

# *SCS Water Billing & Collection Performance Contracting Project*



Confidential Business Summary regarding an Investment  
Opportunity



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## I. EXECUTIVE SUMMARY

### ***Introduction***

Billing and collection system-wide losses for water utilities worldwide average 15%. These losses correspond to the non-physical losses in water due to insufficient and inadequate metering and billing systems. In Brazil, estimated metering and billing losses compound to 20% on average. Public water utilities lack the political will and culture to maximize revenues through loss reduction – a trend only recently explored. The company concept, as explained below is to reduce losses and share the upside with water utilities, through investments in an organic metering/billing system developed by the project sponsors. The trend towards performance contracting – proactive opportunities, generated by entrepreneurial executives – is a real one, driven by Brazil's experience with the efficiencies that technology and management bring to the water business.

We invite strategic investors to participate as equity investors into the newly created **SPC (Special Purpose Company)**. Equity will be limited to a 51% stockholding, with an existing constitution of partners. Funding for the up-start is already channeled through existing shareholders; yet, successful implementation of the business plan calls for deployment of the product across several municipalities. In light of this, we offer this opportunity for direct investment into a holding vehicle, which will retain several municipal contracts.

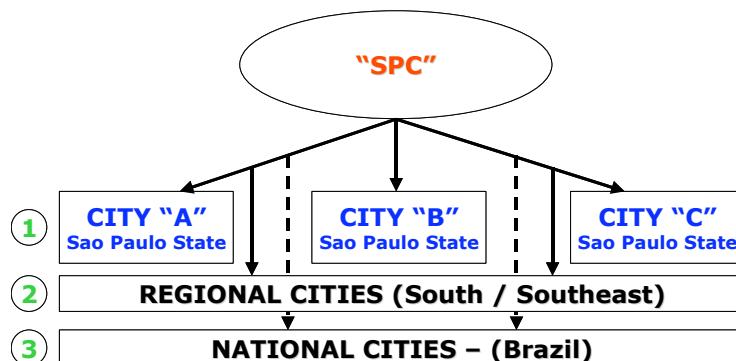
Timing for the project is favorable, as Brazil is approaching the water business in 2002 (a presidential election year) with a dual need. Managers within utilities are complaining that their budgets have dwindled and that the federal government will not provide the needed funding for investment in system expansion. At the same time, municipalities across the country have a growing need for measurement-based capabilities that a service such as offered by **SCS Special Purpose Company** (referred to as “**SPC**” throughout the document) can supply.

The **SPC** will use metering technology through a quickly deployed, cost-effective and high quality service to address the commercial losses in water billing. The **SPC**’s revenues and capital expenditures are success-based and flexible, following a value proposition model copyright aimed at efficiently capturing municipal demand through a results-oriented approach.

### ***Company Concept***

The **SPC**, owned by a local investor, **SCS**, will be an alternative for city governments to provide better billing and collection services, thereby increasing their water company revenues. The project is based on a performance contract model with a base revenue stream on shared savings along with service installations. The **SPC** will change existing metering systems while integrating proprietary metering management software with that of the municipal water utility, maintaining on-line communications between meter readings and the municipal water authorities billing system.

The **SPC** will be the first operator to offer integrated solutions that will initially be customized to mid-sized cities in the state of São Paulo. The combination of fieldwork management services with metering technology and financing will help cities to remove roadblocks that currently obstruct their ability to reduce commercial losses in water billing cycles. Future plans involve expanding the **SPC** services nationwide and to all major Latin American markets as one common brand name/entity.



## **Company Objective**

The **SPC** objective is to expand the billable network of municipalities by establishing approximately 4 million residential connections in 10 years in the South and Southeast regions – through new meter installations and substitutions; focusing on cities averaging 100,000 connections and where the estimated monthly water commercial losses are high.

The **SPC** will begin operations in cities that average a much higher GDP per Capita than the national average and whose water costs and tariffs ensure high recoverable margins as measured by the “K-coefficient” defined in the Risk-Reward pricing formula presented in the Revenue Model section in Section IV – Marketing & Sales Plan.

## **Key Strategies**

### ➤ Focus on mid-sized municipalities in the State of Sao Paulo

The focus on shorter-term performance contracts successfully address four of the sector's most pressing problems:

1. A legal / regulatory framework that is undefined and ambiguous, with BOT (Build-Operate-Transfer) and concession contracts all under legal disputes, coupled with an inexistence of private management contracts;
2. Technology-poor solutions and implementation across the sector;
3. Endemic shortfall in new investment (given the political difficulties of raising tariffs, and the lack of federal government financing); and
4. The sector's inability to invest in needed coverage expansions – particularly due to short-term financial obstacles.

By using the latest technology and operating only in pre-qualified high-density markets, the **SPC** believes it can attract a significant share of the mid-sized cities based on performance achievements at competitive costs and a full scope of integrated business solutions with superior service.

### ➤ First to Market as a Full-Service Provider

The **SPC** will capitalize on a “window of opportunity” by becoming the first full-service turnkey solutions provider in the selected cities, tied with integrated technology, Original Equipment Manufacturer (OEM) participation and appropriate lobbying. The pre-screened target client base will allow the **SPC** to shorten its learning curve with each new investment, rapidly achieving scale, brand recognition and increased market presence. The **SPC** will progressively transition the overall water metering and measurement market in Brazil towards a “pull”-model – with most qualified cities proactively seeking the **SPC**'s services following the initial success stories.

### ➤ Partnership with OEM

By involving the Original Equipment Manufacturer (OEM), **ACTARIS**, as a strategic partner at the beginning of the project, the **SPC** mitigates risks of unpredictable equipment supply and services, thereby maintaining consistent costing and profitability scenarios throughout the life of each municipal project. By exploring a shared-risk model with the OEM partner, the **SPC** further guarantees a direct involvement of all stakeholders in the success of the operational process. The replacements of current measurement systems with that of the OEM's will further enhance full system control of the **SPC**, maintaining a controllable preventive solution against future water losses.

### ➤ Political Leverage

The direct marketing and sales involvement by the **SPC** with each municipality during the Prospecting and Pre-Qualifying processes, gives it a competitive edge towards a successful “hands-on” sales approach across numerous other municipalities. Continuous interactions with politicians will further strengthen current management lobbying, speeding up the prospecting and approval processes moving forward. It is understood

that once the appropriate political backing is received in each municipality, most of the obstacles established by other city officials and the business community are successfully overcome. *The SPC has obtained Memorandum of Understandings from eight target cities, and has already performed a pre-feasibility assessment.*

#### ➤ **Bidding Process Copyright**

The **SPC** plans to revolutionize the water measurement systems in each targeted municipality using its unique and copyrighted bidding approach. The process involves “field study” and “solution implementation” phases with several distinct economic, financial, technical, legal and fiscal pre-qualification criteria developed for the length of the commercial contract.

#### ➤ **Socio-Environmental Development and Support**

Management is driven by the environmental benefits of water conservation. The **SPC** will provide the necessary fieldwork and measurement technology to ensure municipalities improve water resource management, resulting in efficient water use and helping avoid wasteful water use. This socio-environmental paradigm shift that “*it is not OK to waste water*” is strongly supported by the **SPC**’s management team’s conviction and reflected as a critical isolating mechanism from other purely commercial ventures. This is highlighted in the **SCS** website [www.poupeagua.com.br](http://www.poupeagua.com.br) ([www.economizewater.com](http://www.economizewater.com)). The goal here is to address a very tangible problem in Brazil – as the country moves forward to promote conservation. This is being implemented by a new National Water Agency – ANA, whose responsibility involves reverting the country’s current predicament, through a fiscal responsibility law 9.433 of January 1997:

Article 1, 1: “Water” is a good of the public domain;

Article 2, 1: Affirm that the current and future generations will receive the necessary water requirements, at adequate quality standards to the respective uses;

Article 2, 2: Rational and integrated utilization of the hydro resources, including water transportation, aimed towards sustainable development.

### ***Investment Highlights***

#### ➤ **Experienced Management Team**

The management team has over 20 years of experience in the water industry along with running several successful ventures in Brazil, Latin America and North America. The management team will initially be comprised of highly regarded leaders of successful operating, manufacturing and service companies such as **SCS**, **ACTARIS**, **EMBRASC** and **CG/LA**. A well-defined strategic participation of each player is a critical element to the success of this project.

#### ➤ **Pre-aligned strategic partners**

The **SPC** will begin its projects with pre-arranged strategic alliances with equipment and technology vendors – **ACTARIS** – as well as service providers. This will allow the **SPC** to begin offering integrated solutions at the lowest costs and with minimal initial capital expenditure. These partnerships allow the **SPC** to focus on streamlining its operations and replicate successes across other municipalities, without looking for new partners along the way. Future projects are not limited to initial partner selections and may be changed at anytime.

#### ➤ **Limited Competition**

The **SPC** has a differentiated approach towards water metering that dispenses any other type of direct competition. The strong focus on “fieldwork” is a critical element in the overall integrated solution offered by the **SPC** to the municipalities. While other metering vendors are reacting to bidding / tenders by water utilities, contracts have not been successfully structured for a shared savings model. The **SPC** is proactively targeting both government and private concessionaries clients offering a full service solution with “measurable” savings resulting in discrete economic and social benefits.

➤ **Inroads for Partnerships of Future Management Contracts**

The level of detail and hands-on participation involved during the course of each project will provide much needed updated municipal information for future municipal management contracts. The **SPC** views itself as a strong partner for investors willing to expand beyond the scope of this project in the future, as several new management contracts will arise as a direct consequence of the performance contract measurement activities in each city.

➤ **Quantifiable Return On Investment (ROI) by City**

The **SPC's** capital expenditures are success-based and flexible, efficiently capturing customer demand. A combination of fixed and variable costs are carefully aligned to produce quantifiable investment returns by city. With an initial 2% calculated risk investment of meter costs dedicated to feasibility analysis, the project offers a Pareto's Law risk mitigation plan where 50% of investments are built into the bidding process, producing 80% of the results.

➤ **Making a “Social Difference”**

A subtle yet important social message is directed to those investors focused on “making a social difference” while maintaining a healthy return on investment. The **SPC** believes the water performance contracts are capable of generating a nationwide “movement” supported by federal political groups, state enforcement agencies and local communities aimed at:

1. Reducing potable water wastage through a concerted effort of city officials and citizens.
2. Re-directing water conservation gains (of which the Commercial Losses are measured by the **SPC** itself) towards new public utility programs resulting in several Health benefits coupled with additional Potable Water to the currently un-served population.

According to ANA (National Water Agency) sources, for every ONE REAL “spent” in potable water treatment and wastewater collection, there is a gain of FOUR to FIVE REAIS that are “not spent” in health related issues. Poor water treatment and wastewater collection services today lead to avoidable wastage, energy shortages and result in hundreds of water-related diseases and sickness. This poor water quality affects the very same population that uses public hospitals and healthcare facilities, showing a direct correlation between water and healthcare investments.