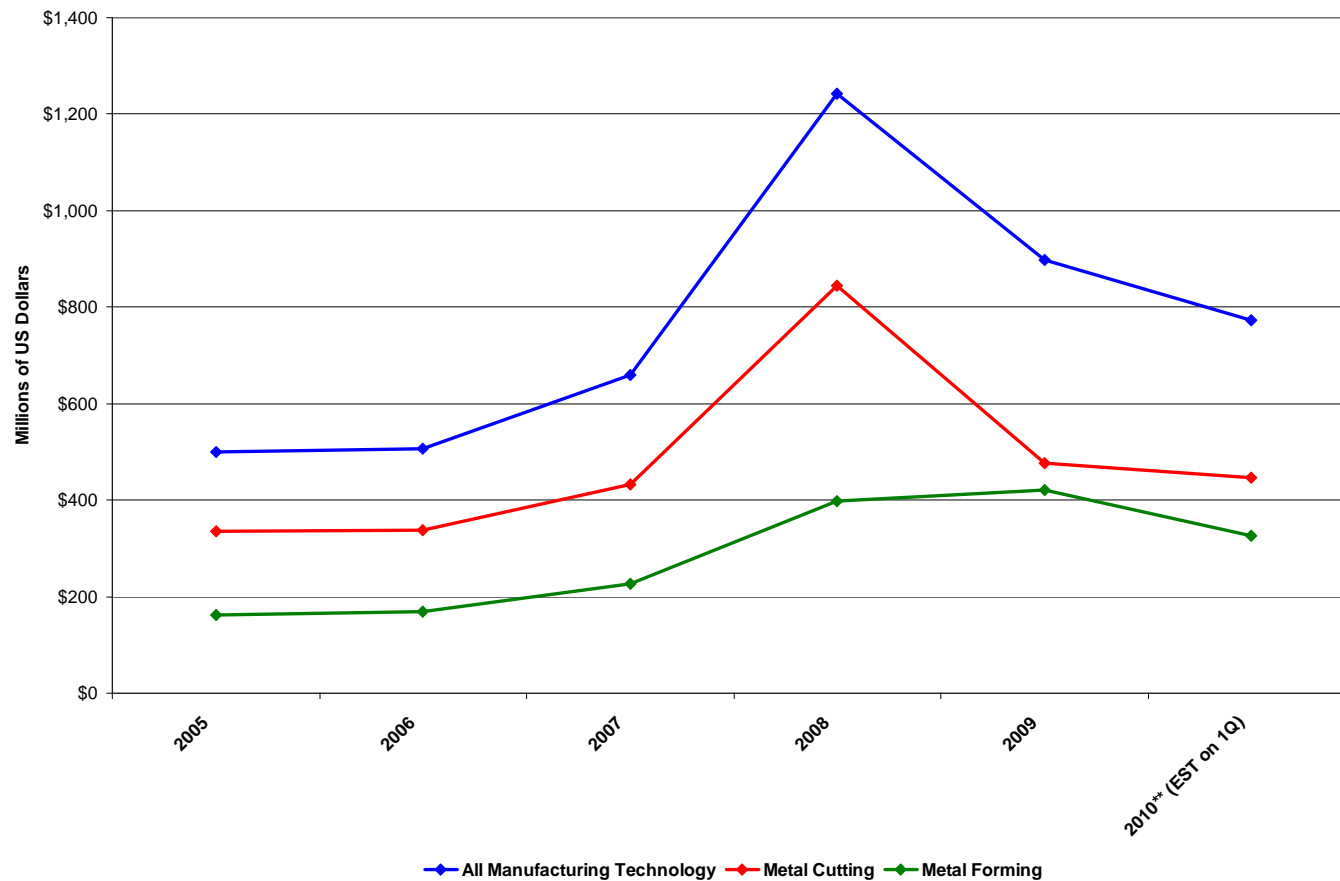
Year	Production	Imports	Exports	Consumption	% Import Penetration	Exports as % of Production	Employment
2004	713.9	317.0	160.1	870.8	36.4%	22.4%	7,625
2005	860.7	498.8	191.9	1167.6	42.7%	22.3%	7,328
2006 (r)	956.9	507.9	128.0	1336.7	38.0%	13.4%	7,145
2007 (p)	1157.8	659.0	121.3	1695.5	38.9%	10.5%	8,224
2008 (p)	1288.7	1242.5	158.4	2372.7	52.4%	12.3%	8,778

Source: Brazilian Machinery and Equipment Builders' Association (ABIMAQ/SINDIMAQ),

(r) revised; (p) preliminary

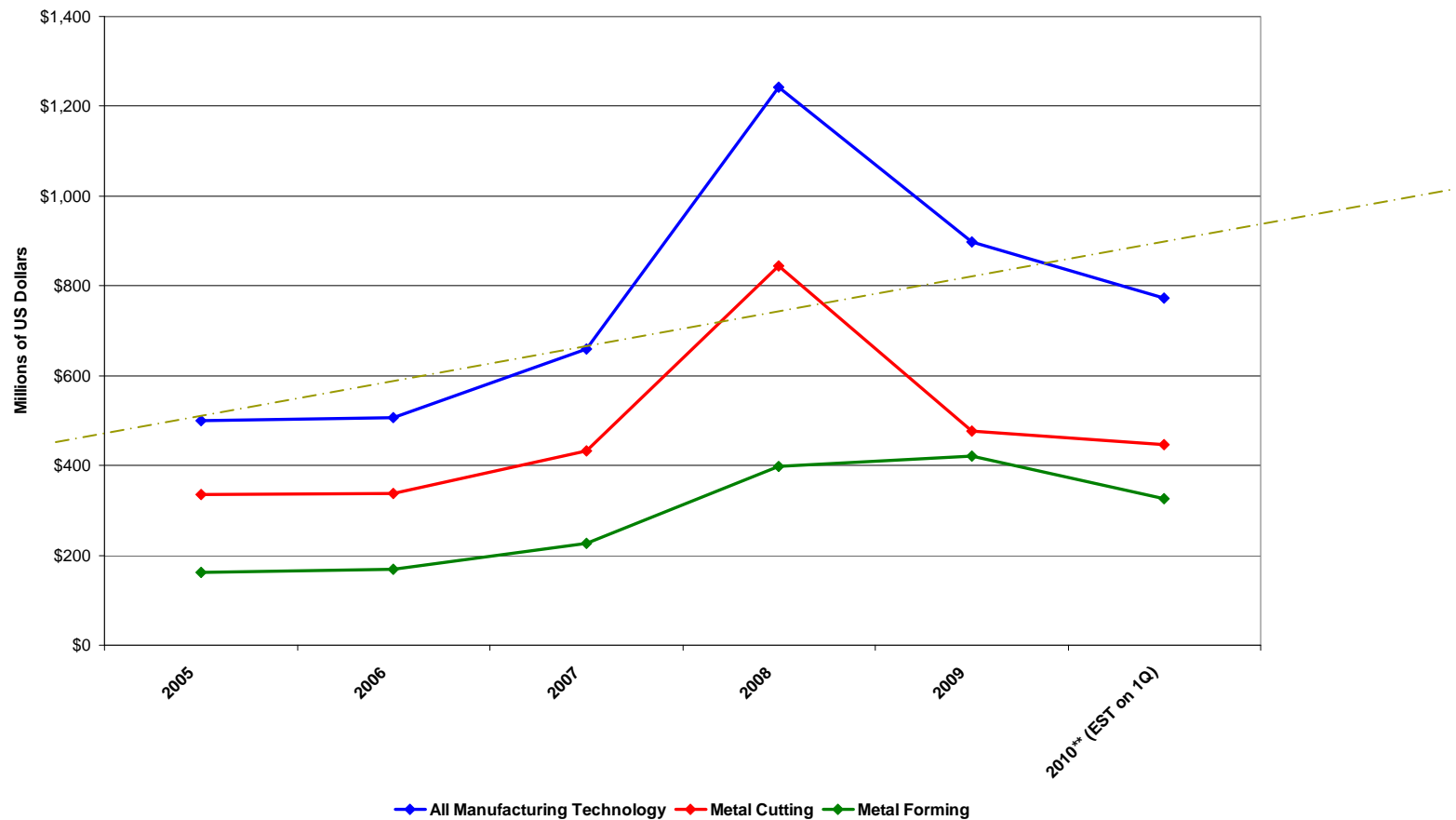
Opportunities for Imported Equipment

Brazil's Manufacturing Technology Imports



Opportunities for Imported Equipment

Brazil's Manufacturing Technology Imports



Growth Indicators

(based on media announcements in the last few weeks)

- Growth pattern to expand automotive production from 3.2 m (in 2010) to 5.0 m (in 2015)
- ZF announced it will expand its capacity by 60% by 2014
- BNDES assigns credit to the 11,000 plastic components manufacturers (70% are SMEs) to expand their capacity
- SKF (Bearings) will expand 2009 capacity of 35 MM/year to 40 MM/year in 2011
- CSA (JV Krupp & Vale) opened a new steel mill in Rio de Janeiro, with an investment of \$8.2 billion
- GM implementing another phase of its \$2.5 billion 2008-2012 investment by upgrading the Mogi das Cruzes plant (assembly line and stamping shop)
- PSA Peugeot is investing \$1.0 billion in their plants to increase production of their pick-up trucks and engine manufacture.
- FGV (a reputable economic think-tank in Brazil) indicated that the Brazilian industrial capacity will grow 14.6% in 2010.
- On June 14, the Brazilian government revised their GDP growth estimate for the country changing it from 6.6% to 6.99%

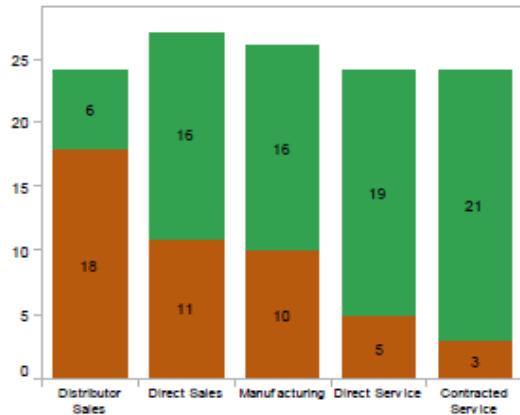
Report on the Results of the Last Webinar



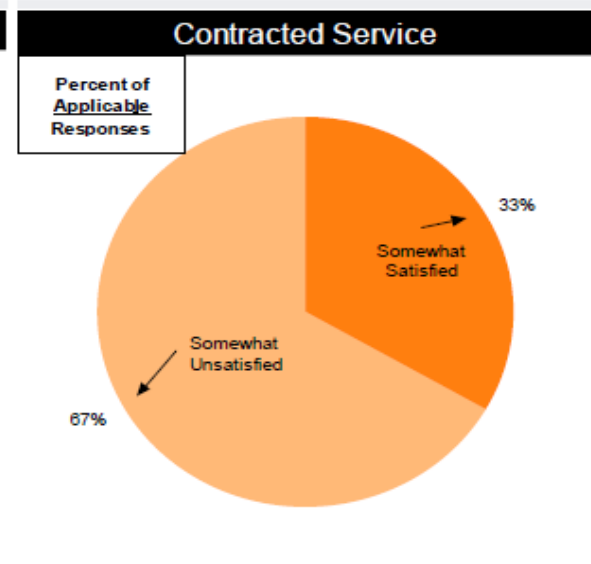
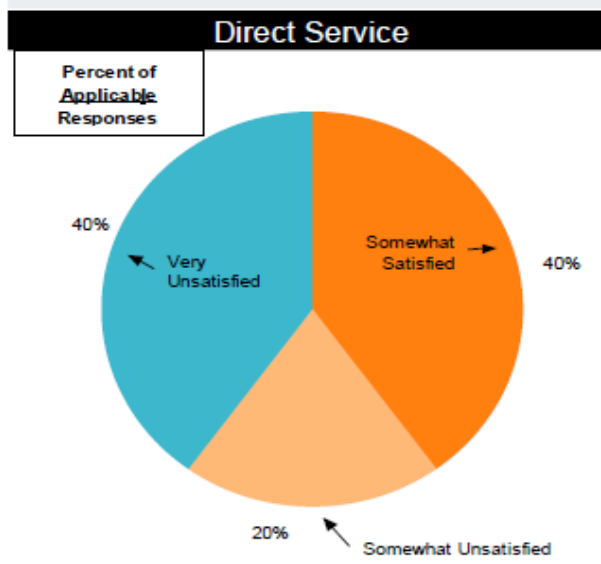
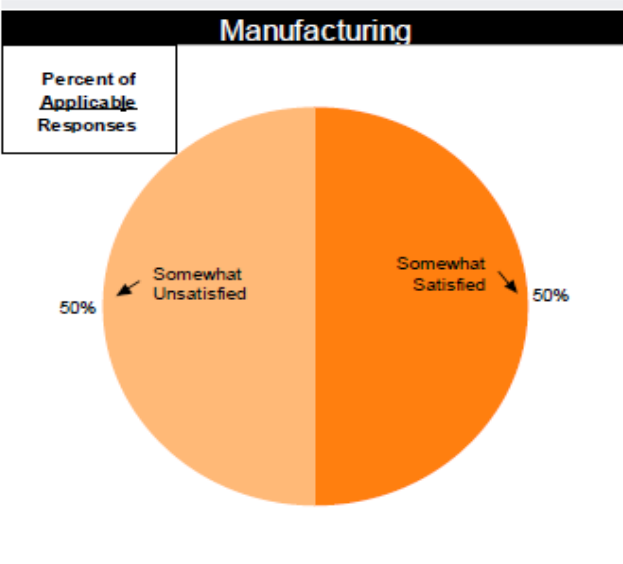
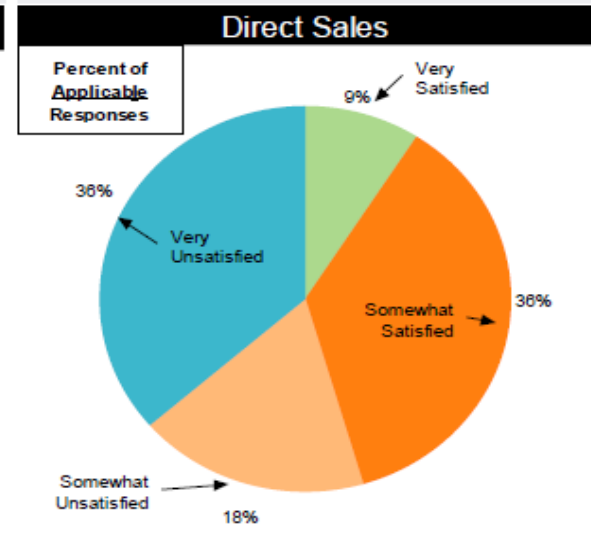
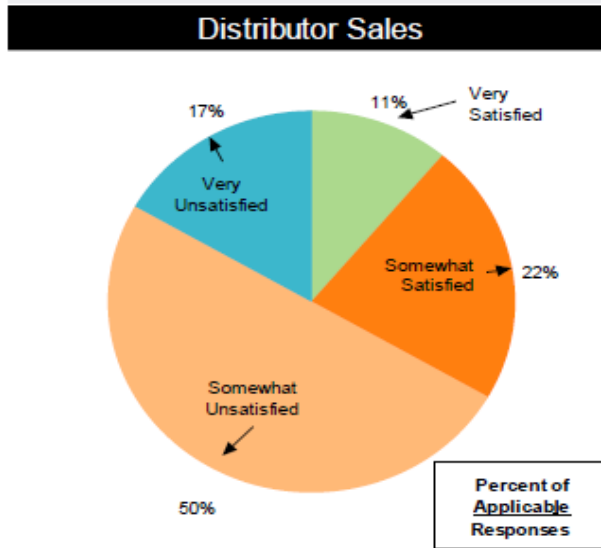
What did you tell us?

How satisfied are you with your current level of engagement in Brazil?

There are five areas for which respondents were asked about the satisfaction of their current engagement in Brazil. Each respondent was asked to rate their level of satisfaction on a scale from Very Satisfied (0) to Very Unsatisfied (3). They answered "Not applicable" if they are not currently engaged in one of the subject areas. The overall average level of engagement satisfaction in Brazil was calculated at 1.7 using the satisfaction scale mentioned above. This indicates that for all areas combined, respondents' satisfaction is between "Somewhat Satisfied" (1) and "Somewhat Unsatisfied" (2).

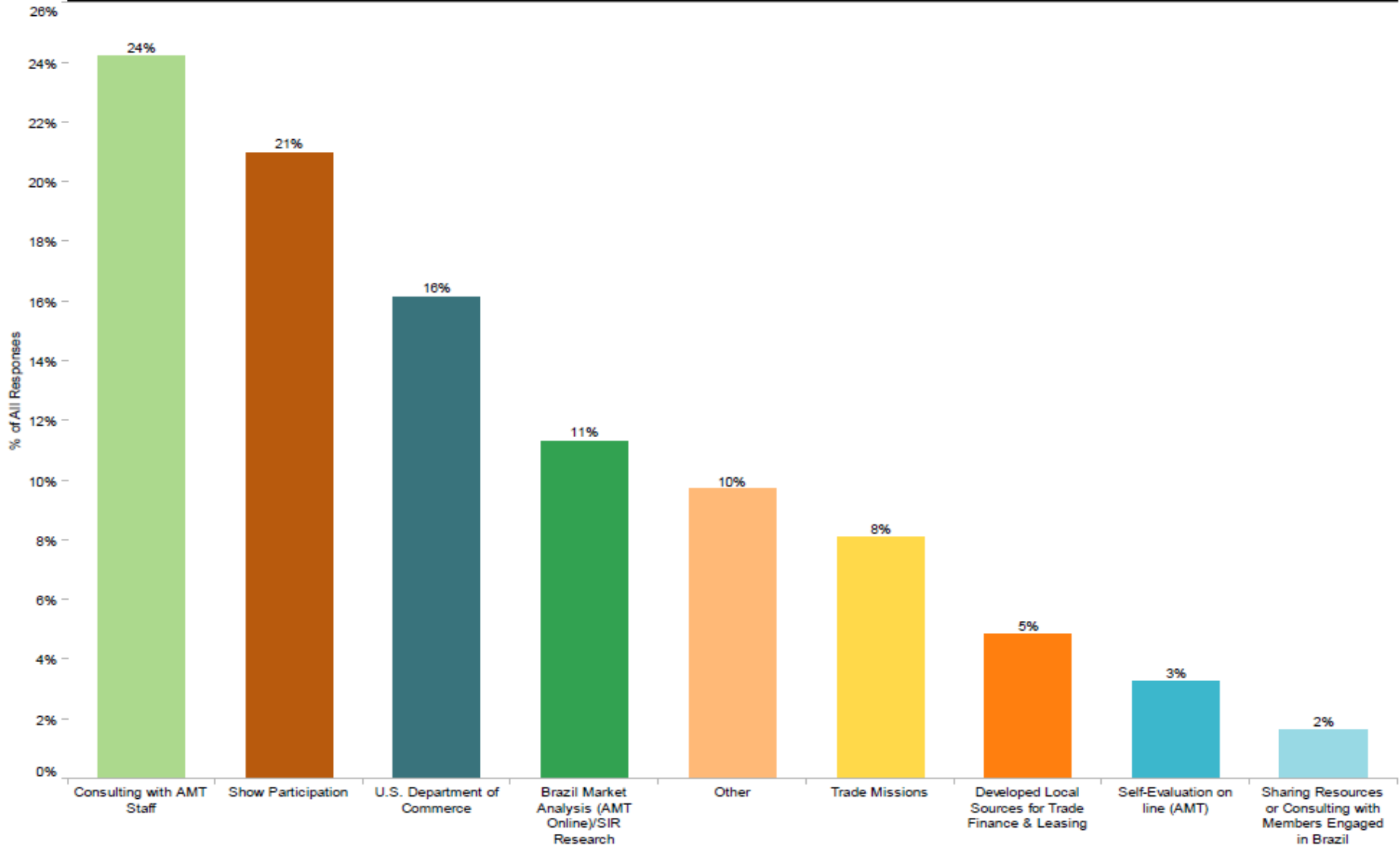


Applicable Responses
 Not Applicable
 Number of Applicable Responses



Members indicate they frequently use AMT as a resource for gathering information about doing business in Brazil. Consulting with AMT staff, initiating SIR research, and using AMT online self assessments account for 38 percent of all responses. However, a very small percentage of members are leveraging their membership in AMT to seek help from other members already engaged in Brazil.

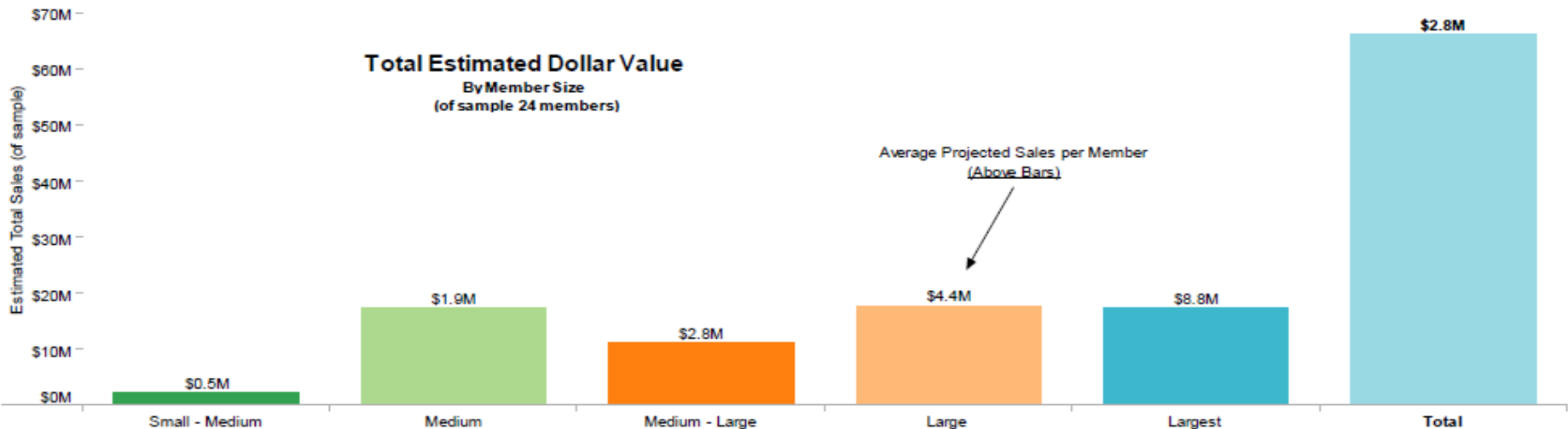
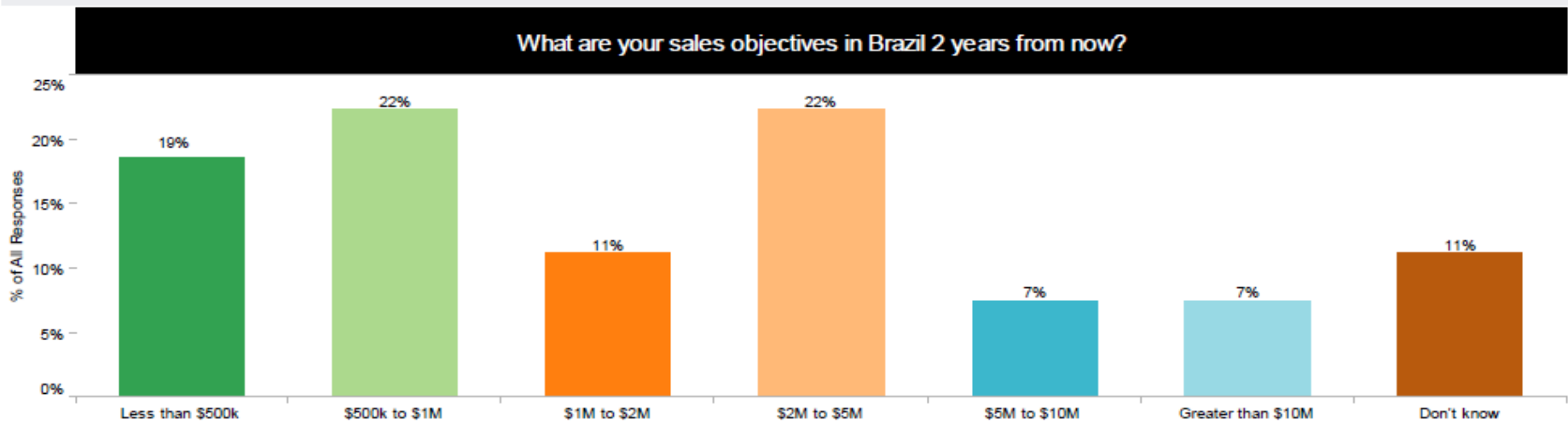
Which one of these resources have you used in the last 3 years? (Mark all that apply)



One would expect to see the percentage of members' by sales goal category decrease as the sale goal categories increase. In the top chart, this holds fairly true except when evaluating the \$1 million to \$2 million and \$2 million to \$5 million sales goal categories.

The second chart estimates a rough dollar value respondents are aiming to achieve. Obviously, the largest member classes expect to achieve the largest sales levels in Brazil within two years time. The average sales level per member increases from \$500 thousands for the small - medium member size to \$8.8 million for the largest member size.

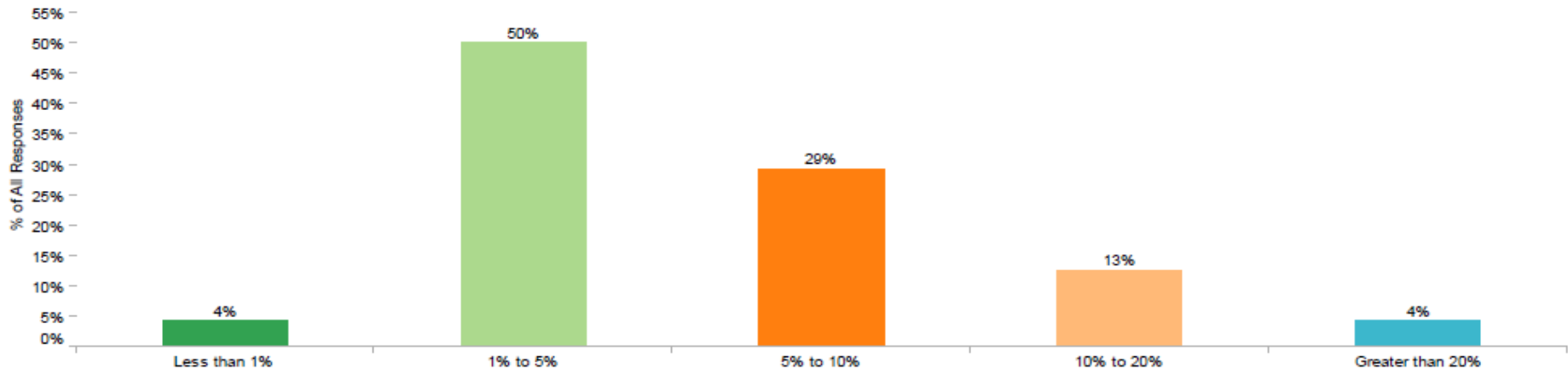
Overall, the average member company expects to achieve \$2.8 million in sales according to the sample number of survey respondents.



Estimates were derived by multiplying the number of member responses with the mid point of the dollar range response choices. Except (\$10 million) was used as the discrete dollar multiplier for the "Greater than \$10 million" category range.

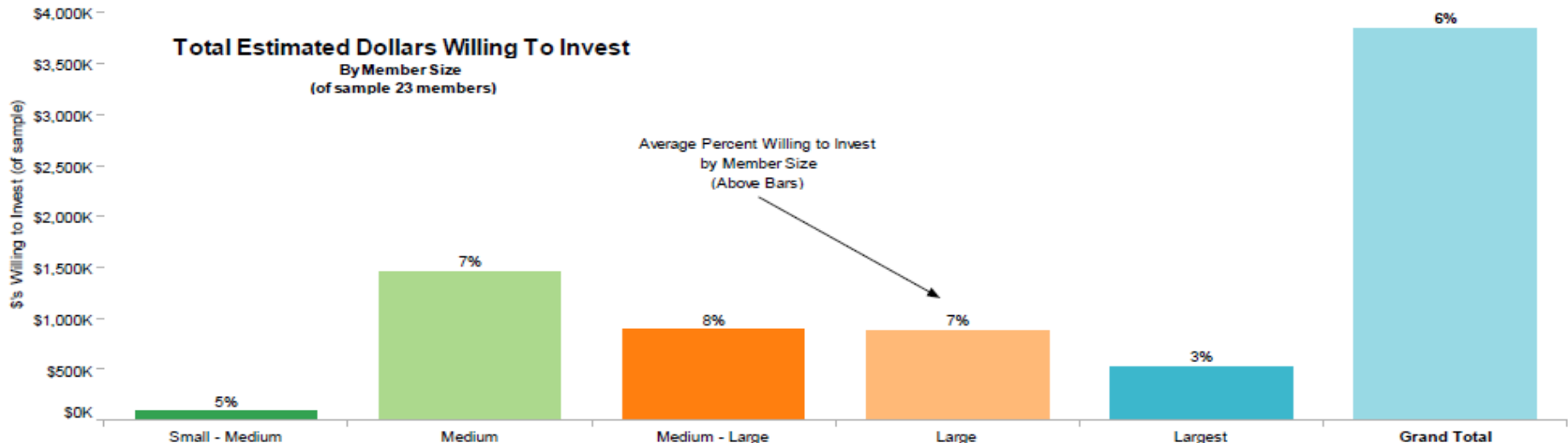
Over 45% of all respondents are willing to invest at least 5 percent of their 2 year Brazilian sales goal. As a group, the respondents indicated they are willing to invest nearly \$4 million representing 6% of their combined 2 year sales goals.

What percentage of your sales are you willing to invest to achieve your sales objectives in 2 years?



Total Estimated Dollars Willing To Invest

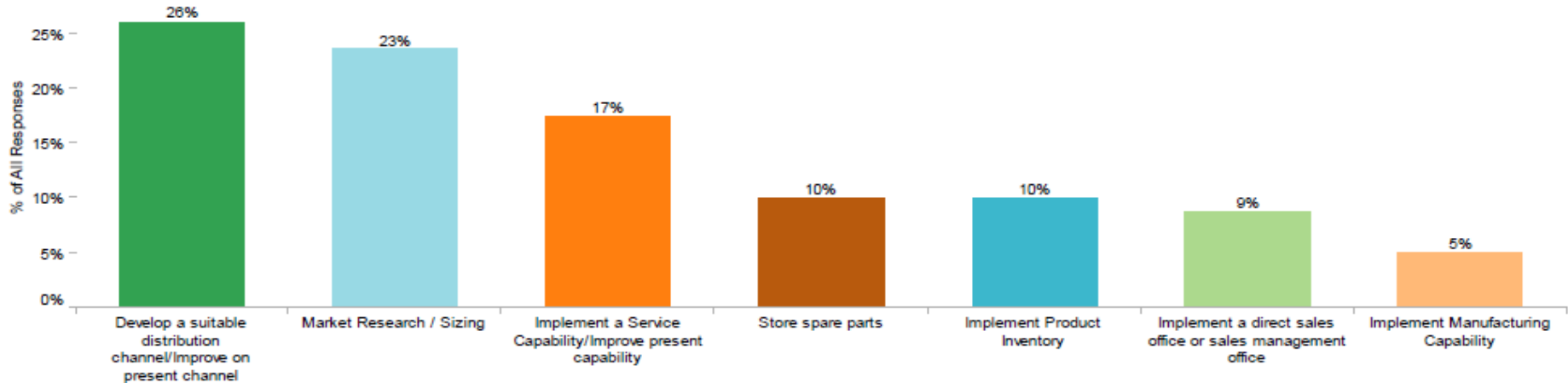
By Member Size
(of sample 23 members)



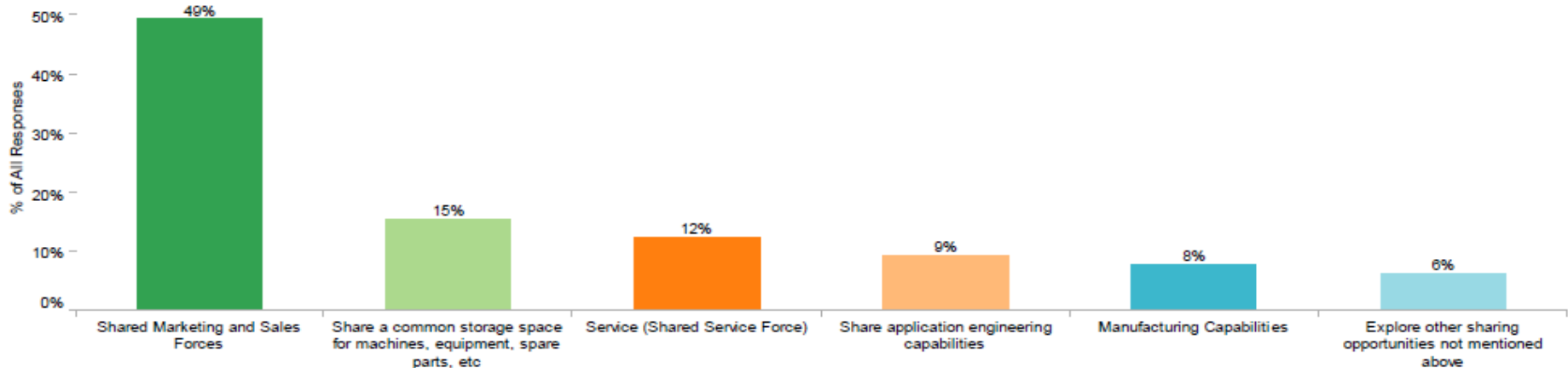
Estimates were derived by multiplying the estimated "2 year sales objectives" with the mid point of the "percent willing to invest" response choice ranges. Except (20 percent) was used as the discrete percentage multiplier for the "Greater than 20%" category range.

Respondents think that developing suitable sales, service, and inventory management resources are very important towards achieving their objectives in Brazil. Interestingly enough, members are overwhelmingly willing to share Marketing / Sales Forces and common inventory storage space with other members. Implementing or sharing manufacturing capabilities is clearly not desired by members who are interested in improving engagement in the Brazilian market.

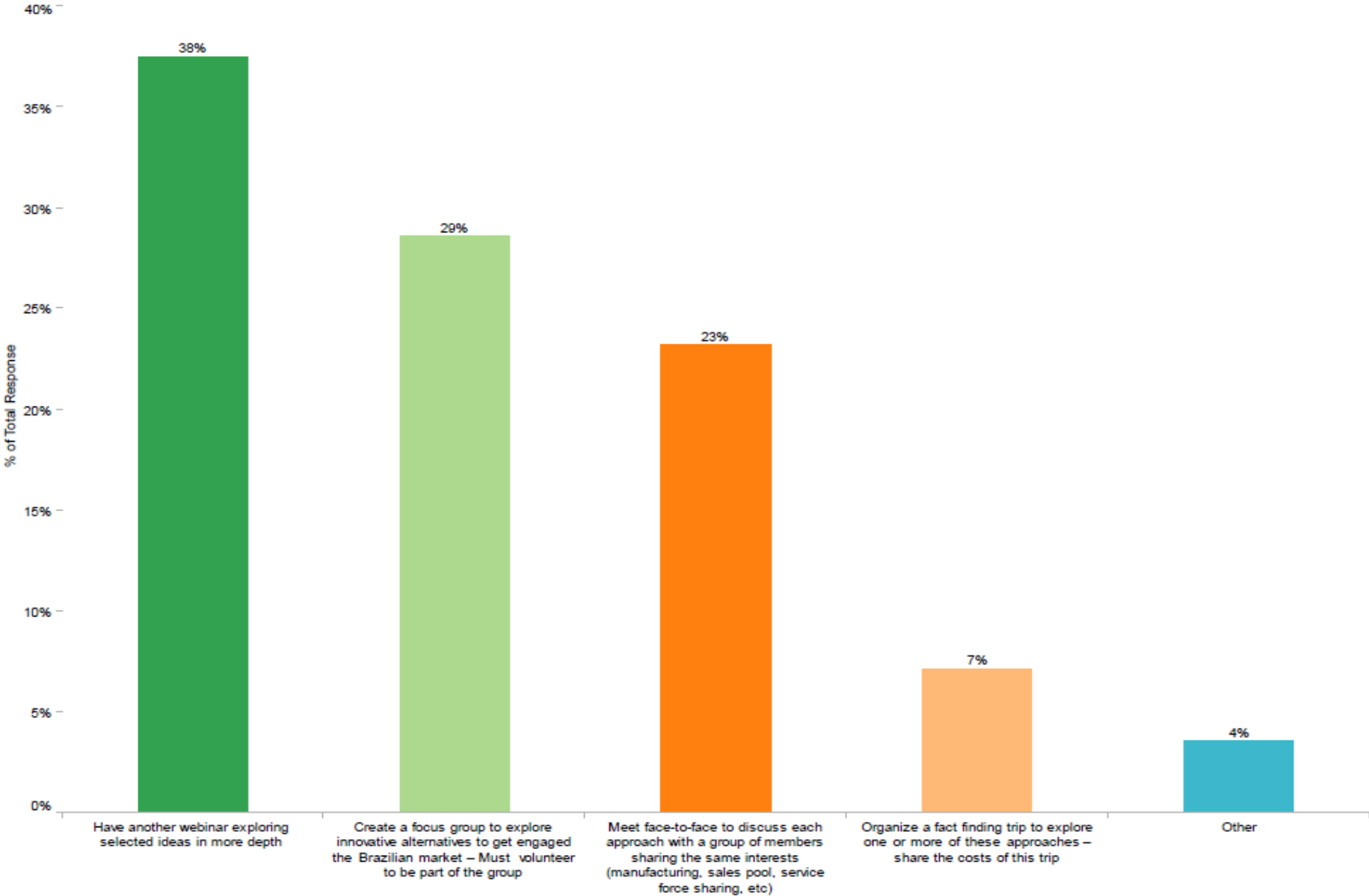
Which resources would you need to achieve your objectives? (Mark all that apply)



Which of these resources would you be willing to share with several other members? (Mark all that apply)



What should we do next? (Mark only 3 options)



What did we learn at
Feira da Mecanica?



Feira da Mecanica – Sao Paulo – May 11-16, 2010

Lessons Learned

- Exceeded everybody's expectations
 - 105,000 visitors
 - Quality inquiries
 - Orders issued at the show

- Market is hot as the 2008/09 slowdown created a pent-up demand
 - Most of the plants operating at capacity
 - Companies learning to do more with less (automation, technology)

Feira da Mecanica – Sao Paulo – May 11-16, 2010

Lessons Learned (Part 2)

- You will not understand the real Brazilian market until you get there and spend time visiting customers
- Financing is of the utmost importance, particularly for products you have competition
- Must be present to win. Customers need to know you are committed to the market
- Local partnership is necessary to navigate bureaucracy and other barriers

Please read the article about Feira da Mecanica in the June issue of AMT News

Feira da Mecanica – Sao Paulo – May 11-16, 2010

Lessons Learned (Part 3)

Brazilian Manufacturers:

WEG, Bardella, Randon, Maxion, Gerdau, Agrale, USIMINAS, Vale, Tramontina,

US Manufacturers:

GM, Ford, American Axle, Whirlpool, GE, Eaton, Johnson Controls, Caterpillar, John Deere, Dana,

German/Swiss Manufacturers:

VW, Mercedes, Bosch, Krupp, Voith, ZF, Magna, Demag, SEW,

Italian Manufacturers:

Fiat, Pirelli, Magnetti Marelli, Brembo, FNH,

French Manufacturers:

Renault, Alstom, Rhodia, Arcelor,

Japanese/ Korean Manufacturers:

Toyota, Honda, Panasonic, Nakata, Hyundai,

Scandinavian Manufacturers:

Electrolux, Scania, Volvo, Nokia,

Established Industries (but growing):

- **Light Automotive**
- **Heavy Automotive (Trucks, Buses!)**
- **Motorcycle, Bicycle**
- **Appliances (TV, Microwave, Ranges, Refrigerators, etc.)**
- **Medical, Pharmaceutical**
- **Housing and Hardware**
- **Aircraft**
- **Packaging**
- **Agricultural and Mining Equipment**

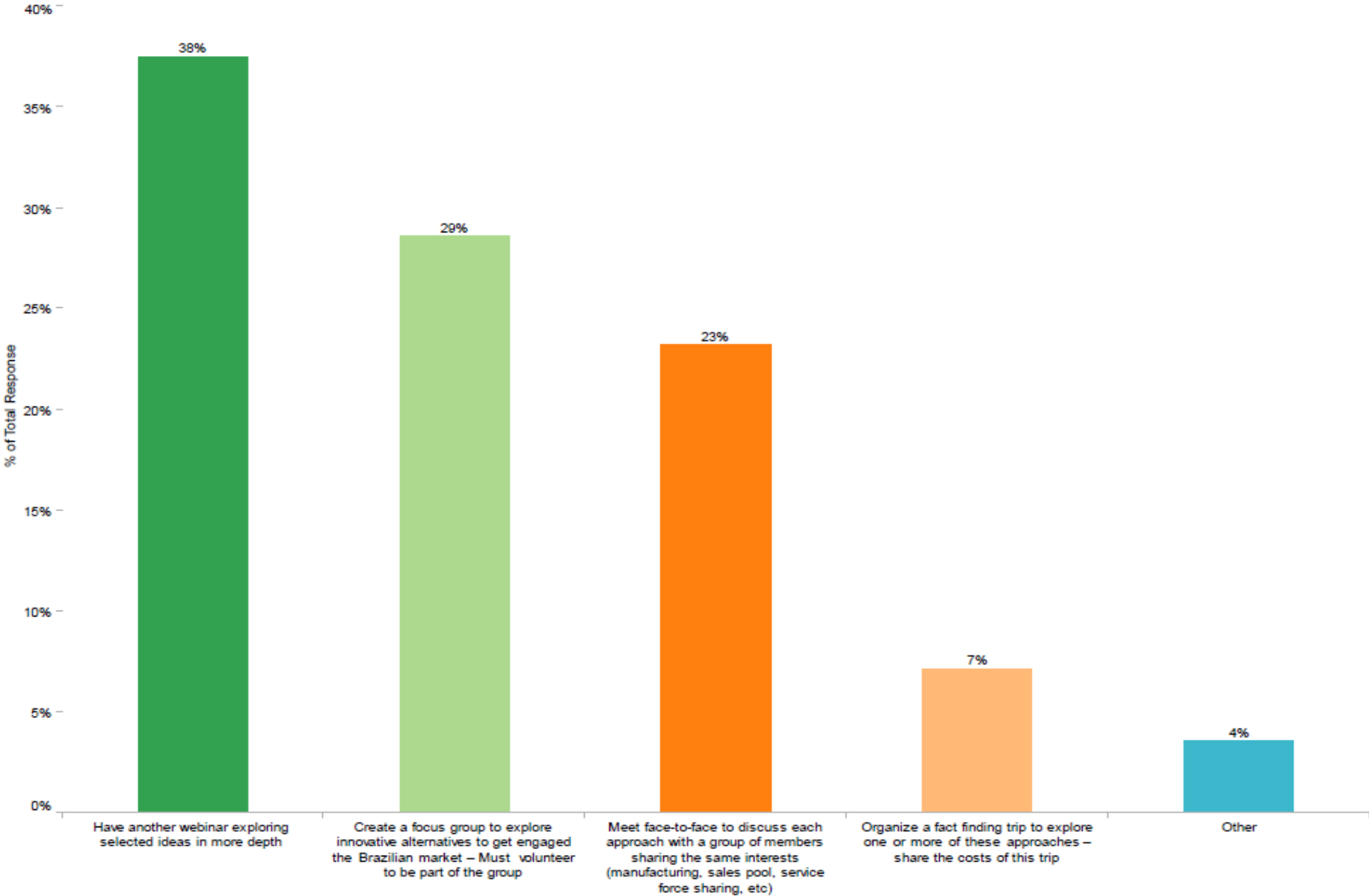
New, Renewed and Growing Industries:

- **Infrastructure/Roads, Ports, Cranes,**
- **Oil & Gas**
- **Alternative Energy (incl. mini-hydroelectric power)**
- **Transportation (Ship Building, Light and Regular Rail)**
- **Plastic Products**

What should we do next?



What should we do next? (Mark only 3 options)



Have another webinar exploring selected ideas in more depth

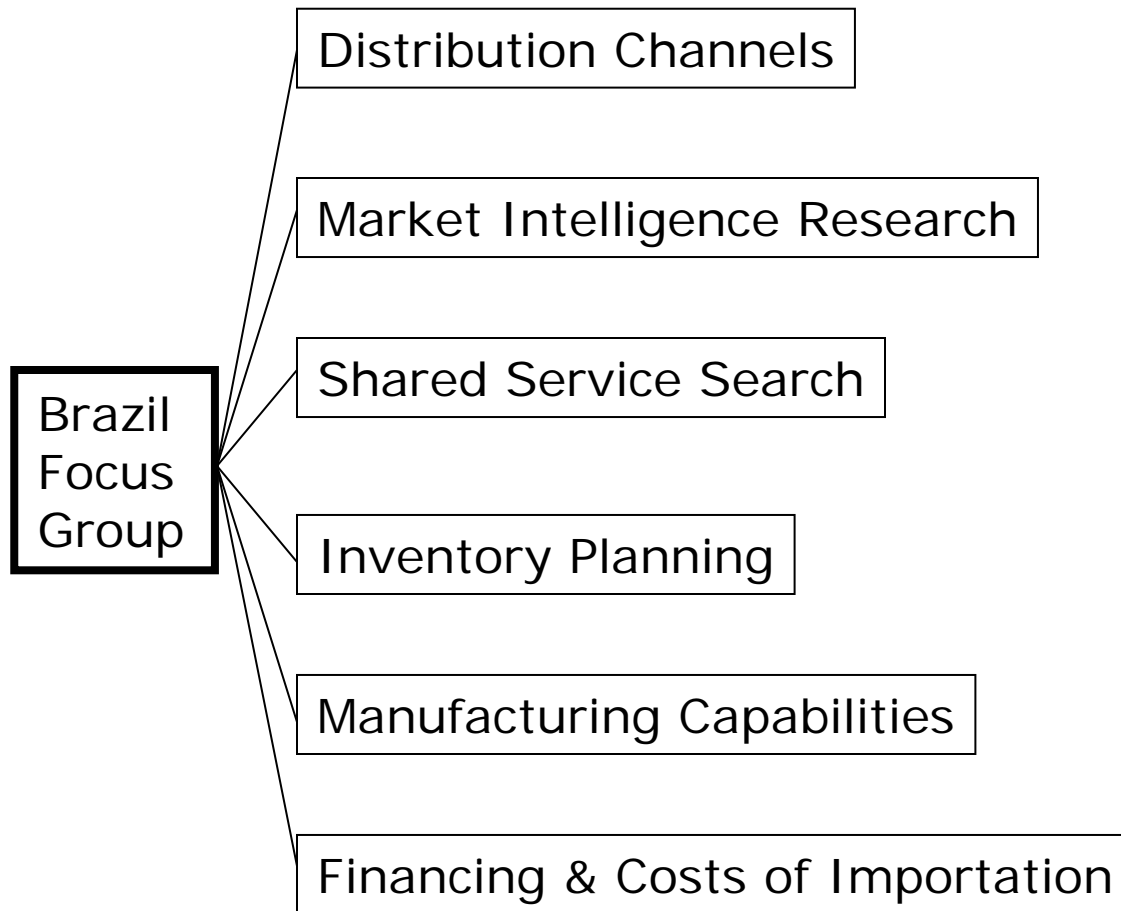
- This is what we are doing today

Create Focus Groups to Explore Innovative Initiatives (We Need Volunteers)

- Identify and Select Suitable Distribution Channels
 - Direct Sales, Regional Sales Management, Appoint Distributors, Lead Finding, etc.
 - Outline Adequate Research for Market Intelligence
 - Customer Lists, Dimensioning the Market, Competitor Intelligence, etc.
 - Outline Shared Service Resources
 - Find Service Sources, Shared Personnel, etc.
 - Inventory Planning (Product and Spare Parts)
 - Finding means for keeping inventory at minimum cost
 - Implement Manufacturing Capabilities
 - Find shared manufacturing capabilities
- + Find Financing Sources
- + Address Costs of Importation

Setup a Webinar for each one of these subjects in a different session
(Week of August 16, 2010?)

Create Focus Groups to Explore Innovative Initiatives (We Need Volunteers)



POLL #1

Meet Face to Face To Discuss each Initiative

- As determined by the Focus Groups

Just as a reminder:

- There will be a breakout session on Brazil at the AMT International Breakfast at IMTS on September 14.
- There will be a session on Brazil (Panel Discussion) during the AMT Global Forecasting and Marketing Conference on October 20-21, 2010 in Orlando, FL.

Organize a Fact Finding Trip

Business Development Trip:

- Late February 2011 (Carnaval is on Mar 5-9)
 - Validate outlook by meeting customers and other sources of market intelligence
 - Meetings with resources for each one of the subjects of the Action Plan
 - Sales calls

POLL #2

Key Marketing Intelligence Sources for Brazil

- ABIMAQ: www.abimaq.org.br
- ABIMEI: www.abimei.org.br
- ANFAVEA: www.anfavea.com.br
- SINDIPECAS: www.sindipecas.com.br
- ABINEE: www.abinee.org.br
- ABEOLICA: www.abeolica.org.br
- USCS: www.buyusa.gov (Brazil)
- AMT: www.amtonline.org (“Research Your Markets – Brazil”)

Future Events in Brazil

<p>July 27 to 30, 2010 13ª FEISSECRE - Industrial Technology Exhibition of São José dos Campos Promotion: Assecre/Textopp Pavillion of Núcleo do Parque Tecnológico - São José dos Campos - SP - Brazil www.feissecre.com.br</p>	<p>October 5 to 7, 2010 USINAGEM 2010 Promotion: Aranda Editora Expo Center Norte - Sao Paulo - SP - Brazil www.arandanet.com.br/eventos2010/usinagem</p>		
<p>August 09 to 13, 2010 FEBRAMEC - Brazilian Metal Mechanical and Industrial Automation Fair Promotion: EFEP - Empresa de Feiras e Empreendimentos Promocionais Festa da Uva Exhibition Center - Caxias do Sul - RS - Brazil www.febramec.com.br</p>	<p>November 9 - 11, 2010 BRAZIL AUTOMATION - ISAZ2010</p>	<p><u>USA PAVILION?</u> May 23 - 28, 2011 FEIMAFE 2011 Organizer: Reed Alcantara Parque Anhembi, Sao Paulo, SP www.feimafe.com.br</p>	
<p>September 13 to 16, 2010 RIO OIL & GAS EXPO Promotion: IBP - Instituto Brasileiro de Petróleo e Gás Rio Centro Exhibition Center - Rio de Janeiro - RJ - Brazil www.rioilegas.com.br</p>	<p>November 09 to 12, 2010 MECMINAS 2010 - Exhibition of Metal Mechanical Industry Promotion: Minasplan Ltda Expominas Exhibition Center - Belo Horizonte - MG - Brazil www.mecminas2010.com.br</p>		<p>October 18-21, 2011 Corte e Conformacao (Metalforming & Fabrication) Organizer: Aranda Editora Expo Center Norte - Sao Paulo - SP - Brazil http://www.arandanet.com.br/eventos2011/cm/index.html</p>
<p>September 22 to 25, 2010 EXPOMAC - 18ª Brazilian South Fair of Metal Mechanical Industry Promotion: Diretriz Feiras e Eventos Ltda Expotrade - Pinhais / Curitiba - PR - Brazil www.expomac.com.br</p>			

USA Pavilion at FEIMAFE 2011



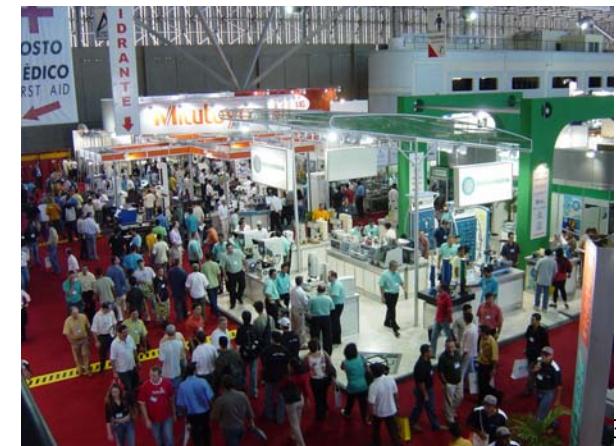
Sao Paulo, Brazil
May 23-28, 2011

- Shared Island
- Individual Booths
- Full Logistics' Support
- Full Marketing Support
 - Prior
 - During
 - Post
- Customer Lists
- Invitation Lists
- Meetings Schedule
- Financing Sources

"A pavilion is bigger than
the sum of the parts"

Promote Your Name

Let us know now!
Deadline June 30!





Question and Answer Session

Please post your questions in
the Chat Area of the Screen

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