

## Introduction

Three weeks ago the idea of starting a mouth mask production line was born. A journey started where we acquired knowledge about all the aspects of mask production. We got funded for two production lines and received great support from partners like Philips, KLM and BYD. The machines have been purchased and are now being shipped to our production location in Arnhem where we expect the first production line to arrive around April 22 and the second line a few days later. We expect each line to produce 50,000 masks per day, there is however a comfortable headroom given the supplier's specifications.

De Mondmaskerfabriek B.V. is a subsidiary of Refugee Company, a social enterprise/foundation with a strong track record. This combination is particularly well suited to engage in mouth mask production. The foundation has many corporate relationships that help us to get the things done properly like Philips, Akzo and Booking.com. The company is based on sound commercial principles and has attracted a top-notch team to lead the operation.

## Summary

De Mondmaskerfabriek is on track to become the first surgical mask producer in the Netherlands. The company is funded to setup and operate two mask production lines with an output of 50,000 or more masks per day per line.

The company aims to become instrumental in changing the supply chain of critical protective equipment in health care. Hence, the production must be local to avoid supply disruptions and agile enough to ramp up at a crises like the corona outbreak. For the short term the aim is to quickly become a relevant solution for the current crisis. Starting with two lines and grow the capacity with more production lines and diversify. In the post crisis phase, the aim is to improve the supply chain by introducing innovative, more environmentally aware, circular products and to strengthen the delivery guarantee with strategic stock and vertical integration.

## Proposal

Mondmaskerfabriek will produce and deliver type IIR certified surgical masks to the LHC with a 35% prepayment condition. A daily minimum production is guaranteed. Extra production lines will be purchased to fulfill the order with option B and further.

	Size of order in items	Price per item	Surcharge depreciation phase	Reserved production per day
A	1.000.000	10,1,c	10,1,c	60.000
B	10.000.000			160.000
C	50.000.000			360.000

- A. With two production lines, 60% of the capacity will be available for the LHC;
- B. With four production lines, 80% of the capacity will be available, it will take three weeks to ramp up production to promised capacity;
- C. With eight production lines, 90% of the capacity will be available. It will take nine weeks to ramp up to the agreed capacity.
- One week has 7 days: option C adds up to 2,520,000 masks per week.
  - For option B the company will purchase two extra production lines and for option C, six extra production lines will be purchased totalling respectively 4 and 8 lines. This is done consecutively in batches of two machines and has a lead time of three weeks per batch. Daily production capacity will ramp up accordingly.
  - Prices stated are not included a bidirectional raw material surcharge. Our listed sales prices are set to a raw material (meltblown polypropylene) purchase price of 150,000 RMB / metric ton. Current price levels are volatile in the current market and our sharp pricing force us to link the purchase prices directly to the sales pricing.
  - The agreement starts when the <sup>10.1.c</sup> prepayment is received. The delivery is invoiced per week and must be paid within 7 days, other arrangements are possible but must be covered by an increased prepayment. Once the company is out of the startup phase, a 30 day payment term is acceptable.
  - The first items sold will have a surcharge for a rapid machine depreciation (the second price listed in the table). Once the depreciation ends <sup>10.1.c</sup> the surcharge will disappear.
  - We are now negotiating the purchase of meltblown raw material from BYD, who is expecting to start production end of April. The price will be considerably lower than the aforementioned 150k RMB / ton. If this or any other purchase will lead to better prices, we will reduce the price accordingly<sup>1</sup>.

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<sup>1</sup> The surcharge will work in both directions: once the price falls below the set price, a reduction will kick in.