Mid-Size Company with Global Needs:
Leveraging Technology to Manage and Control Treasury

Kurt Loeffler, CFA CTP
Manager of Corporate Finance and Acquisition Strategy
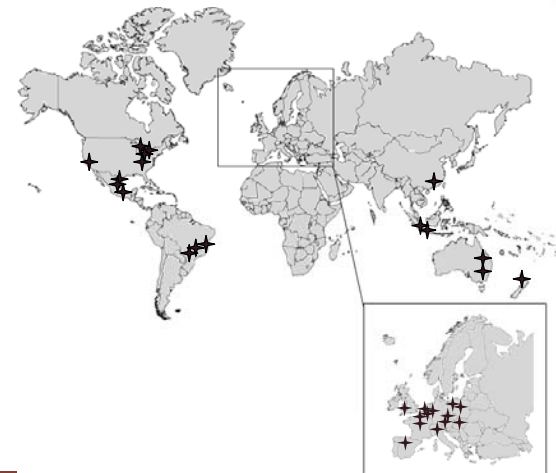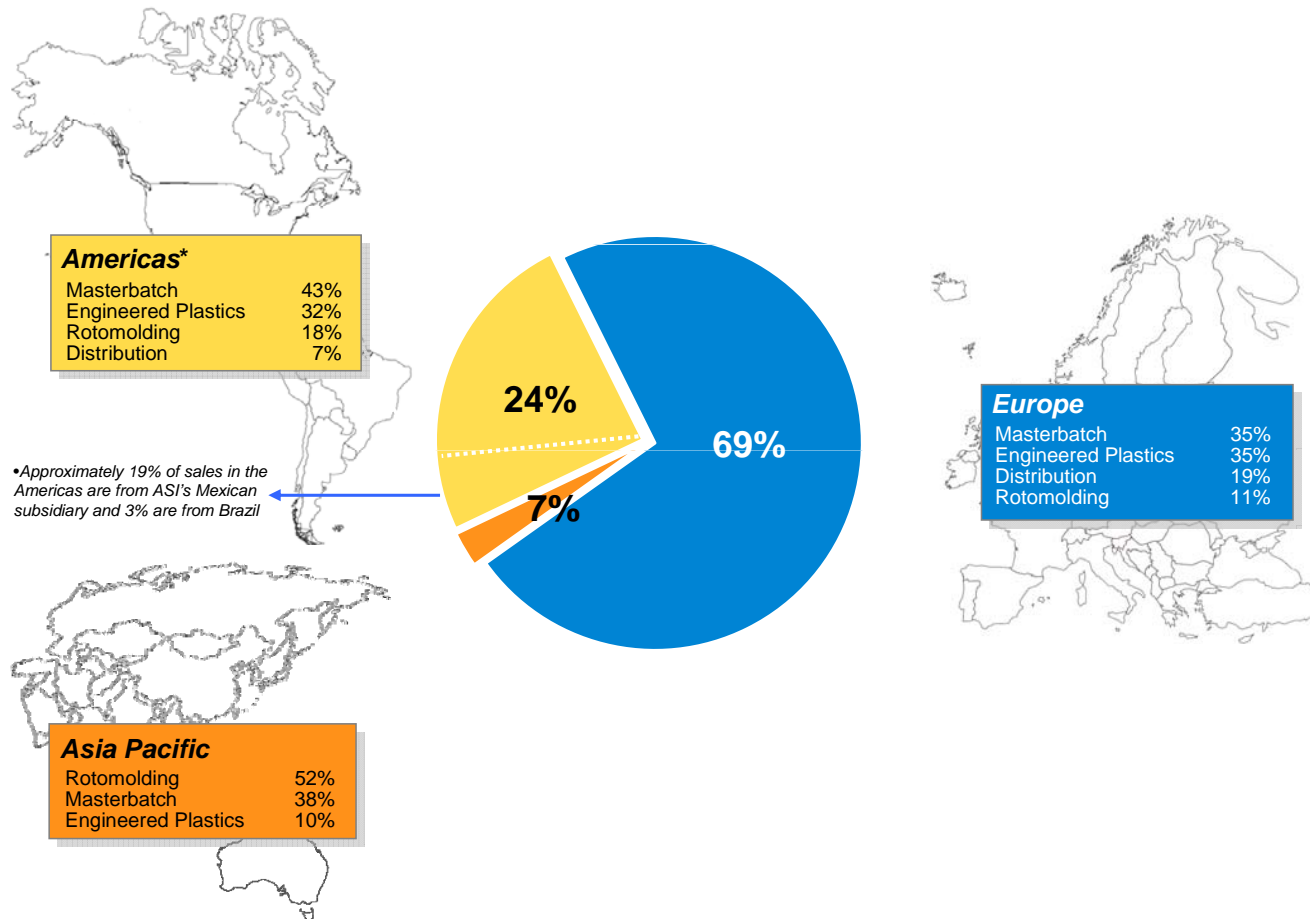A. Schulman, Inc.

Andy Johnson
IT Consultant
Drewcorp, Inc.

A. Schulman Overview

- A. Schulman, Inc. ("ASI") founded in 1928, global presence since the mid-1950s

- International supplier of designed and engineered compounds, color concentrates, resins, and size reduction services, which are used in a variety of consumer, packaging, industrial, and automotive applications

- Corporate headquarters in Akron, Ohio; NASDAQ: SHLM

- 37 manufacturing facilities:
  - 22 in Europe and Asia
  - 15 in North America

- Approximately 2,900 employees
  - 1,000 North America
  - 1,900 Europe & Asia

Truly Global with Approximately 80% of Sales Outside the United States

Americas*

Masterbatch	43%
Engineered Plastics	32%
Rotomolding	18%
Distribution	7%

•*Approximately 19% of sales in the Americas are from ASI's Mexican subsidiary and 3% are from Brazil*

24%

69%

7%

Europe

Masterbatch	35%
Engineered Plastics	35%
Distribution	19%
Rotomolding	11%

Asia Pacific

Rotomolding	52%
Masterbatch	38%
Engineered Plastics	10%

AFP® Annual Conference

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Four Primary Markets Served

- Masterbatch *(2.5% typical growth rate)*
  - » Film and packaging, for food and wrapping, masterbatches for colors and properties such as fade resistance
  - » Leveraging technical capabilities in high-value applications with key investments
  - » Industry-leading portfolio of additives, color, blacks and whites

- Rotomolding *(4.0% typical growth rate)*
  - » Compounded resins for rotationally-molded products, such as gas and water tanks, kayaks, playground slides, and other large applications
  - » Leverage technical ability and service, design and new product development from both the Masterbatch and Engineered Plastics business units
  - » Broad product portfolio of base resins, custom colors, and proprietary cross-linked polyethylene formulations

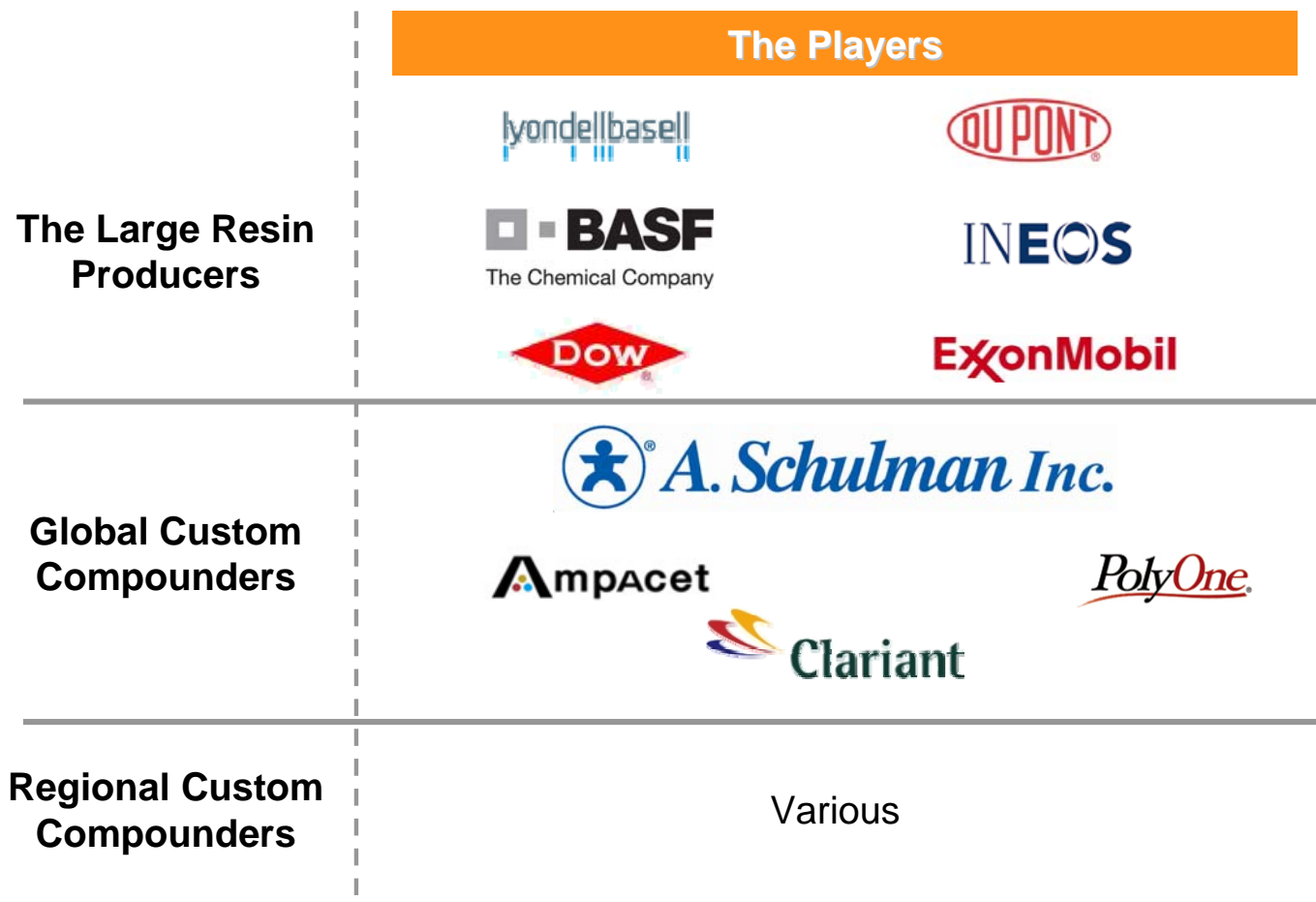- Engineered Plastics *(2.0% typical growth rate)*
  - » Compounded products for durable goods, appliances, toys
  - » Selective automotive applications
  - » Build on existing relationships through enhanced technical capabilities and superior speed

- Distribution Services *(3.0% typical growth rate)*
  - » Support three manufacturing businesses
  - » Distribute large producers' bulk commodity resins
  - » Increase ASI purchasing power to improve availability and cost of base resins
  - » Capitalizing on global polyolefin producers' shift to distribution

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Schulman's "Space" in the Industry

| The Players |
|:---:|
| **The Large Resin Producers** |
| lyondellbasell   DuPont |
| BASF The Chemical Company   INEOS |
| Dow   ExxonMobil |
| **Global Custom Compounders** |
| A. Schulman Inc. |
| Ampacet   PolyOne |
| Clariant |
| **Regional Custom Compounders** |
| Various |

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Treasury Operations

- Proforma FY2009 revenue of $1.7 billion
- Cash and equivalents at May 31, 2010 of $92 million
- Net debt of $59 million
- Syndicated global credit agreement of $260 million revolver
- Approximately 30 banking relationships globally
- Regionalized treasury centers in:
  - Akron, Ohio, U.S. (corporate HQ)
  - San Luis Potosi, Mexico
  - Bornem, Belgium

Akron, Ohio

San Luis Potosi, Mexico

Bornem, Belgium

Lean Organizational Structure
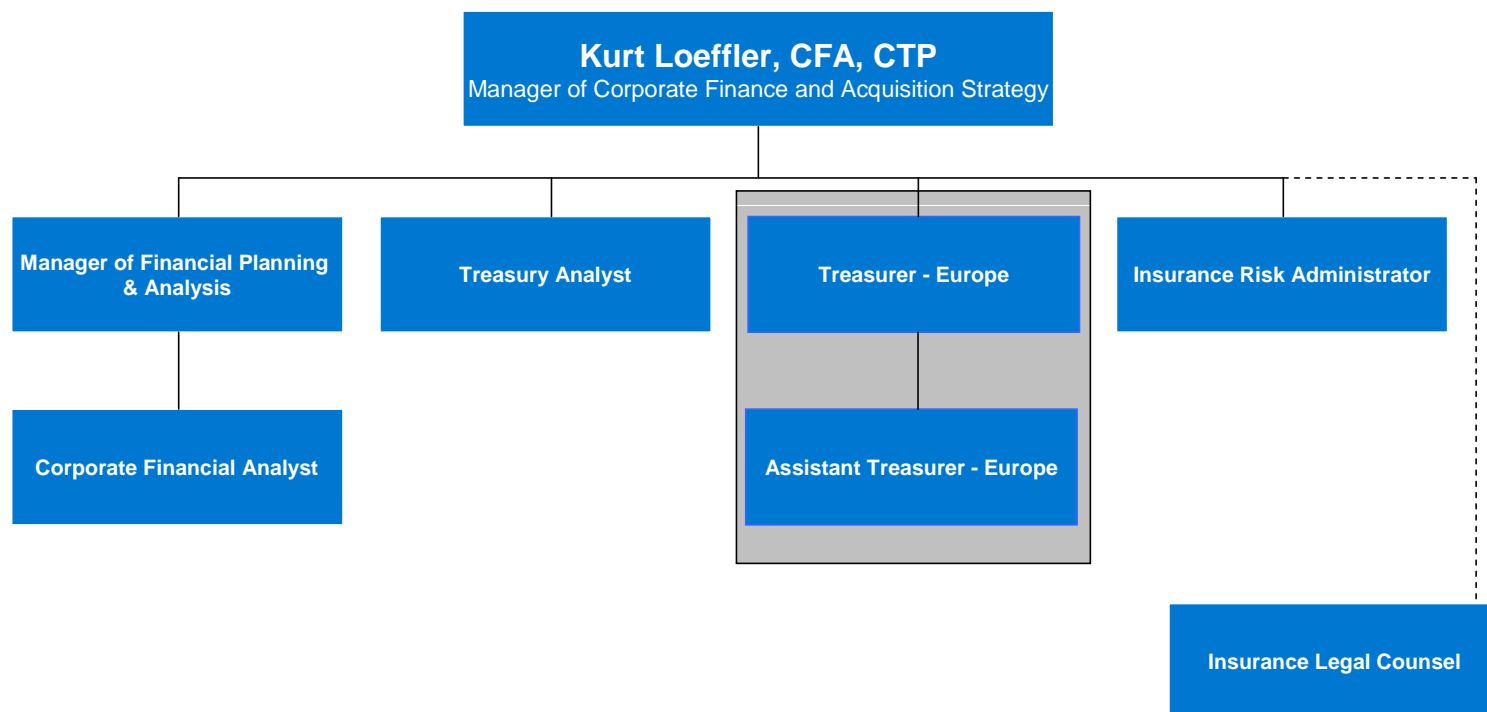
ICO Acquisition

- ICO, Inc. ("ICO") produces custom polymer powders for rotational molding and other polymer segments, including textiles, metal coatings and masterbatch.

- ICO is an industry leader in size reduction, compounding and other tolling services for plastic and non-plastic materials.

- ICO has a notably large production footprint in rotomolding globally with 20 locations in 9 countries in the Americas, Europe and Asia/Pacific.

- Based in Houston, Texas; NASDAQ: ICOC

Greater Global Treasury Demands

ICO's global locations significantly increased A. Schulman's treasury needs in Latin America and the Asia/Pacific realm

● A. Schulman, Inc.
■ ICO, Inc.

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Why Did Schulman Seek a TMS?

- Substantially more global in scope
- Visibility of global cash position
  - **BoD and senior management mandated**
  - **In which countries is the cash? Which currencies?**
  - **With whom is it invested?**
- Greater control over cash position, forecasting, and cash journal entries
  - **Previously used spreadsheets for G/L entries and forecasting**
  - **TMS would provide greater comfort to internal audit and SOX testing**
- Single platform for complex global treasury needs
  - **Data on which treasury relies was sourced from various systems**
  - **TMS would consolidate information and transaction processing of approximately 30 banks along with SWIFT feeds from ISABEL in Europe**
  - **European SSC required an easy-to-use interface for control and recordkeeping of the complex in-house banking setup for intercompany transactions, etc.**
- Ability to integrate future acquisitions quickly and efficiently

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Schulman's System Selection Process

Preliminary Research

- Process began with Gartner Group interview who recommended vendors
- Extensive review of treasury publications provided additional background

Request For Proposal

- Sales process included RFP based on AFP's standard RFP proposal
- US corporate ran selection process with Europe being a big factor in vendor selection
- On-site vendor demos followed RFP Responses

The Decision

- A. Schulman selected IT2 Treasury Solutions based on the provider's extensive experience meeting the needs of companies with significant European treasury operations

Final Criteria For Deciding TMS Provider

- Cash pooling functionality
- Flexibility and ease in setting up overall system design and reporting
- Process maps to provide audit and SOX compliance
- Accounting functionality including ability to integrate multiple G/L's
- Ability to integrate future acquisitions quickly and efficiently
- Debt, investment and FX instrument coverage
- Robust security
- IT investment required (money and people)
- Outright purchase of license option to avoid a P&L hit
- Cost

Schulman Implementation Challenges

- Limited resources
  - One treasury employee per region devoted to day-to-day treasury activities
  - Key personnel engaged in other key initiatives:
    - ICO acquisition due diligence
    - Shared service center and cash pool implementation
  - IT personnel at Schulman already operating at full bandwidth

- Satisfying diverse regional requirements
  - Final global deployment covered four different geographic regions
  - Internal political considerations needed to be addressed
  - Vastly different functionality requirements present in each region
  - Different holiday and vacation schedules had to be addressed
  - System speed and accessibility critical for all parts of the world

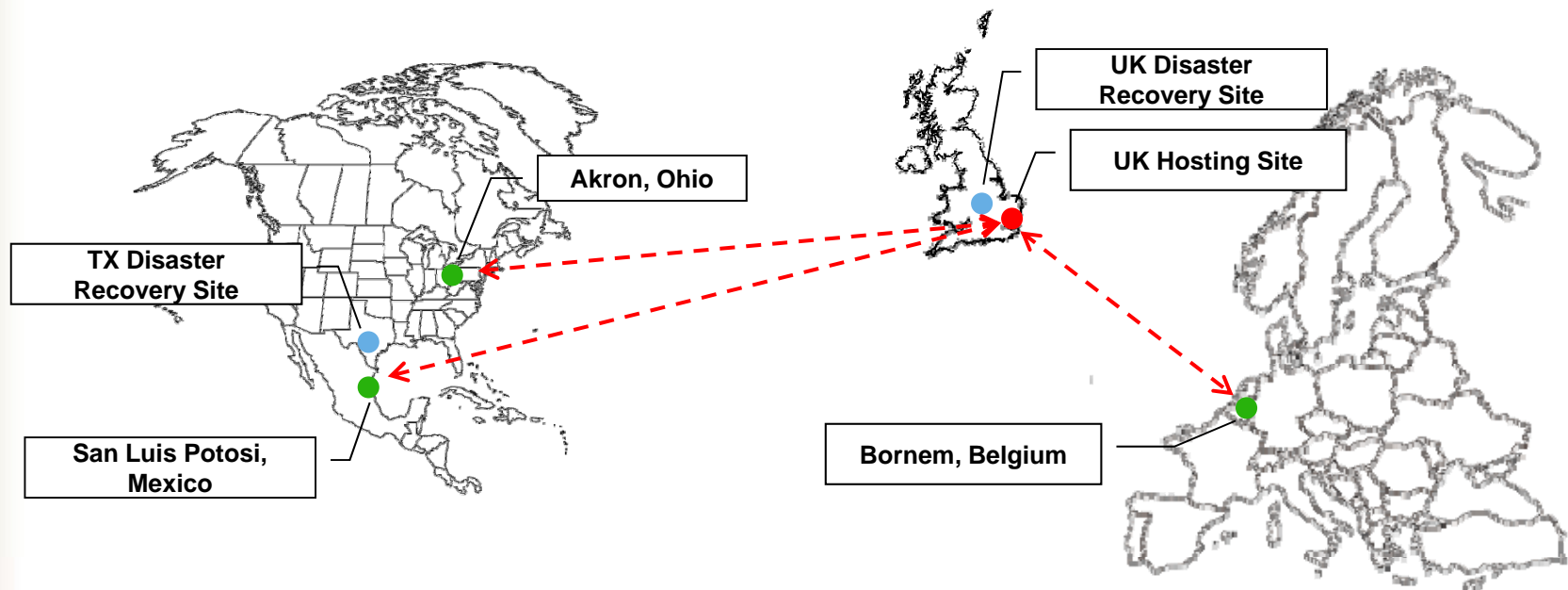# Addressing All Required Functionality Needs

- Goals set as top down; system implemented from bottom up
  - Cash Visibility
  - Cash Pool
  - Cash Accounting
  - Cash Forecasting
- Initial static data (i.e., entity and account design) implemented as global effort
- Treasury team reached consensus on
  - Entity Structure
  - Naming Conventions
  - Shared Data Elements
- Bank data aggregation strategy was developed
  - SWIFT MT940 (somewhat universal)
  - BAI (specific to each Bank)

Determining the Ideal IT Infrastructure

	Advantages	Disadvantages
In-House Installation	• Complete control over environment • Potential to leverage existing IT infrastructure, thereby reduce cost • Easier integration between servers	• IT personnel time • IT hardware and facilities cost • Communication infrastructure able to support global access • Global uptime availability

Externally Hosted	• No time required for hardware and software installation
	• Global availability exists
	• Communication infrastructure in place
	• 24-hour support in place
	• Large degree of control over environment
		• Still requires some IT personnel time to implement and administer
		  • Communication between existing network and hosted environment
		  • Configuration of security

ASP	• Very little internal IT involvement	• Integration with core systems may be tough • No control over environment • When vendor says it's time to upgrade, you must upgrade

Determining the Ideal IT Infrastructure

- Schulman chose a third-party to provide a vendor-hosted IT infrastructure
- External hosting allows the company to own license to TMS while eliminating need for IT
- Hosting location was chosen to satisfy Schulman Europe's treasury needs

UK Disaster Recovery Site

UK Hosting Site

Akron, Ohio

TX Disaster Recovery Site

San Luis Potosi, Mexico

Bornem, Belgium

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Keys to Overcoming Implementaiton Challenges

Consistent and Clear Communication

- Complete understanding of global project vision and requirements by all parties

- Client's global treasury personnel and vendor participation in weekly status calls and meetings

- Continuous engagement of specific team members on relevant topics

Leveraging Project Management Resources

- Project management provided by independent consultant

- Training provided by TMS vendor

- Outside consulting for specific functionality (e.g., cash pool)

Successful Global Implementation

Immediate TMS Benefits for A. Schulman

- Visibility
  - New Information immediately available
  - High level customized dashboard for senior management

- Cash pool interest calculations
  - Interest rates are daily fed from Bloomberg into TMS
  - Elimination of spreadsheet tracking

- Accounting transactions fed to multiple ERPs
  - Time savings of over a day per week for small accounting team
  - Improved accuracy
  - Automatic generation of month-end treasury schedules and journal entries

- Forecasting away from spreadsheets
  - Automatic interface with multiple ERPs

- Enhanced risk management
  - Forex rates (used in valuations of accounts)
  - Bank credit ratings

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2011 and Beyond

- Asia cash pool

- Americas cash pool (US, Canada, Mexico, Brazil)

- Cash management needs for further acquisitions

- Enhanced FX risk management

- Rollout of IT2 net internet portal

- Forward contracts

Lessons Learned

- Better understand the background of vendor consultants and use or replace accordingly

- Require each vendor to setup specific real world scenarios during the evaluation stage

- You cannot spend too much time "playing" with the software

- Never underestimate the difficulty in getting banks to send electronic statements (particularly Mexico)

- Understand how the software vendor processes bank statements into its solution and how to manage this process

- Make sure that the functionality you purchase is what you need
  - You can always add later
  - You will pay maintenance fees on the modules you are not using

Conclusion – Key Take Away Items

- Mid-size companies <u>can</u> use technology to enhance their treasury functions

- Key reasons that led Schulman to implement a treasury technology solution include:
  - Visibility of global cash position
  - Greater control over cash position, forecasting, and cash journal entries
  - Single platform for complex global treasury needs
  - Ability to integrate acquisitions quickly and efficiently

- A purchased software solution rather than the ASP monthly fee model has a favorable financial statement impact

- A hosted environment (as opposed to implementing the in-house or the ASP model) works well for a global company

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Conclusion – Key Take Away Items

- Worldwide consistent and clear communication during implementation is difficult, but a must

- Recognize the resources and skills available and leverage them appropriately; supplement areas as needed

- You do not need a large dedicated team to accomplish the implementation; a few key team members combined with smart outsourcing can accomplish the goal

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Speaker Biographies

Kurt Loeffler, CFA, CTP – Manager of Corporate Finance and Acquisition Strategy

Mr. Loeffler joined A. Schulman in June 2008. He was previously with Brown Gibbons Lang & Co., a Cleveland-based investment bank advising middle market companies primarily on sell-side M&A transactions. Prior to that, Mr. Loeffler was in corporate banking as a Vice President in US Bank's Middle Market Lending division in Cleveland. Earlier, he advanced through a series of credit and corporate banking positions of increasing responsibility at Citizens Bank and at National City Bank (now PNC). He holds a bachelor's degree in foreign languages from John Carroll University, an MBA degree in finance from Case Western Reserve University, and a post-MBA certificate in corporate policy, planning and operations from Harvard University. He is a Chartered Financial Analyst and a Certified Treasury Professional. Mr. Loeffler has been published in *Treasury Management International* and *Corporate Financial Systems* magazines.

Andy Johnson – IT Consultant

Mr. Johnson has over twenty years of experience in designing and implementing information systems and is President of Drewcorp, Inc., a company he founded 19 years ago to provide information technology and project management services for corporations. Mr. Johnson's projects typically include management of the software selection process, design of custom solutions, as well as implementation of the final product. Mr. Johnson's company has helped many public and private clients in a wide range of business processes and solutions. Prior to forming Drewcorp, Mr. Johnson began his consulting career with Andersen Consulting (now Accenture). Mr. Johnson holds a bachelor's degree in Industrial Management / Industrial Engineering from Purdue University.