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PRESENTATION

Jennifer Beeman *- A. Schulman, Inc. - VP, Corporate Communications & IR*

Okay, all right, [Walsh], do you want to get going?

Unidentified Company Representative

Yes.

Jennifer Beeman *- A. Schulman, Inc. - VP, Corporate Communications & IR*

Okay, all right, I think we'll get going. We've sufficiently packed this room. So, good afternoon, thank you for being with us for A. Schulman's Investor Day or Investor afternoon, if it's more appropriate. I'm Jennifer Beeman, I'm the Vice President of Corporate Communications and Investor Relations for A. Schulman. Thank you for taking the time and effort to be here today. I know some you are not local, so we truly appreciate it. We will move through kind of our agenda quickly, cautionary statements, if you care to read it, you have a hard copy at your desk for nighttime reading, non-GAAP.

Okay, so we're going to try and move through a fairly quick agenda today; lots to pack in, in a little bit of time. We will start with comments from Joe Gingo, our Chairman, President, and Chief Executive Officer. As I like to say, the new boss is the old boss. So Joe will be starting up with some comments. Then, we will move to Gary Miller, our newly appointed Chief Operating Officer. And then, you'll have an opportunity to meet John Richardson here at the end. John is our new to Schulman's CFO. So you will hear from him. And then we will move, hopefully within an hour, to our panel discussion, which will feature our senior vice presidents of the regions. You will hear a little bit about their opportunities and challenges.

And then of course, we'll be able to take questions from the room. And then we'll move over to the room right across the hallway here for cocktail reception. We will serve a little bit of food, and you will have a little bit of casual interaction with us.

So, with that, I will turn it over to Joe.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Thank you, Jennifer, and thank you all for coming. We really appreciate it. Make sure I got it [right]. Some of you know the story of A. Schulman and some of you don't. So we're going to have a few slides at the start that are unfortunately going to be repetitive for a few of you, just to bring everybody at the same level.

Schulman is a compounder of plastics. We fundamentally do not make any end products. We make intermediaries that are sold to people who make an end product. So we take a polymer or a resin, and we add additives, we add fibers and other reinforcements, and we make a finished compound. That finished compound is then sent two ways: it goes into products that are 100% made of the compound, so it's 100% of the finished product; or it goes into another product, where it's 5% to 10% of the finished product. And we will go through a little bit of where -- Gary will discuss what kinds of products those are. But, really, it's the same business. Take a resin, take a polymer, put an additive into it, make a pellet, make a sheet and sell it to someone, and they make a product.

We currently have six product families. Two of these product families, Masterbatch Solutions and Engineered Plastics, represent around two-thirds of our total revenue dollars in many markets; the two largest of which are Packaging and Mobility. Sales by segment, 49% of our sales are in Europe, and you might say, gee, that's a large percentage. When I took over in 2008, 67% of our sales were in Europe. So we have done a little bit of diversification. My goal, somebody like Rosemarie will remember, was to get it under 50%. And so we've got it just barely under 50% at 49%. We have one global group and that is our Engineered Composites group, and that group is 8% of our sales.

This is a look at our performance from a market cap perspective from 2009 to 2016. And what you can see is a fairly steady progression, and this was accomplished through 10 bolt-on acquisitions. And we grew the company in a very slow growth market, and we had the benefit of synergies, both plant consolidations and purchasing, as we made these acquisitions. The final acquisition made, which was done the year after I left as CEO, was the Citadel acquisition. Obviously looking at the chart, you realize something happened, and I'm going to try to explain what that was.

A lot of you have asked us why did we acquire Citadel. Well, Citadel actually fit three significant roles for us. First of all, half of Citadel was in our Engineered Plastics business, which is nothing more than a large bolt-on, so we could take the advantage of the procurement and footprint savings. We also added Engineered Composites, which gave us a new growth platform but still the same type of business. Primarily, we made a sheet versus making a pellet but sold to somebody who made a product, and it was a reinforced plastic.

Second it did significantly enhance our North American presence, and that is a significant reason why that's 49% versus 67%. You say, well, why was that important to us. The last year, I was at Schulman in 2014, the euro went from 1.35 to 1.10. Europe made their budget that year, and the hit to my P&L was unbelievably significant.

So, we needed diversification geographically and also we felt that the Engineered Composites

component would give us significant presence in high-growth markets. So, significant overlap in customers, products, channels, so we felt this was a great synergistic acquisition which gave us a new growth platform.

Unfortunately, in approximately nine weeks, we discovered fraud, and I mean fraud on a large scale. One of the companies that Citadel acquired was called Lucent, and there was discrepancies between the lab data and certifications not only to customers but to Underwriters Labs, and this cost us in 2016 $12 million. We have operationally remedied the situation.

However, we had to take an impairment of almost -- of over $400 million non-cash in the fourth quarter of last year or fiscal year, which ends in August. And this was largely due to the Lucent fraud and the lower output for oilfield services, which were a significant portion of the composites business. The only positive from a significant negative was that, obviously, we reduced the amortization expense, which gave us 3% improvement in share price in the fourth quarter and will give us a $0.12 improvement in 2017. But we would prefer that we would've gotten that improvement in some other way.

We will continue to integrate Citadel's Engineered Plastics division. We are continuing to consolidate our Evansville operations. We had originally estimated that consolidation would've been done at the end of our fiscal year ending in August -- or excuse me, the end of the calendar year, this year, December. We now anticipate that it will be at the end of the fiscal year. We will still receive the $9 million worth of synergies.

We continue to grow the Engineered Composites globally. We have a lot of faith in that platform. In fact, we have announced a $5 million expansion in Germany, which will allow us to provide a range of glass and carbon fiber sheet products to the German market.

Let's take a look at 2014 when I left to 2016 when I came back. And I think everything is relatively the same; EPS is a little different. But the most significant difference on the chart is the leverage. At the entire time that I was at Schulman, the leverage never exceeded 1.5x, 1.6x. The leverage now is 3.98x due to the Citadel acquisition. So that changes our path going forward for the short term.

What's my goal? I have a two-year contract and a one-year option at the benefit of the company, the company can exercise that option. So my goal is two-fold, we got to regain momentum. And what do I feel is the biggest thing I've seen since I came back? I don't see the sense of urgency that we had when I left. There's little more complacency. So my focus has been regaining the momentum and done with a healthy sense of urgency, and reset the business portfolio, Gary will talk about much of this; reexamine our go-to-market strategy; refocus on customer engagement; continue, which we've always, done our cost streamlining and manufacturing footprint consolidation. And our goal is to get the results that we have from a historical performance level.

What have we done? Management changes at Schulman, I've made Gary Miller, the Chief Operating Officer. Gary was our Chief Procurement Officer. You'd say, why would you put the chief procurement officer to chief operating officer? Seventy percent of every revenue dollar that comes into A. Schulman is spent on a raw material purchase. Purchasing knows better than anyone else what's going on in the operations of the company. In addition, Gary ran the supply chain for us, so he had both aspects.

Frank Roederer was the head of our -- he was the General Manager of our Engineered Composites Group, the global group. Prior to that, he was the head of our Masterbatch business in Europe, which is the largest single business that we have. I then think Frank had enough to do, so I actually -- and since the U.S./Canada was an easy assignment, I decided to add that to Frank's role. And so Frank has the total responsibility for operations in U.S., Canada, and globally for Engineered Composites. It might sound a little silly until you realize 90% of Engineered Composites are in U.S./Canada. It gives us a nice operation to streamline the back office. And finally John Richardson became our Executive Vice President and Chief Financial Officer.

So, we brought in Citi. And a lot of people have asked me why did you bring in Citi? Well, the prior year, we had changed our guidance by $0.70, and I couldn't believe that a lot of you had faith in our numbers. So, I thought the best thing to do would be get a third-party to take a look at what we're doing. And what Citi did for us, they vetted our plan, they challenged our plan, they validated it, and in conjunction with our management team, they refined the budget because one of our goals is to make sure the numbers we present this year are achieved. They met with 30 segment and business unit leaders face to face to go through this process to discuss all of their assumptions and their forecast. The goal was to verify our market intelligence, conduct a deep assessment of our underlying assumptions, and define the path forward not to sell the company.

Now, we're going to build on what's right. We have great processes and product technology, strong global brand, long customer relationship. Ever since I've been in this company, I've been amazed by its free cash flow and its ability to pay off debt. We have implemented pricing tools to get pricing discipline and we're successfully gaining market share in our two growth regions, Latin America and APAC, which both Derek and Gustavo will talk to you about later.

In agreement with my board, our focus over the next two years is to reinvest in the business, we're putting new operations in high-growth areas; strengthen our sales organization by hiring a chief commercial officer, adding to our sales force, and product technology will now report to me. Gary will elaborate on all of those points. He will also elaborate on how we intend to streamline product families and streamline our customer approach and eliminate any redundant positions. Restructuring, we're going to continue to do, optimize our manufacturing footprint and continue to consolidate our back offices.

So, what is my goal over the next two, three years? This is a reset here, and we have to deliver on expectations; that is our number one goal. The next two years are going to be focused on to continue the business plan implementation, capture the benefits of what we're doing this year, regain the growth momentum, and put a new management team in place. The new management team, from my viewpoint, is this, we have strong internal candidates for both the CFO and the COO position, and we will most likely go internally for those replacements. However, in terms of the CEO, we will consider both internal and external candidates for that position.

So that's my three-year goal and that's the overlook. And now, Gary will give you the details and then John will tell you what the results are. So, with that, I'm going to introduce Gary.

Gary Miller *- A. Schulman, Inc. - COO*

Okay, thank you, Joe, and good afternoon, ladies and gentlemen. I'm going to spend a few minutes, as Joe suggested, in giving you a bit of a more detailed and granular look at our reexamination of the global operations. We reexamined first our businesses and functions. We looked at the processes, procedures, practices and policies in those businesses. There was nothing that was off-limits for us. As Joe said, Citi assisted in the evaluation and helped us to refine our business plan. This reexamination that we did then actually encompassed the elements of our go-to-market strategy, and it was all done with what we consider to be a healthy sense of urgency because of the time constraints we have.

We first reexamined our business unit sales processes. And basically the existence of nearly 20 business units globally actually was a significant issue in hampering the quality of the service and the delivery of our products to our customers, and it was because of the replication of those processes and functions in each business unit. As an example -- and you'll hear me talk about businesses and functions, for example procurement, which is one that I'm relatively familiar with. In the procurement area, we actually had procurement managers in each of those almost 20 business units. Now, we are going to be providing procurement support and other functional support on a regional basis as opposed to a business unit basis.

The global strategic account coordination for us, which is a very important activity, was also hampered and slowed down by the existence of the business units as was new application development being slow to launch for us at a time when our competitors are obviously moving rapidly as well in the business that we face today. And clearly, we went to the market in a monolithic way with really no differentiation in our approach to our growth regions of Asia and Latin America, and our slower growing regions in the U.S., Canada, and in EMEA. So, it was monolithic, and in general, as we looked at the business unit sales processes, it was simply the management of those business units was so complex that it really hampered our ability to move rapidly and serve our customers.

So -- and I'm sure you can all write the next chart for me after what I've just said. This really resulted in two key initiatives for us. Number one was simplify. And that was simplify the management structure and the processes of the businesses, and as I also said, the functions that supported those businesses. The second initiative, and I'll talk about both of these in more detail, was the refocus and what we call reinvigoration, if you will, of our sales processes.

This chart shows the simplification of our business units. We have simplified the business units and formed three product families. And I'll start with the bottom, if you look at Engineered Composites, that product family will see no change from the way it was operated previously. It will be operated as a global product family.

As Joe indicated, we acquired the Composites business in 2015. We had long talked about Composites as being a second growth platform for us to extend our portfolio and put us into the thermoset materials business, and we still have high confidence in the growth of that business. As Joe said, we had a -- we have announced a $5 million investment for sheet molding compound line in Europe that will be located in our plant in Germany. So, we continue to be very optimistic and very confident about growth in the Engineering Composites area.

The second product family that we formed was the Custom Concentrates and Services business. Custom Concentrates and Services business, as you can see, were the legacy Masterbatch Solutions, Custom Performance Colors, and Specialty Powders business. Typically, these businesses really are characterized by most of them are businesses that when we sell products, compounded products to our customers, they further compound those products before they convert them.

The third product family we have and formed was called the Performance Materials business. And the Performance Materials business is our legacy Distribution Services as well as our Engineered Plastics business. In this business, in Engineered Plastics, these are typically materials that we manufacture and sell, and are compounded by us 100% so that when they're sold to a customer, they are then converted without further compounding.

Those are the three product families that we formed. We had extensive discussions with our team in terms of how to group those, and we found that this was the most efficient and effective way for us to group these product families.

If you look at how they align with the markets that we serve, there is perfect alignment with the markets we serve. There is -- they map exactly to those marketplaces. And although you will see differences in terms of the formation of products, and product development and application development, it clearly aligns with the markets and will provide us the innovative solutions that we are looking for to serve our customers and their requirements, and arguably, based on the simplification, do it in a much more rapid fashion than we have been able to do it up to this point in time.

To switch gears slightly and the second initiative was really a focus on sales. And this has really three elements to it. And I'll describe the first two relatively briefly and spend more time on the third which is driving organic growth. The first of these was the sales forecasting process. And very simply what we are doing and what we have done and the team has done is we have tried and succeeded in increasing the frequency of the forecast, the cadence of the forecast, and the sources of input for the sales forecast.

As most of you in the room know better than I do, it's a dynamic process. The sales forecast is the beginning of the sales process, it's dynamic and it changes particularly in volatile environments. And clearly that is the situation in our businesses, and clearly we needed more focus on the sales forecast and we've done that. We're doing that now on a weekly basis, and we are having discussions every week about each of the product families in each of the regions to give us a good view of what our sales forecast looks like for the month and the quarter.

Value pricing was a second element of our refocus on sales. And pricing, it was all aspects of pricing. It included -- it actually included the looking at making certain that the pricing was correct, that we understood our pricing, that it was updated, and that we had the appropriate authority levels and although the appropriate authority levels from my perspective was the most important element of the pricing, in addition to understanding that we wanted to price based on value and not based on cost. But the authority levels in pricing enable us to move much more rapidly in terms of our ability to quote prices and give prices to our customers. So, it's a focus -- it's a question of speed as well as a question of accuracy and understanding of our pricing.

And the third element of this is driving organic growth. And that arguably is one of the most important aspects of our refocus on sales. In terms of driving organic growth, there is really three elements of this as well. One is reinvigorating the innovation process. Joe already told you that he is going to lead that effort, but the innovation process for us is more than just making sure that we get the right projects into the pipeline, into the innovation pipeline. It's a question of making sure that, once they are there, that we have the appropriate resources assigned to those projects to either -- and to determine the go and no-go status of those projects. And it's a question of making certain that we can increase the flow of successful projects, which come out of products and applications, which come out of that innovation pipeline.

Why is Joe leading that effort? It's very simple. In Joe's prior life, he was the Executive Vice President and Chief Technical Officer for The Goodyear Tire & Rubber Company. He had the entire global responsibility for technology within the Goodyear Tire & Rubber Company. And in addition to that and a part of that was leading the innovation process which was significant during Joe's time at Goodyear. As I like to say, first of all, he knows more about it than anyone else in our company, and secondly, he knows what good looks like when it comes to innovation. And he is the appropriate person to lead that process for us and to help to reinvigorate that process.

The second element of this refocus on sales is actually in our global strategic accounts. In our business one of the key advantages that we have in achieving organic growth is our global footprint. We have many customers who come in all shapes and sizes, frankly. Many of them are global, many of them want to be global, and they are asking us to follow them. And we have the capability to follow them anywhere in the world and give them the same products that we are giving them in their home region. So, this is a significant advantage for us and one that we are restructuring that process to be, again, not only more simple but also more responsive to these customers.

As Joe said, we have -- we are in a slower growth environment. And even if you consider Asia or Latin America, which is our growth regions, we still have companies in those regions who are looking to expand into the slower growth regions and vice versa. We are able to be their enabler and enable them to do that. In addition, it helps our efforts of cross-selling which is one of our and has been one of our key opportunities in terms of achieving organic growth, and that works in a very simple way. If we are talking to one of our global customers, who is already a customer either in a region, a business, or in multiple regions, we don't have to resell Schulman. They know Schulman, they know who we are and what we do. It gives us the opportunity to talk to them about other businesses in our portfolio.

And finally, the third element of that is strengthening our sales. And as Joe indicated, we are looking to hire a chief commercial officer. And that chief commercial officer is going to have responsibility for all of the global sales, responsibility for the sales operations, to ensure the consistency and approach, and customer-facing and training of our sales associates and sales resources. We are also upgrading the capability of our sales folks, and what we are doing is we are going to hire an additional 40 people or an increase of approximately 10% in our sales resources so that we have more feet on the street. We're also doing an assessment to make sure that we have the right feet on the street, which is extremely obviously very important to us also. And that is an initiative that is underway and certainly will be continuing to do that.

Some of these resources are going to be resources that don't have a book of business, but they're going to be our prospectors, our hunters, if you will, as opposed to our farmers, who are looking for business for Schulman and the opportunities for us in the marketplace on a global basis. These are significant changes that we are making to really drive the organic growth. And we are going to fund this initiative with a portion of the savings that were going to achieve from the restructuring that I described earlier, which is a restructuring and a simplification.

If you look at the next chart to put some numbers around what I've been talking about here, the simplification of management structure and processes in the sales refocus is going to give us a total annual pretax savings of between $5 million and $6 million. Partially, we will see that in fiscal year 2017. And next year, fiscal year 2018, we will see the full benefit of that. In addition, as I mentioned, a portion of these savings is going to be reinvested in the upgrading of our sales resources and the increase in our sales resources as well. In addition, asset optimization is always one of the elements of our business that we continually are looking at. And we are pursuing the rationalization of three to four manufacturing facilities by the end of fiscal year 2017, with a total annual savings of potentially of $3.5 million.

So, you have seen or heard the major initiatives we have. And I talked earlier -- I'll end where I started, we are very confident in the outcomes that would result from the actions we've taken. And our key outcome is a very simple one, and that is to pivot our sales organization and our company to be a customer-centric and growth-focused organization and culture to allow us to be with the simplification to be much more nimble, much more agile as we operate in our global environment today, and with a key focus on quality, and service and delivery to our customers.

One of our new product family leaders described a comment that I -- we all thought actually was a good one to end with, and this person said, "We're redefining the business in the way our customers view us rather than the way we view our customers." And I don't know that any of us could've said that any better. So, I thank you very much. And at this time, I would introduce John Richardson. John?

John Richardson - *A. Schulman, Inc. - CFO*

Thank you, Gary, and good afternoon, ladies and gentlemen. It's my pleasure to be with you here today.

I'm going to wrap up this segment of the presentation with a couple of slides that ties all this together from a financial standpoint. First slide is a high level slide that shows a comparison of what we estimate fiscal year 2017 will look like and as we move forward to 2019.

We've previously provided you guidance on earnings per share, and that guidance was $2.08 per share to $2.18 per share. Backed up behind that a bit is our sales of $2.5 billion to $2.6 billion, and our adjusted EBITDA estimate of $225 million to $230 million. As we continue to focus on paying down our debt, our net leverage ratio of net debt to EBITDA, we expected to go from just under 4x where it's at, at the end of 2016, to the range of 3.5x to 3.8 times.

As we move forward and focus on top line growth, in 2019, we expect our revenues to be in the $2.7 billion to $2.8 billion range, a compound growth rate of just short of 4%. Our EBITDA in the $255 million to $270 million range, and that coupled with other items will drive our EPS to $2.80 to $3.00. Again, focusing on our paying down of our debt and opportunistically paying down debt with excess cash, we expect to be in the neighborhood of our targeted leverage ratio of 2.5 times.

The next slide is a walk that goes from 2017 EBITDA to 2019 EBITDA. And first of all, in our base business, we expect that the -- and we've forecasted them at GDP growth rates. In our developing markets -- excuse me, in the developed markets, we forecasted in the U.S. a growth rate of around 2% and in Europe a sluggish 1.6%. In the emerging and developing markets, in Asia Pacific we forecasted a 5% to 6% growth rate, and in Latin America, 3.5% growth rate.

As it relates to expansion and leveraging technology, you've heard in this presentation the many investments we've made to spur growth. Our China new color plant, a new line in China, in a very high growth market; a new plant in Turkey, which will be coming on stream in 2017; new lines in India and Argentina; and of course, our $5 million investment in carbon and glass fiber engineering composites in Germany, a technology driven investment. Additionally, in color as an example, we want to take an advantage of this, the specialty nature of this product and grow it worldwide. And in addition, we believe we have great cross-selling opportunities as a result of the realignment into our new product families.

And lastly, in the restructuring area, as Gary mentioned, we have our sales initiative that we just announced, which will produce savings in 2017, and 2018 and beyond. Our resizing of our manufacturing footprint, which we're contemplating by the end of 2017, will drive our cost down. And, of course, we are continually focusing on cost and making sure that we're right-sizing our business. As a result of that, we believe that we have the opportunity to achieve these expected EBITDA results in 2017 as we regain the momentum in our business.

Lastly, I'd like to talk about our cash utilization philosophy. A. Schulman is dedicated to reinvesting in our business. In 2016, we invested over $50 million in this company, and we expect going forward to be investing at similar levels through the three-year period that we've looked at. We want to, as I've mentioned before, pay down debt. We have mandatory debt repayments, but any excess cash that we have during those period will be used to pay down our debt. And lastly, and certainly not the least, we want to maintain and protect the stock dividends that we have to our shareholders. So, as a result of achieving our net leverage, we think that we will provide this company with further strategic and financial flexibilities, which will allow us to generate positive returns for all the constituents that we serve.

And with that, before I turn it back to you, Jennifer, I just like to say that I look forward to reporting on our successes here in the future to you. So, Jennifer, back to you, go ahead.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Thank you. Thank you, John.

John Richardson - *A. Schulman, Inc. - CFO*

Yes.

QUESTIONS AND ANSWERS

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Okay, so I know that many of you probably have questions, but what we'll do first is we'll kind of move into our panel discussion. We'll ask a few questions of our panelists, and then we'll move into the general question session, which I think will be helpful for everyone.

So, with that, I'll invite our SVPs up to the stage. Okay. Don't fall off.

Unidentified Company Representative

Thank you, Jennifer.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Thank you. Don't fall off, Derek.

Okay. So I know some of you have had a chance to meet our SVPs of our regions, but I'll introduce them briefly. Frank Roederer is sitting here. Frank is, as we mentioned earlier in the presentation, now heading up our Engineered Composites as well as our business in U.S. and Canada. Heinrich Lingnau is sitting here. He runs our European business. Next to him is Gustavo Perez, who runs Latin America. And last but not the least is Derek Bristow, who is the head of our Asia Pacific business.

So, with that, I think it might be helpful to set the stage. I'll kind of quickly ask all the participants up here sort of two fundamental questions. We'll start with maybe having each of them describe briefly what they believe to be the biggest opportunities in their regions. I think this will give you a good flavor of the kind of things they're hopeful about, and then conversely, we'll move into sort of also what challenges are. But, first, we'll start with opportunities. So, Frank?

Frank Roederer - *A. Schulman, Inc. - SVP & General Manager, USCAN, Engineered Composites*

Thank you, Jennifer. Just so you know, I was the guy that Joe referred to was bored prior to taking U.S. and Canada. And just so --

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Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

[Which was not true].

Frank Roederer - *A. Schulman, Inc. - SVP & General Manager, USCAN, Engineered Composites*

So, I would like to highlight actually two areas of growth that we're investing heavily into. Some of you drink water from these bottles, right. This is PET or polyethylene terephthalate. There's going to be a spell quiz on this later. It has wonderful properties because you can recycle it to almost pure streams back again. Even though we're operating in U.S., Canada in a very mature market, this product has growth rates of about 10% year-on-year. It is in food packaging and increasing demand for food packaging really drives that growth.

And what we're doing is through the global collaboration, we have built technologies in Europe, developed them in Europe that we're bringing here to U.S., Canada, and we're investing in a production line that's exclusively going to produce additives for these products to really participate in the growth that our customers are seeing and in supporting our customers in their growth because the trick is with any food packaging is to make it lighter, faster, thinner, safer, and more barriers. And that's what we're doing.

The other piece of innovation where we're investing in and Joe has highlighted that very well is a line in Europe where we're making carbon fiber and glass fiber composites. They were talking about thermoset plastics. Why thermoset? Once they are set, you cannot melt them again, right? And that has lot of advantages because in high heat applications, it's a very, very good product.

I hope some of you have seen that door, that automotive door, the vehicle door that we have in the bar area. I'm happy to show that to you and point out some things to you. That door is from a Ford Troller that is being built in Brazil for the local market by the Ford Motor Company. And that door is exclusively made from plastics, no more metal. And there are lot of benefits from that. First of all, it doesn't rust, right, and especially in some rougher climates we all know how our vehicle doors look like after a couple of winters. You won't see that with that. It has super dimensional stability. And you're making that door instead of out of 20 or 50 different parts, you're really pressing with our compound two pieces and you're gluing them together and ready is your door. And that has an improved system cost, and therefore, the Ford Motor Company has chosen our material to make all body panels of that vehicle from our Class A SMC.

And we're bringing this technology to Europe. This technology here is glass fiber-based, but we're also having launched a product, which is called Forged Preg, forged carbon fiber. Now, what does this thing do? The automotive industry is really thirsty and hungry for lightweight solutions. Why is that? Emission standards go up, yes. Most of the energy you need for acceleration, the lighter the vehicle is the better it is. And with the production especially of electric vehicles, when you produce an electric vehicle of the known technologies, the (inaudible) like this woven carbon fiber that everybody has seen, you're producing with every electrical vehicle lightweight carbon fiber of between 30% and 70% waste on carbon fiber. And everybody knows that carbon fiber is a very expensive product, and the industry is looking for solutions, how can we make these things with less waste. And we've developed this technology with forged carbon fiber, where it's not a woven structure, it's a forged compound where you can produce a chassis of an electric vehicle instead of with 30% or 70% waste, you're producing it with 2% waste. And that technology we're bringing also to Europe, to Germany in our existing plant in Hamburg. And we're working with the automotive OEMs, of which many I can't name because we have signed secrecy agreements. So Rosemarie was very interested in hearing more about this earlier, but unfortunately I can't refer to those.

That's what we're doing to bring us to growth, working with the customers, focusing on the customers not only sales, but also the innovation and technology, customer service, everything we're doing in the company really aligning out towards customer support and making sure we're helping them solving their problems.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Good. Thank you. Heinrich?

Heinrich Lingnau - *A. Schulman, Inc. - SVP & General Manager, EMEA*

Yes, I just want to follow up on what Frank was saying, and I think he mentioned two technologies which we are actually swapping, right. He mentioned the PET masterbatches which were developed in Europe and are now being implemented in North America. And we do the other way round where in North America we have high performance composite sheet, which we are bringing in to Europe. I think that's very exciting for both of us.

But let me talk more specifically about the EMEA region. Technologies is a key word for us. A few weeks ago in Detroit, on the automotive conference, for plastics technology, General Motors was clearly saying that lightweight is the key technology for the future. And General Motors was saying every gram is counting. Every gram is counting on a car; energy efficiency costs. And this is a technology where plastic can bring a lot.

Now, that to a certain degree not really new. I think you all know that plastic is lightweight compared to metal, and that trend is continuing and we have provided solutions to that. I think we're talking now about a second tier because plastics is good, but can you further reduce the lightweight of plastics? And, yes, we have technologies in place which are proven and already introduced in automotive and in other areas, where we can further reduce the weight of plastic parts. So, in other words, we bring in even more lightweight plastics to help our customers and the end users. So lightweight is a very important trend in our industry.

Another technology that I'd like to touch is colors. It's only three weeks to go when the biggest plastic fair in the world, the K show in Dusseldorf in Germany. We were awarded from the Society of Plastics Engineers the Grand Innovation Award for the first unpainted silver-colored bumper. That's a bumper for a car which is not painted, which is silver colored. The people who know plastics technology know how challenging this is to get a smooth, [pearl], silver-shining effect on paintings. This is an exterior part. It's the first time that this is in the industry.

Now, the interesting thing is this is not with a small car. This is the latest Mercedes coming out on the market. We are very proud of that technology. It shows that we can really create value to our customers in reducing their costs, in reducing their cycle time, and providing great value to them.

I think --

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Yes, good.

Heinrich Lingnau - *A. Schulman, Inc. - SVP & General Manager, EMEA*

Yes, I think that's two things.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Yes, good. Gustavo, how about you in your region?

Gustavo Perez - *A. Schulman, Inc. - General Manager & COO, Americas*

Yes, well, as John mentioned, we have a very good growth in terms of GDP. But in addition to that, we are the leaders in technology in that region. And what that means is that we have the opportunity to grow with the good demographics that the region has in terms of the middle class improving. But also and just as an example, Mexico in our company, is the leader in technology for agriculture and for some flexible packaging technologies for food contact.

So, from Mexico, we're developing products for the Latin America region for another megatrend in addition to the trend that Frank and Heinrich have mentioned. The other one is the need for food. And really in this region, the technification of agriculture is very important, is very intensive, and we are working very closely as leaders in that trend. So that's an area that we see great opportunity.

And, in addition, as mentioned by Gary, we are partnering with our global customers to be able to supply the products that they need in the region at the quality standards that they expect from a global company. That's something that nobody else can do in that region. We are the only company that can really meet those specifications. And that's a great opportunity for us.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Good. Thank you. Derek, how about you?

Derek Bristow - *A. Schulman, Inc. - General Manager, ICO Australasia*

Thanks, Jennifer. I think Gustavo and I live in similar parts of the world, not geographically, but in terms of the markets; very fast growing. Just to put things in perspective, 50% of the global polyolefin consumption is in Asia at the moment, and 50% of that is in one country, in China. We have anything between 1% and 8% market share, which -- depending on which market we're looking at. So we have a lot of low-hanging fruit, and it's very exciting to be in Asia.

The GDP rates that John mentioned earlier, with China, 67%, people will say, well, that's fantastic. Just coming back to what Frank mentioned about food packaging, for example, in our region, food packaging is growing at about 20%. And we're very, very strong. We're the market leader in BOPP additives in Asia. So there's a huge opportunity for us to capitalize on that and grow. Breathable film is another area that's growing very rapidly. And both of these markets are growing fast because of the rapidly increasing middle class through the whole of Asia.

I was just told last night a statistic, 40% of the global middle class people will be -- by 2025 will exist in Asia. Obviously, that means a rapid increase in disposable income. And that's why food packaging and breathable film -- breathable film, for example, goes into applications like baby diapers, adult diapers as well, and other applications like that. Our additives help the film to be breathable to air, but not permeable to liquids. So those are markets that are growing really, really rapidly up to 20% as I said.

Just one last example I'll give is a new product we've developed the E&E, the E&E market, specifically household appliances, vacuum cleaners, and things like that. Traditionally those appliances are made of ABS or PC/ABS prone to impact cracking. The product we've developed, not an ABS, which to my knowledge no one else has in the market, drastically improves impact resistance. So we're very, very excited about that, and I think that's going to be big growth area for us in Asia.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Okay, good, thank you. So now let's conversely talk on the challenging side. What's -- what are the biggest challenges or the biggest challenge you think you face in your region?

Frank Roederer - *A. Schulman, Inc. - SVP & General Manager, USCAN, Engineered Composites*

Look the -- as well as we're doing on the EC side, basically some of the products that you see or will be seeing, the integration of the thermoplastic means the Engineered Plastics from the Citadel acquisition has caused us a lot of operational issues and most of those issues we have with the plant in Evansville. And while we have separated really the effort on follow-up on the legal part with the Lucent, which is known as the Lucent matter, separated that out and focused now the operational team that runs the business, really on running the business and not being distracted anymore by anything that has to do with Lucent.

But still the operating issues we have and the energy that me and my team are really putting into there is getting past those and coming over to them and delivering the synergies. We're still seeing the synergies as Joe has [managed], we're still seeing them to be delivered in full. It just takes us a little bit longer. And we're forecasting really instead of being done with that part by the end of this calendar year. It's more so the end of this fiscal year. But when we will have these improvements in place and being back on a growth trajectory that we can really bring the growth to the company that we need and that we should see.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Okay, good. Heinrich, how about you in your region?

Heinrich Lingnau - *A. Schulman, Inc. - SVP & General Manager, EMEA*

Well, one of the challenges we are seeing is the bargaining power of our customers which is increasing. Our customers are striving to drive cost reduction on their side in a low growth, slow growth environment of Europe. They are striving for creating value. And one element is obviously is negotiating the price down by another cent a kilo or a cent a pound. But really, like always, every change is a nice -- is a great opportunity. And while our customers are striving to create value in this environment, I think we have lot of opportunities to help them achieving this.

I think I mentioned the example of Mercedes, the bumper, for the latest Mercedes generation. This is just one element. Because the technology is nice, but if you then can't scale it up on a global basis into all regions of the world for a global automotive supplier, then you're only half way through. And I think our customers are looking forward to these type of solutions to help them overcoming this. And then they're interested and willing to drive growth with us forward.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Good. Okay.

Heinrich Lingnau - *A. Schulman, Inc. - SVP & General Manager, EMEA*

[That's all].

Gustavo Perez - *A. Schulman, Inc. - General Manager & COO, Americas*

In our case in Latin America, the main challenge that we have is that as this region is formed by emerging economies or emerging countries, the economic and political stability is still very fragile. So we need to be able to navigate through the uncertainties of those markets, the volatility that it may come with it. But despite of that we have been able to grow the region so far. So we are confident that we have the right equipment, the right team to really face this challenge.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

And Derek?

Derek Bristow - *A. Schulman, Inc. - General Manager, ICO Australasia*

Well, our biggest challenge in Asia by far is people, getting enough of the right quality of people. I think in a rapidly growing environment that, you know, that we live in, there's just a -- we just can't keep up the -- you know, people that are well enough educated and trained in our industry, it's very, very difficult to get the right number of people. At any -- Joe talked about focus on sales. This coming year we've budgeted -- in our budget is to increase our sales and technical people by about 50% in Asia-Pacific, which is quite significant, and I hope we get at least half of that. It's just very difficult to get the right amount of people.

And specifically not just in the sales area but also the technical area, people -- to get -- you know, because we -- the basis of our business is selling technology and service. We don't focus on selling products. And so, to get the right technical people is really, really critical for us. I'm thankful to Heinrich for allowing us to steal the R&D manager from Europe down to Asia. I think he is probably the world expert in masterbatches and he is helping significantly.

Just to give you an example of the technology growth in Asia, which, by the way, I firmly believe that Asia is now becoming the technology leader globally. Just to give you an example of that is one of our customers in China has put in a huge blown film line, it's the biggest line in the world with [a width] of 12 meters. It's a monster. And that requires very, very high-tech products which we are developing for them. And so but getting the right people to do that development for us is a massive challenge.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Okay. Okay. With that I'll invite Joe back up on to the stage. And now we'll take questions from you, and feel free to, obviously, include Gary and John in your questions if you'd like as well. But if you go ahead and raise your hand. [Robin] is back there with the microphone, so if you need it.

We've got a question over here. Jason, was that your hand, okay? She'll try and navigate between the tables as best as she can.

Jason Freuchtel - *SunTrust - Analyst*

Hi, Jason Freuchtel, SunTrust. I believe you mentioned on your most recent earnings call that you're going to look to expand the relative portion of your specialty businesses. And I guess when I look at the new groupings within your product families, it looks -- it appears that you may be groupings some, what I guess, I would consider more commoditized offerings with some more specialty offerings. So I'm curious to understand what you -- what characteristics you look for when assessing whether a product offering is specialty or commodity. And do any of the new product families appear more attractive from a specialty standpoint than some of the others?

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

I'm going to let Gary address that if it's okay, Gary, because your group actually developed the split.

Gary Miller - *A. Schulman, Inc. - COO*

Yes, our group developed that after some extensive conversations. I think from the standpoint of -- I think it's two questions. I think one is the way in which we grouped them, and then secondly, the issue of commodity versus more specialty. And I think the commodity versus more specialty in many cases is really a function of how valuable is technology to you in being able to gain business. In other words, in a commodity marketplace, in a commodity product area, it may be simply just a question of your purchasing power of the material and the ability to have a conversion cost that is lower than anywhere else in that business. I think from a standpoint of a specialty product, then the technology focus really becomes an element there of Schulman being able to use our technology which we've developed over many years to try and develop the right product for our customers.

With regard to the way in which these businesses were configured, you know, these former BUs were put together, I think there was a fair amount of discussion that focused on, for example, in the Custom Concentrates and Services business, those businesses were all alike in terms of, as I said, that they really in the sale of those to customers required compounding. In addition to that, most of those businesses or the majority of those businesses were polyolefin-based businesses. So they used the same product as a base resin in those materials. In addition, there were also in that business services that we provide, for example, custom size reduction services in the specialty powders areas.

In the Engineered Plastics and Distribution business, although they may seem a little bit unusual to have both of those together, the Engineered Plastics business has a not an insignificant amount of distribution of engineered resins, things like, you know, ABS and polycarbonate and so forth in that business, which is then also a part of our distribution services business. So that is the rationale for the thought process that the team had in terms of gathering those product families as we did. Does that answer your question?

Jason Freuchtel - *SunTrust - Analyst*

Yes. And I guess just to expand on that, are there any specific characteristics like if we were to look in specialty versus a more commoditized offering that you typically look for?

Gary Miller - *A. Schulman, Inc. - COO*

Well, I think it's obviously a market issue. In other words, again, it's a question of whether or not you can utilize the technology that you have to be able to participate in that marketplace. If technology has no value and it's just simply a business that's based on volume and purchasing power, then that becomes a more difficult business to enter and what are you providing that your competitors can't. The technology issue in the specialty products area is one that we're very focused on in terms of trying to drive more of our business into that specialty area in the markets that we're serving.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Rosemarie?

Rosemarie Morbelli - *Gabelli - Analyst*

Thank you. I am a little surprised by the amount of savings you are going through an extensive restructuring and yet we have $5 million, $5 million to $6 million in one category and then $3.5 million in the other, which is very small compared to all of the amount of work and, you know, simplifying, eliminating layers of managements. So am I missing something? Is there something else that you are not classifying, categorizing as savings?

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

No, I think fundamentally we just eliminated middle management, okay? And we didn't eliminate people that are doing the job. The numbers would come from people that are doing the job. We're actually expanding sales, putting more people on the ground. The numbers are, I think, 60 total?

John Richardson - *A. Schulman, Inc. - CFO*

Sixty, 60 employees; $5 million to $6 million in savings.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Yes. So I mean it wasn't -- we did not drive the restructuring on the basis of saving money. We drove the restructuring on better serving the customer and to get a cleaner line of sight from the gentlemen on this stage to the customer. We -- the middle management was providing too many layers to get to that and too much I'd have to say interference, Rosemarie; you know, each person having to approve what somebody else did below them.

So that streamlining resulted in a savings, but it wasn't the goal to do savings. The goal was to streamline the structure; an outcome of that was savings. In fact, if we have wanted more savings, we won't be reinvesting some of the money back into a Chief Commercial Officer, back into 40 additional sales people, back into streamlining some of our backstream operations.

With regard to the plant restructuring, lot of our plants are small. There are plants -- many of our plants have 16 employees. So, you know, you eliminate a plant, but it's not a huge savings, but it's the right thing to do because those plants are fundamentally idle or down to very low capacity.

But the goal there is to continue to look at where we want to restructure, where we want our footprint to go, and we will continue to do that as we always do. But if you look at it to do, I think, it was, what are we saying, three to four or four to five, three to four by the end of this year, to do more in one year would be extremely difficult from a resource standpoint, not from any other standpoint, not a financial standpoint. But it takes a lot of people effort to redevelop products for other plants and to move products from other plants, and just to handle the human resource aspect of laying off people.

Rosemarie Morbelli - *Gabelli - Analyst*

And then looking at your product lines, you have about 50% commodities in your portfolio, at least that's what we talked about previously. How quickly do you think you can upgrade that particular business because it sounds as though this is where most of the margin improvement is going to come from?

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Yes, and, Rosemarie, I've talked about this before. When I left in 2014, we were down to 30% of commodity. The Citadel acquisition particularly in the Engineered Plastics end was based on the ability to take recycled plastic, produce prime product from it, and therefore sell it at a really good margin. A good example of this is polycarbonate. Virgin polycarbonate would be $0.50 more than recycled polycarbonate.

So if you can say I'm going to make the same product for you out of that material and I'm going to sell it at a slight discount, $0.10, which would be unbelievably fantastic to a customer, you put $0.40 in your pocket. Now, the problem is all that was based on a deceit and fraud. So what we have to do now is dig out and that's what Frank's doing and that's what's slowing down the Evansville conversion because we have to move away -- now that it's really commodity or close to commodity, we now have to move that. That's going to take us longer than we had intended. So, I don't know if that answers your question, Rosemarie, but that's the plan.

Rosemarie Morbelli - *Gabelli - Analyst*

It does and if I may, I have one quick question for John. How much do you think you can pay down the debt on an annual basis?

John Richardson - *A. Schulman, Inc. - CFO*

Thanks for the question. Well, just maybe putting it into perspective and since we acquired Citadel, we paid down $175 million worth of debt since the middle of 2015. On a net basis net of cash it was $75 million, all right. And our leverage ratios that we're projecting here, suggest that we can pay it down in the neighborhood -- of the net payments that we've had going forwards. So a lot of it depends on the timing of our cash flows and where our cash flows are generated, but we expect to pay this down and I think the computation would tell you that at 2.5% on EBITDA, I mean we're going to be down in the $750 million range by the end of 2019.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

There was a question back there.

Saquib Toor - *Beaconhouse Capital - Analyst*

Hi, Saquib Toor, Beaconhouse Capital. Can you help me understand a little bit more of I guess, how I would differentiate the -- each of the segments by margin profile and maybe how I think about growth in each segment and what's driving the growth from a technology perspective?

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Okay, I'll let -- John, you want to try in the margin profiles or Gary?

Gary Miller - *A. Schulman, Inc. - COO*

Well, obviously, in each of these businesses, in each of these -- and you're talking about the new product families, I take it.

Saquib Toor - *Beaconhouse Capital - Analyst*

Yes, I think relatively products maybe even across the legacy and the new products (inaudible - microphone inaccessible).

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

We don't give them out. We don't provide (inaudible - microphone inaccessible).

Gary Miller - *A. Schulman, Inc. - COO*

Well, across the family, I'm not sure --

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

No, we --

Gary Miller - *A. Schulman, Inc. - COO*

-- we provide that information in terms of that.

Saquib Toor - *Beaconhouse Capital - Analyst*

[If possible], I guess even among the three categories that you recategorized.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

So what we've talked about in the past is if you looked at our sort of legacy profile, you would start at the Custom Performance Color that would be the highest margin profile, and you'd move all the way down into Distribution Services at the lowest, so that's kind of if you kind of look at that as a scale that sort of what we've described to folks because we don't provide the breakout.

Saquib Toor - *Beaconhouse Capital - Analyst*

Is that margin on cents per (inaudible - microphone inaccessible) or on percentage?

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Percentage, so.

Saquib Toor - *Beaconhouse Capital - Analyst*

And then I guess in between (multiple speakers) --

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

And you had technology question, too.

Saquib Toor - *Beaconhouse Capital - Analyst*

(Inaudible - microphone inaccessible) those two ends of the spectrum, I guess how does the Masterbatch, Engineered kind of follow up into that, (inaudible - microphone inaccessible).

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Well, okay, Custom Performance Colors, the you'd go to the Composites business, the Engineered Composites, Masterbatch Solutions, Engineered Plastics, Specialty, and then moving into Distribution, if that helps you in terms of just sort of the order, if you will.

Saquib Toor - *Beaconhouse Capital - Analyst*

Yes, that's very helpful.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Yes.

Saquib Toor - *Beaconhouse Capital - Analyst*

And are you -- what kind of a -- when I think about technology, like what kind of -- what's the driving technology in plastics, is it the way you combine polyolefins with other materials whether it's like other fiber, cellulose, polysaccharides or is there something else that really differentiates Schulman?

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

I'd defer to any of these four gentlemen to answer this question way better than I can. I mean you want to talk about tires, I'm your man, okay, but Frank?

Frank Roederer - *A. Schulman, Inc. - SVP & General Manager, USCAN, Engineered Composites*

Yes, yes, look, we talked about the megatrends, right. When you look at the increasing world population, yes, it is -- there are calculations out there that about half of the food from production to the consumer gets somewhere wasted, yes, so only half of what's being produced ending up in the fridge. So some of the solutions that we provide and Gustavo alluded to that, it's starting at the farm where we are providing films that enable a better growing season, a better output per square foot of farmland. And then it goes to food packaging, how you package food without any preservatives, but have the packaging protect the food up until the time you pick it from the shop and put it in your fridge and eventually can eat it.

This is certainly one of the megatrends and where the world's going is really what is the food packaging, it's providing barrier, it's providing protection. So the question is how do you have the least amount of plastic, yes, in a packaging, make it thin, produce it fast, right, and therefore make it low cost and still provide a good barrier and this is where our additives and concentrates really come in and help that on that particular megatrend.

And one of those examples is this PET bottle or stretched film or what have you and the other -- the other point is we talked about that, too, lightweight in vehicles, right. Personal transportation continues to go on, right. There is a big trend for electric vehicle, especially those ones but also traditional vehicles got to be lightweight and with the technologies we have in the different product portfolios, we can help the customers making lighter weight with different types of molecules or resin systems or what have you.

With that being said is we have a whole innovation pipeline that we look at and take priority and Joe helps us doing that, right, also driving technology and making sure we're betting on the right horses, right, making those -- driving those innovations through our labs, for our customers that we can benefit from those in the long term.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

I think if you look at your -- but what you -- what he's saying to you is in each stage of this, it's a different additive to provide the barrier. So it is in the compounding that you have your technology, the compounding is what provides your technology, your ability to put that barrier in and the barrier you would use in a film in a greenhouse and the barrier you would use in a stretched film are different barriers, by different additives.

Frank Roederer - *A. Schulman, Inc. - SVP & General Manager, USCAN, Engineered Composites*

And I would like to give a specific example like Derek from Asia has explained like breathable film, right. Breathable film is what you put in a diaper. It contains a liquid, but it lets -- it breathes, right, that's why we call breathable film, so the baby doesn't sweat. The point is that product's been a commodity under the sun, right, low margins, low everything.

Now, some of our customers approached us and said, "Look, we'd really like to make this thing faster because investing in films lines is $10 million, $20 million investments," right. And the easiest capacity expansion you can get is when you can crank more product out of your existing lines.

And that customer in Europe, and I'm sure Heinrich can tell more about it, he made breathable film at a speed of 250 meter per minutes, it's about 250 yards a minute, yes, 6 meter wide, 6 yards wide. And with a commodity product. Now, our innovation came in and all of a sudden we were selling him a Masterbatch to make breathable film where he could overnight make at record speeds of 408 meters. It's like a 50% capacity expansion minimum and it came for the customer CapEx free. What he does is he pays us another price for the product, right. So even when something looks a commodity, with the right amount of innovation and technology in the compounding, you can turn this into a specialty.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

And I thought something I remember from the breathable film days is this, the changing market, the changing consumer. This was baby -- diapers were fundamentally for babies, right. And when babies are crying, you're not always sure why a baby is crying. As you get into adult, depends and things of that sort, you actually have somebody that can communicate what they don't like. And one of the issues was the roughness of the film. And so therefore a lot of our customers and said we got to have a softer touch on this.

So you think that would be very -- a commodity. It's one of our higher margin materials, okay. So commodity is sort of not what you make, what's the benefit to the customer doing it. Whether it's speed of processing or if you are a P&G, and you can say, "Our senior diapers are softer," they're willing to pay more to get it.

Gustavo Perez - *A. Schulman, Inc. - General Manager & COO, Americas*

Just another example of technology that we developed and I'm going to use very technical words, but we have developed for film an anti-microbial additive, which is based on nanosilver. So the ability to use nano particles into a film requires a lot of technology and not even to incorporate it into the film but also to produce the Masterbatch to incorporate that nanosilver in order to have anti-microbial properties.

Probably you don't know but most of the flowers that you buy in New York are produced in Colombia under greenfield houses that are -- that have film with our additives. That's another example of technology.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

We had another question here.

Unidentified Audience Member

Sure, thanks. Joe, I wanted to follow up on Rosemarie's question before. It looks like there's a lot of exciting things going on here and everything you just talked about is a revenue additive and margin enhancement or enhancing. What I don't understand is that if you look at fiscal 2016, which has passed, your fiscal '17 guidance is effectively flat.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

No.

Unidentified Audience Member

Okay.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

John, would you like to answer that?

Unidentified Audience Member

Sure. So just to finish the question, so on the surface, it looks like fiscal '17 revenue was $2.5 billion and adjusted EBITDA was $228 million and the guidance is $2.5 billion, $228 million, so what are we missing here that's [this].

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Yes.

Unidentified Audience Member

Yes.

John Richardson - *A. Schulman, Inc. - CFO*

Good question and it's something that we addressed on our earnings call as well. There's a big -- one big difference between 2016 and 2017, right, and included in 2017 in our forecast is a forecast that we will pay a management bonus in 2017. Unfortunately, in 2016, there was very, very little management bonus paid, right. And that difference is $0.36 a share, right. So if you take -- if you strip that out of 2016's numbers, we actually -- the benefit of not paying that bonus the numbers actually come to [$1.69] a share. So we've got a big growth from a performance perspective in our EPS from 2016 to 2017. And I mean there was a -- there were some other things in there, I mean there is a positive effect in 2017 of less amortization which we also discussed in our earnings call.

But the big, big, big driver there is that no management bonus in 2016, we're assuming we're going to get paid in 2017. That difference is --

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

So we got to make $0.36 to come flat.

John Richardson - *A. Schulman, Inc. - CFO*

-- $0.36 a share.

Unidentified Audience Member

I guess that will follow, and basically you're saying to get flat, you're going to make $0.36 for the management (inaudible - microphone inaccessible).

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Yes -- no, not the management, no. I wish. Okay, no, what happens is this. You develop accruals through the years based on bonuses. So as you develop your accrual at the start of the year, you assume 100% payout on a bonus. You're hoping, right. Okay, so as you through a year, you reverse that accrual when you see you're not going to make the bonus. Last year, they reversed the accrual by $0.36. So when you looked at $2.08 that included $0.36 of a reversal of an accrual.

Unidentified Audience Member

'16.

John Richardson - *A. Schulman, Inc. - CFO*

'16.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

'16, I'm sorry, '16. So that $0.36 wasn't there. I mean it fundamentally was a reversal of an accrual. I mean maybe I'm not explaining it right, but.

John Richardson - *A. Schulman, Inc. - CFO*

Not that's basically it. Reversal of the accrual in 2016 that causes our earnings per share to be higher than what it would have been if we hadn't reversed the accrual or if we had paid management bonus.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

If we had paid --

John Richardson - *A. Schulman, Inc. - CFO*

From a performance perspective, going forward in 2017, we're assuming we're going to make our numbers next year. So I mean there is a $0.36 per share improvement just from a performance basis in our numbers that we're going to grow revenues, right, even though we said $2.5 billion to $2.6 billion, right we expect to try to grow our revenues.

Last year if you take out the effects of our Engineering Composites business, our base business revenues were decreasing. So we're going to grow our revenues, we're going to grow our operating income and we're going to pay -- we're anticipating that we're going to pay a management bonus.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

So in that $2.08, what you're assuming is there's going to be $0.36 of bonus paid.

Unidentified Audience Member

I'm just talking about the EBITDA number, so that --

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Okay.

Unidentified Audience Member

-- $228 million versus $228 million.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Go ahead.

John Richardson - *A. Schulman, Inc. - CFO*

Yes. And in the $228 million, from 2016, there was a -- there was basically no bonus paid, right, there was no bonus paid, very little bonus, there were bonus paid in some of the other (multiple speakers).

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Latin America got paid a bonus if you look at their results it made a lot of sense.

John Richardson - *A. Schulman, Inc. - CFO*

But in the forecast for 2017, we're assuming that we're going to pay a management bonus. I mean, it's just as simple as that.

Unidentified Audience Member

How much for (inaudible - microphone inaccessible).

John Richardson - *A. Schulman, Inc. - CFO*

Well, there was $0.36 a share.

Unidentified Audience Member

I'm on the EBITDA ones, let's use dollars, if you don't mind.

John Richardson - *A. Schulman, Inc. - CFO*

Yes, I'm not sure of the exact number. I mean it's between $10 million and $20 million, I think, right.

Unidentified Audience Member

Okay. So back to the point, so it's $10 million, I guess (inaudible - microphone inaccessible). There just seems to be a lot going on here, you guys have done a lot, it sounds like you're talking about $10 million of net improvement (inaudible - microphone inaccessible), is that particular?

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Well, I don't know, John, would you want to answer it that way?

John Richardson - *A. Schulman, Inc. - CFO*

Well, I mean, there's other things going on here other than the management bonus. I mean we believe that we're going to grow our revenues, right. We provided a range here, we believe we're going to grow our revenues. We believe that our expansion programs that we have in place will drive EBITDA and we're forecasting that it's $225 million to $230 million.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Additional questions?

Unidentified Audience Member

How about possible divestitures, I mean Engineering Composites, it's only 8% of sales. And then getting back to this bonus 36% of --

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John Richardson - *A. Schulman, Inc. - CFO*

$0.36.

Unidentified Audience Member

$0.36 of $2.15, let's call that 16%. That seems like a very large number. Let's talk about the divestitures first and then we can get back to that, not to beat a dead horse, but. Okay, well --

---

John Richardson - *A. Schulman, Inc. - CFO*

I can answer both of the (inaudible - microphone inaccessible).

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Go ahead. Do them both.

John Richardson - *A. Schulman, Inc. - CFO*

Our bonus programs are established by the Board of Directors Compensation Committee. They're competitive with bonus programs for like industries and like companies. And they -- we believe that they fairly compensate our employees for the work that they do.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

They're based on always based on our peer group, all you have to do is go to our proxy and you'll see that we're actually below the line in terms of our peers. Our peers pay better.

Now, let's go to divestitures. Divestitures will always be considered. And if there is an opportunity for a divestiture that we feel adds value, we'll do it. The thing we have to look at as we look at divestitures are in terms of what benefit there is to us from the divestiture.

So there is two kinds of possible benefits. One benefit would be if we could use that money for a strategic investment, something that would be better than what we could get for the divestiture. The second part is that you'd want to pay down debt and it turns out that's not a very logical approach, because when you would do a divestiture, you'd have to pay tax on it, so you get less amount of money. That money then would be paid against a debt and you guys all know interest rates right now are at an all-time low.

You'd have to have a significant payment to justify taking a divestiture and paying down debt. It would have to be a significant number. Now, if you take that number and say I'm going to go and I'm going to make a strategic investment with it, it would be different. So if we saw an opportunity like that, we'd do it.

Yes, [Charlie].

Unidentified Audience Member

I'm not going to beat any dead horses, don't worry. You and I have talked a bit about working capital management and that wasn't addressed at all. Also address just a bit of the -- if the footprint is being to some extent resize to facilitate the turnabout of value here, where is the -- where specifically, is it in Europe, is it in specific product lines, where is the footprint being addressed that really you -- one would appreciate the value of resizing the footprint appropriately, so those are the two -- I'm sorry.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Okay, let me just first one -- second one, actually, if you don't mind.

Unidentified Audience Member

Please, whatever -- whichever order.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

We have three to four plants and I want to tell you we've identified them, okay.

Unidentified Audience Member

Okay.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

You ain't going to know before those employees.

Unidentified Audience Member

Oh no, no, that's fine.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

And that means That's really where it's at.

Unidentified Audience Member

Okay.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

I mean, we wouldn't have said this much amount of money and the end of fiscal 2017 if we weren't serious, okay. But obviously, any announcement of those will be done in an appropriate manner, okay. And they will be forthcoming, okay. First question was --

Unidentified Audience Member

Working capital.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Working capital. I guess --

John Richardson - *A. Schulman, Inc. - CFO*

I can address that, if you want.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Well, let me start and I'm going to let you, because you're going to give specifics, I'm going to give philosophy.

John Richardson - *A. Schulman, Inc. - CFO*

All right.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Working capital is like in the three of our blood and here's why. Twice at Goodyear, Goodyear faced bankruptcy, twice. If you thought you were working hard on a day when the treasurer of the company came in and said to you, "Your pension is at risk," your pension, you really worked hard the next day. Working capital is a focus for us. It's a day to day thing. We focus on it. We're getting it down. Now, John will talk to you more about the specifics.

John Richardson - *A. Schulman, Inc. - CFO*

Yes, I think, Charlie, last year, I mean we took our working capital down from 53 days to 48 days, a significant reduction in working capital. And working capital is like cost in my mind, it's a never-ending story. I mean we have the opportunity to take days out of the working capital on [all year] basis and Gary and his team have some plans for doing that this year, freeing some cash for us, right.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Let me talk about the bonus. Bonus represents what percentage of our --

John Richardson - *A. Schulman, Inc. - CFO*

Yes, that's right, our bonus has a working capital element in it as well.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Yes, Mike.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Mike.

Mike Harrison - *Seaport Global - Analyst*

Mike Harrison with Seaport Global. I have a couple of questions kind of related to the approach to sales growth. If I look at your revenue number in 2016 versus 2014, kind of before you left, it's $100 million higher, but we added $500 million from Citadel.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Absolutely.

Mike Harrison - *Seaport Global - Analyst*

So obviously FX was a piece of that.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

No --

Mike Harrison - *Seaport Global - Analyst*

You had some marquee clients --

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

We have less sales, the biggest part.

Mike Harrison - *Seaport Global - Analyst*

So the question I have on that is given that you've had struggles growing the business as it is what leads you to the conclusion that a 10% higher sales force is the right answer? Why do you -- what gives you confidence that that's going to improve the sales situation.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Okay, Mike, that's actually a great question and one I struggle with, okay. And I think it -- for a CEO, I don't know how many you've heard say this. But see, I made a big mistake. I took a lot of things from Goodyear with me that worked, working capital, actually was one of them. And the one thing that I missed was the marketing aspect. Goodyear makes a product, it makes an end product. Marketing is a very significant part of that equation, the new products you develop, how you sell them, the whole thing. And sales and marketing are always combined. But if you looked at Goodyear, you'd say 65% to 75% of that position was marketing and the rest of that position was sales. I blew it.

Schulman doesn't make an end product. Schulman provides a service and an intermediate product. Customer contact is really critical in this business. And I'm going to be frank, one of my competitors figured this out before me. And that's really, Mike, why I think I'm looking for a Chief Commercial Officer that's going to be 75% focused on sales and 25% focused on marketing, they have to be together, don't get me wrong. Marketing is still new product dividend and things like that, and that's got to be headed -- and in the meantime I'll run that for the guy, because I think we missed the boat. Excuse me, we didn't miss the boat, I missed the boat.

And I think it really was funny, being away for 18 months, it was easier for me to see that when I came back than when I was there. And I know that sounds maybe dumb, but I'm just telling you, it just was -- it became very obvious to me as I came back in and I saw what was happening in sales. I had hired some very sophisticated, very good people who tried to put marketing into Schulman and it didn't fit, but that's why I believe the sales emphasis is it and the Chief Commercial Officer -- and by the way, these four gentleman on stage with me and Gary, we've already interviewed some candidates, we're close to making a decision. They're 100% with me. I mean, they also agree that I blew it. So --

Mike Harrison - *Seaport Global - Analyst*

I think you kind of answered my next question, Joe, which is last time you guys did an Investor Day, you had a Chief Marketing Officer and that was an important change in your approach was kind of centralizing that role and having someone in that role. So help us understand kind of the difference, what you expect the Chief Commercial Officer to do versus -- and where the marketing approach went wrong.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Okay --

Mike Harrison - *Seaport Global - Analyst*

And you kind of hit on some of it.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

But, no, but I think there's one point that I don't know that we're really clear. As part of this restructuring each of these regions is now going to have a head of sales and they head of sales is going to be responsible for selling all products. The other place where we failed was cross selling. So a person would go in and sell Masterbatch and a person would go sell EP, they actually might be going to the same customer.

So what we're doing now is we're creating under each of the regions -- I'll explain it, there is a slight difference with Gustavo and Derek. But there is a head of sales that will report to Heinrich, that will report to Frank. All sales will be under that person. This Chief Commercial Officer, they will be dual lined to him. This person will be responsible for sales training, sales assessment, how we're going to go to market, our approach. They will be providing like in the old days what you'd say Gary would be providing in terms of purchasing.

They would say, "Here's what I want to do." And the purchase team person says, "If that's what you want to do, here's how we're going to do it." That's how we're going to do the sales now. The sales will be, "This is where we want to go. This is the area. This is the customer." And that Chief Commercial Officer is going to have to develop the strategy along with the dual report Head of Sales.

The only difference that's happening in Gustavo's area and in Derek's area is the country manager will be responsible for sales. And the reason for this is actually quite simple, particularly for Derek. We talked about the USA being one market. It's what 350 million people? Okay, so we'd have one sales head for Asia, right, which is 3 billion people. No, we're going to have one in each country under a country manager. So it will be the same organization except, rather than Derek sitting with a Head of Sales under him and Gustavo, their Head of Sales will be sitting in the country. And they'll run it as a country operation.

But it's the same structure. In the dual report there, we'll go from the country manager to the CCO versus, in the case of Frank, would be that way. But that's how we're going to structure it. And I believe it's the -- I really believe it's one of the fundamental drivers, but it'll take us till the end of 2017 to get that all in place. Even hiring the person today. I mean the training, the selection. We talked about hiring 40 people. But what did Derek tell you? He has a tremendous -- he has open cards today. It's really hard for him to hire. And we hire some people and as soon as they're trained, they leave.

One of the best things to do in Asia is go to work for a western company, learn what you're doing and then jump to a local company for twice the pay. And so, we lose a lot of people that way, after we train them.

We got one in the back. We've got one over here.

Roger Spitz - *BofA Merrill Lynch - Analyst*

Thank you. Roger Spitz with BofA Merrill Lynch. Two questions. Can you comment on the tempo of your fiscal '19 target over '17? Should we think of a closure to a straight line or will it be more front or back end loaded? And then secondly, does the grouping of distribution business with Engineered Plastics, are you signaling that potential sales distribution is less likely and will that combination or grouping make it separate -- a potential separation, if you do decide to divest distribution, that much more difficult? Thank you.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

I think it's fairly linear.

Unidentified Company Representative

It is.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

It's a fairly linear line, okay. With regard to -- again, as I said on any -- anything that we would divest, somebody comes in and pays us an appropriate price that we think is going to give the shareholder value or that we can make a strategic acquisition, we're going to do it. I don't think divesting any of the pieces would be that difficult if you subsequently came down the road and said, "I'm going to divest." Now, I'm not just talking about distribution, I'm talking about anything -- you made the comment about composites. Composites is a -- I don't -- I doubt that we are going to divest composites. I'd like to grow it. It's the second highest margin business we have. So I doubt that we'd divest it, but it's self-contained. The plants are self-contained.

Almost anyone of our plants is self-contained. There's a few exceptions to that, primarily in Latin America. Where in the Latin America plants we have concentrated facilities. But in Europe, we have EP facilities, we have Masterbatch facilities, we have color facilities, we have roto powder facilities, separate plants. And one of the reasons we have so many plants is because of that, is because there is very few plants that are consolidated, which is a benefit from the standpoint of if you ever divested in, is not such a benefit from the standpoint of layers of management.

Frank Roederer - *A. Schulman, Inc. - SVP & General Manager, USCAN, Engineered Composites*

If I may, may I add to that?

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Yes, Frank.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Oh, yes. Sure.

Frank Roederer - *A. Schulman, Inc. - SVP & General Manager, USCAN, Engineered Composites*

Roger, to your question, this is where the single point of accountability in sales and the business grouping starts making sense and [then] why. And distribution in the U.S., we are distributing a lot of engineered polymers, right?

Now at one of the first days when I took over U.S., Canada as I reach in with all the different businesses, I came to find out that we have three sales people from three different businesses being on a business trip with an airline ticket in the Chicago area to see customers, right? So you wonder, wow. You are not selling when you're in the air. You are not selling when you're driving, right? You're not selling when you're waiting for your airplane, which is most of the case anyway delayed. So this is not very, very efficient to do that.

So really having a sales force that is catering to the region, and one guy when he's selling a highly engineered product, very specialty product, and the customer's buying from another distributor, another engineered polymer with the same sales effort, with the same selling cost, you can sell another couple of hundred tons or another couple of million pounds, why wouldn't you do that? And this is where I think the business grouping and the move with the sales organization comes in hand in hand and starts making a lot of sense.

We are taking this complexity out for the customers that they don't talk to three people from Schulman about something they can talk with one person about.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

[Dennis], you had a question?

Unidentified Audience Member

I'm sure you probably don't want to do this. You may have given some indication. But can you put a bracket around your claim against Citadel and the timeframe?

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Okay. I'll answer it in the extreme. Okay? Delaware Law has a very interesting aspect. Delaware Law allows you to do rescission. What is rescission? Rescission is actually where you would fundamentally turn back the company and get your money back. Now, you really -- it's very difficult to do that once you integrate it, but Delaware Law allows that to be the maximum damage. If you could prove everything and every element of it, I mean that would be an extreme case, but your extreme case is you could actually get back everything you paid and keep what you have left. That's the extreme case.

And actually we're asking for rescission. Okay? I mean because, and I mean, it's simple. If we would have known about the fraud, we would have never bought the company, despite the composites, despite anything else. If you would have -- you would have never knowingly bought a company that you knew was committing fraud. So I can't bracket it. I think it's a two- to three-year timeframe unless there is a settlement prior to that time. But if you go through the court system, I think it will take two to three years to recover the money on the deal. But I'd say 90% of these cases are settled.

Unidentified Audience Member

How about the ultimate liabilities to consumer if the product [who] will come back, perhaps?

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

I think we're pretty much -- look, any product you make you have that liability anytime. What we're very encouraged about is the fact that really we have minimum claims and we've had no recalls. And it has been over a year.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

And we've been very, very pubic about this, so.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Yes. And we've gone to all the customers and everything else. So anything can happen. I'm not going to say that because we could be making a legacy product today that causes a recall. But I think we're back to normal risk, normal risk. That's the way I define it.

And why would you say this would be the case? One of the pluses that we don't make an end product is the end product is what's tested. So if the end product passed the test, then fundamentally that's why you're not getting a claim. They probably over specify the compound.

One of the -- one of the defenses, and I can actually say this, when we put this suit out, the response back was, "Why did you tell them?" And we sort of said, "Well we didn't want to keep falsifying documents." Because their argument was, "Well, nobody had a problem." Nobody had a problem, so why did you bother to tell them? Well, I mean other than the legal liability you have, I guess you don't have to worry about nothing. But no, but that's -- I think that's why I was worried very early as the Chairman of the company. I was very worried about recalls and nothing has materialized. Nothing has materialized.

We've had some minor claims and some of the claims are truthfully because we told the customer there was a problem. They came back with $15,000. Who wouldn't? Almost on those you're paying $15,000 and say, "Thank you for coming." You don't even bother to fight it.

There's a couple more questions at the back.

Jason Freuchtel - *SunTrust - Analyst*

Hi, Jason Freuchtel, I just had a couple of follow-ups.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

I'm sorry.

Jason Freuchtel - *SunTrust - Analyst*

Sorry about that. I believe last year, you announced several cost savings and issues and I just wanted to follow up on your cost saving plans briefly. I think there were the Plan B Smart Savings Program, Manufacturing for Success Program. Were all those cost savings achieved in fiscal 2016 or does some of your guidance take into account further cost savings from those plans in fiscal 2017?

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

I don't know but Jennifer's going to answer it for me.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Yes. No. The Manufacturing for Success was pretty close to -- plan for the end of the year. And then, I don't think we were very significantly off on the Plan B as well. So, we did recognize those in '16, so.

Jason Freuchtel - *SunTrust - Analyst*

Okay. So there's no additional cost savings expected next year from those plans?

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

I'd have -- you know we'd have to kind of go back and reset on what we think the Manufacturing for Success could be. As we've said, we've kind of launched into now this restructuring mode. So we'd have to, I think, maybe [Rainer] could kind of think about that too, but I think we'd have to kind of think about what -- I don't think we've set an expectation for Manufacturing for Success for '17 yet. So that's something you could maybe hold on to. We can think about that.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Go ahead. [Rainer Schewe] is the Head of Supply Chain for the company. And Rainer, why don't you answer that question?

Rainer Schewe - *A. Schulman, Inc. - Head of Supply Chain*

So, as Jennifer said, we made the savings on MFS last fiscal year. And the savings are recurring and they are part of the plan for this fiscal year.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

There were a couple of questions at the back there and that one gentleman has had his hand up for a long time. White shirt. [John]?

Unidentified Audience Member

Two questions. When you look at slide 26 was the New Product Families Are Market Aligned, Performance Materials and Engineered Composites look like they should come together. Are they held separate because of the Citadel thing?

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

No.

Unidentified Audience Member

And maybe later you'll bring them together?

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

We are [holding] that out as a global business because of the synergies that go across Brazil, Mexico and Germany. You are absolutely correct that the customer contact is extremely similar.

One of the reasons I felt very comfortable of putting Frank in charge of both Engineered Composites and U.S.-Canada, I think as I said, more than 90% of the composites business is in the USA is for that very reason.

Frank, what's he's done is, he's Head of Sales. He has one head of sales for both Engineered Composites and U.S.-Canada. So there'll be -- there's one individual that's running sales for both structures under Frank.

So you're right, but we did maintain it as a separate entity primarily because of the technology transfer outside of the USA. Because we have an operation, as we said, that we've got in Germany in Hamburg, where we're putting in brand new technology, carbon fiber and glass technology. We have an operation in Mexico. We have actually a joint venture in China. We don't have on this side of this table that extra Ts in that technology; that really resides in the Engineered Composites. So, you're right on both counts.

Unidentified Audience Member

And then does debt-to-EBITDA have to get back to close to 1.6 times before you start thinking about doing something with free cash besides --

Gary Miller - *A. Schulman, Inc. - COO*

No.

Unidentified Audience Member

-- [that] were done?

Gary Miller - *A. Schulman, Inc. - COO*

This is a debate. If you would like to talk to John, John's going to say, 2.5. And if you like to talk to Joe, Joe's going to say, 3. But that's why we have a range. I feel comfortable personally. We've stressed test and 2.5 is a good number for us. Our banks, some of whom are in the room, have told us that we definitely were -- our debt level was too low at 1.6. So 2.5 is a much more realistic number for us, but I'd be willing to begin acquisitions again and doing other things once I got below 3.

And my goal would be in this two-year timeframe to get into position where my successor is not handcuffed. I describe it to my people all the time. I feel like when I walked in this time, some of you put a pair of handcuffs on me. And it was called debt because I never had to suffer that before. So I pretty much -- it's like closing plants. Use of cash, for example. You'd say, "Well, couldn't you close more plants?" Probably could. Where am I going to use the cash? Although it's a one-time item and we can eliminate it from non-GAAP and all that, somebody gets severance pay that day, that day. So you have -- we got to prioritize our cash.

So what are we going to do with our cash? Are we going to make a capital investment with it? Are we going to pay down debt with it? Are we going to do a plant closure with it? So, we run the net present value of all those and we make a determination of what we think is right to do with that cash. Okay.

Rosemarie? Or do we got. I think there's one more over here. We're going to save you to the last, Rosemarie. First and last. Hey, first and last, right?

Arash Kiani - *Beaconhouse Capital - Analyst*

Arash Kiani with Beaconhouse also. Yes, so I'm listening to the conversation and what I hear is that you guys are a sales company. But I do not really hear that you are a technology company. So the big question is PolyOne, Asahi Kasei and all of these companies, you could point out and say, "Look, they're leaders in something," right? So, I heard some advantages of let's say nanosilver, some lubricating packages you guys are putting in, so it runs a faster film, but I don't see like really a focus. I mean Joe came back and I think you have a 50-year of history with the company, where your father started the company and you worked in the lab, but --

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

No, but that's okay.

Arash Kiani - *Beaconhouse Capital - Analyst*

I mean, but you are working in the company [as simple], your father was working, so. But the big question is, I see really you're great at creating value and lowering the cost and improving sales, but I really haven't seen technology coming out of your company --

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Well.

Arash Kiani - *Beaconhouse Capital - Analyst*

And that's a big question. You're looking at automotive with TPE, TPV and what's going in there. I mean you guys have the Invision [prop] brand but that brand is just languishing. It's not going anywhere. You are talking about the weight savings with fibers, natural fibers, fillers and things like that. You guys are not the leaders in that. And that's the big question. Big question is how you become the leader? I mean it's great to have sales efficiencies, sales increases and all of those things because the background of the company starting from a U.S. company, I guess, and then Germany being a focus, we don't see that technology coming out from Germany to become the leader again. I mean that's the big question.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Okay. There's two parts to it. We are the number one company in the world in Masterbatch, number one. Largest in Europe, largest in Latin America, largest in niche in Asia, Masterbatch. You aren't number one because you don't lead in technology, sorry. And I'm -- and we can prove that. So let's start there, okay. I'm not defensive, but I'm offensive.

So the second part is EP and you raised a good point. We must participate in EP in niches, just like we described this bumper. We are never going to compete against a BASF and by the way, neither are our competitors you named, if BASF wants to win, because they got the size.

I was in Goodyear. I'll use one example and I'll be real quick on it. 1980s, high-performance tires, Europe, Pirelli has 80% market share. Michelin and Goodyear have big plants. We don't touch it. Small, little business, only in Germany, moves to all the other European companies. Michelin and Goodyear say, "Interesting, interesting now." End of the '80s, Pirelli has 8% share because Michelin and Goodyear gobbled them up. In EP, where we have to compete against big players, we have to be very selective. And you're right, they're in essence this -- anybody -- not anybody, I mean BASF isn't anybody, okay.

But really top technical companies can do it, we can do it, but we have to go where they don't want to go. We have to go in niches. We have to stay at the -- the pyramid in Engineered Plastics is like. I think it's 800 million something like that, the whole market. The niches is like 8 billion, something like that. All our Masterbatch is 6 billion. We can be a leader in Masterbatch because our competitors are Ampacet, PolyOne, Clariant in their Masterbatch business, we can lead there. We can never lead in Engineered Plastics, can't. But we can lead in niche. That's where we have to focus.

And you're right. I mean a big guy can always do the technology. They always have the strength of the volume behind them. Sometimes they make their own raw materials that they're going to use. So, you got to go where they don't want to go. Why wouldn't they want to go? Size, size of the market or complexity of the product. That is just something they don't want to do. But I agree with you. I'm not going to disagree.

Heinrich Lingnau - *A. Schulman, Inc. - SVP & General Manager, EMEA*

Joe, can I make a comment here?

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Sure. He's going to defend it a little better than I did.

Heinrich Lingnau - *A. Schulman, Inc. - SVP & General Manager, EMEA*

Derek mentioned an example, the nylon ABS plants, right? If you really go out with a straight nylon from BASF, they're the market leader in nylon and nylon compounds in the market. This is almost a commoditized product. Okay? In terms of volume and nylon with 35% glass fiber, they are the leader. Do we have any business within that area too? Yes, certainly.

Now when it comes to find the right solution of a new requirement for a customer, what helps us versus them is the capability to find the right base technology and base polymer. BASF will always push nylon. Styrolution will always push styrenics. Exxon will always push olefins. We, and that's what our customers like, we are independent of the polymer platform and even more, some of our technologies -- I think we had a question earlier on this was -- on combining and making alloys. BASF is a big nylon producer. Do you think they have an interest in making nylon ABS product? Never. Is Styrolution pushing styrenics and ABS, having an interest in making nylon ABS product? No.

For us, it's just standard practice. This is why our customers love us. We make the best product for them, and Derek mentioned how that is getting traction in his market on appliances. These customers love it because this product gives impact, it gives soft touch, it gives a matt surface, which is great to look at versus a fatty -- excuse me a bit, I'm a negative here, PC/ABS blend which just looks crappy.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

But I want to go back to your comment. We're not the technology leader. So if they wanted to do that, they could do it. But remember I said from the [product], where do you go in a niche? Where they don't want to go.

So if it's an alloy, you're going to see very few of these big companies want to do it because they're not back integrated. So, niches are very difficult and -- but to think in technology that you can match a major competitor, I mean I think you're kidding yourself. You just can't. I ran a --

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Arash Kiani - *Beaconhouse Capital - Analyst*

I don't think that was my point, my point is I do [agree] that you cannot match BASF, you cannot match -- but PolyOne is also not integrated fully, right? So the question is everybody knows you guys are great at Masterbatch, but when you look at the new plastics, PETs [and so forth], obviously Solvay will eat your lunch, PET [and so forth]. What are you guys going to do to be at the top of the pyramid? I mean that's where the money is, right? That's where the profit is going to be. You could sell $2 billion, but if you don't generate a profit then it's not --

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Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

I think PET is going to be. I think PET -- I don't know how you guys are feeling better than me. But I think that's going to be at the top of the pyramid for quite a while, because there's not very much volume. I mean -- and Solvay is a great company. I have a great respect for their technology. We distribute a lot of Solvay products through our Engineered Plastics division, but Solvay ain't big like Exxon. If Exxon made PET, Solvay is goodbye. Okay.

I mean it's just -- it's the way it is. It's no slam to them. They're great. They're fantastic. But I think anytime you talk about a niche, I don't care what business you're in. The only way you can play in a niche, you're never going to be people on technology. You're not. You're just not going to do it. Big guys will always win. If they want to win, they can win. They have the volume advantage, they have the technology advantage.

I'll give you back the Pirelli example. They had 100 engineers in Milan. I had 1,000 engineers in Luxembourg. I always said if every one of their guys were great, only 10% of my guys had to be. That's [all].

And so I think you're right. I'm not going to -- I'm not trying to debate you on it. I think you actually have the point. We can compete not so much because we are a technology leader but because we have good technology, can match their technology and we will do it where they don't want to be.

Arash Kiani - *Beaconhouse Capital - Analyst*

So the next big question would be, you have to have a better messaging to the customer. I mean that's the big question.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

And that's why we're going to -- that's another reason why we are going to the organization we are because I think we have failed to communicate that message in a centralized way. And one of the reasons was, as Frank said, three guys went to the same customer. I think you need the centralized voice that talks about your total capability when you walk in that door and say, "You know, do you want colors? Do you want Masterbatch? We can give you EP." And that's where we have -- and now we can give them composites. So that's how we've got to move. I mean that's our belief.

Arash Kiani - *Beaconhouse Capital - Analyst*

Now the message is clear to me at least. This is the (inaudible - microphone inaccessible).

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

I agree with you. I mean, I'm not -- I hope I didn't come across I didn't, because I do. I mean it's just you have to look at that technology and say to yourself, you know I'm Chief Technology Officer of a $20 billion company. You really understand really quick what you can do versus what other people can do. I mean it's the way it is.

Any other questions in the room?

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

I think Frank wanted to add on.

Frank Roederer - *A. Schulman, Inc. - SVP & General Manager, USCAN, Engineered Composites*

I would like to add to your question on the polymer pyramid. And I'm not sure if it's for everybody that means something in the room, right. Polymer pyramid is the different products and the higher you go in that pyramid, the higher the margin on the product goes. But also on the other hand, the smaller the volume becomes, right?

So the real trick and this is just a product type of discussion, yes, which in the end of the day we are selling a product, I agree. But what our focus really is, is sitting with a customer and asking, what solution do you need? And then we'll do a very, very thorough job in assessing, is this market for which we are developing this solution large enough for us to make back the R&D dollar. Because why would I invest millions in a PEEK where I sell a couple of pounds, right?

So my point is that the question is really what does the market need? What does the customer need? Is that market big enough that I make back the R&D dollar? And I can deliver that growth.

And I think, Heinrich, also in Europe, we have capabilities. Whatever the customer needs, if it is a PEEK, it is a PEEK. If it is a POM, it is a POM. I'm throwing a lot of acronyms out there. We'll have the cocktail hour to talk about it more and also do some spelling checks on the PET later, right. But the point is, I don't want to look at it only from a product perspective. We really got to look at it from a market, and market size, and a market growth perspective. This is why these simple things, right?

Polyethylene terephthalate, right, has a great growth rate. Why would I not invest my R&D dollar in this where it grows 10%? It's a highly profitable market segment and when you look at the pyramid, where this is, it's actually not far up. But the margin and the volume will make back my R&D dollar.

Joe Gingo - *A. Schulman, Inc. - Chairman, CEO and President*

Yes, I think there's two points to that too. And I'll speak from pure technology standpoint. If any compound company tells you they do research, they're kidding you. And I'm not going to kid you. Here's why. The only research could be done is on the resin and on the basic polymer. That's the only research that could be done. We're an applier. We put additives in. So we can develop new products and you have to do it in conjunction with our customers. Because remember, we don't make an end product. It has to be done in conjunction with the customer. That's the way it's got to be done.

But we don't do R. R has to -- is in the base thing. Like if you -- I'm sorry, using the analogy of Goodyear, Goodyear makes rubber. That's where the R is. The R is not in the tire. That's a D. That's the development. Where we get the special gains is in the R. And that's because we're back integrated into the R and that's where you see it. So I think that's a key point.

But the other thing that Frank's doing that I think is really important is this and I think you touched upon this as well. We have great technology in Europe, EP technology, Masterbatch technology. Mexico has the best agricultural technology I have in the company, best. Absolutely. U.S. was the wasteland of this company. We built it up at one point. We've got it now because of this acquisition, build it up again. Frank's doing the right thing. And Frank's background, I told you, he ran Specialty Powders for us in Europe. He ran Masterbatch for us in Europe before we brought him over here.

He's going to -- he knows what products are in Europe. He knows -- he put PET into Masterbatch in Europe and he knows what Heinrich's doing in EP. Frank's big job is to take these technologies and bring them here, and apply them because we have them. But they're development technologies. They're not -- they're application technologies. They're not fundamental research technologies.

Any other questions? Well, look, I thank you for your patience and your lecture on R&D. I will apologize. As Gary said, I spent a lot of my career there. I got a minor passion for that. I got a bigger passion for Schuman, but I do have a minor passion for R&D. Thank you really -- I really appreciate the attendance and your attention during the meeting. Thank you very much. This is the right team. We're going to get the job done.

Jennifer Beeman - *A. Schulman, Inc. - VP, Corporate Communications & IR*

Okay. And then, we'll be crossing the hall here if you'd like to join us for an informal cocktail.
