



**Stepan** 

**Third Quarter 2018 Results**

**October 24, 2018**

*Certain information in this presentation consists of forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include statements about Stepan Company's plans, objectives, strategies, financial performance and outlook, trends, the amount and timing of future cash distributions, prospects or future events and involve known and unknown risks that are difficult to predict. As a result, Stepan Company's actual financial results, performance, achievements or prospects may differ materially from those expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as "may," "could," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "guidance," "predict," "potential," "continue," "likely," "will," "would," "should," "illustrative" and variations of these terms and similar expressions, or the negative of these terms or similar expressions. Such forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by Stepan Company and its management based on their knowledge and understanding of the business and industry, are inherently uncertain. These statements are not guarantees of future performance, and stockholders should not place undue reliance on forward-looking statements.*

*There are a number of risks, uncertainties and other important factors, many of which are beyond Stepan Company's control, that could cause actual results to differ materially from the forward-looking statements contained in this presentation. Such risks, uncertainties and other important factors include, among other factors, the risks, uncertainties and factors described in Stepan Company's Form 10-K, Form 8-K and Form 10-Q reports and exhibits to those reports, and include (but are not limited to) risks and uncertainties related to disruptions in production or accidents at manufacturing facilities, global competition, volatility of raw material and energy costs, disruptions in transportation or significant changes in transportation costs, reduced demand due to customer product reformulations or new technologies, the probability of future acquisitions and the uncertainties related to the integration of acquired businesses, maintaining and protecting intellectual property rights, international business risks, including currency exchange rate fluctuations, legal restrictions and taxes, the impact of changes in the tax code as a result of recent federal tax legislation and uncertainty as to how some of those changes may be applied, our ability to estimate and maintain appropriate levels of recorded liabilities, our debt covenants, our ability to access capital markets, downturns in certain industries and general economic downturns, global political, military, security or other instability, costs related to expansion or other capital projects, interruption or breaches of information technology systems, the costs and other effects of governmental regulation and legal and administrative proceedings and our ability to retain executive management and key personnel.*

*These forward-looking statements are made only as of the date hereof, and Stepan Company undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.*

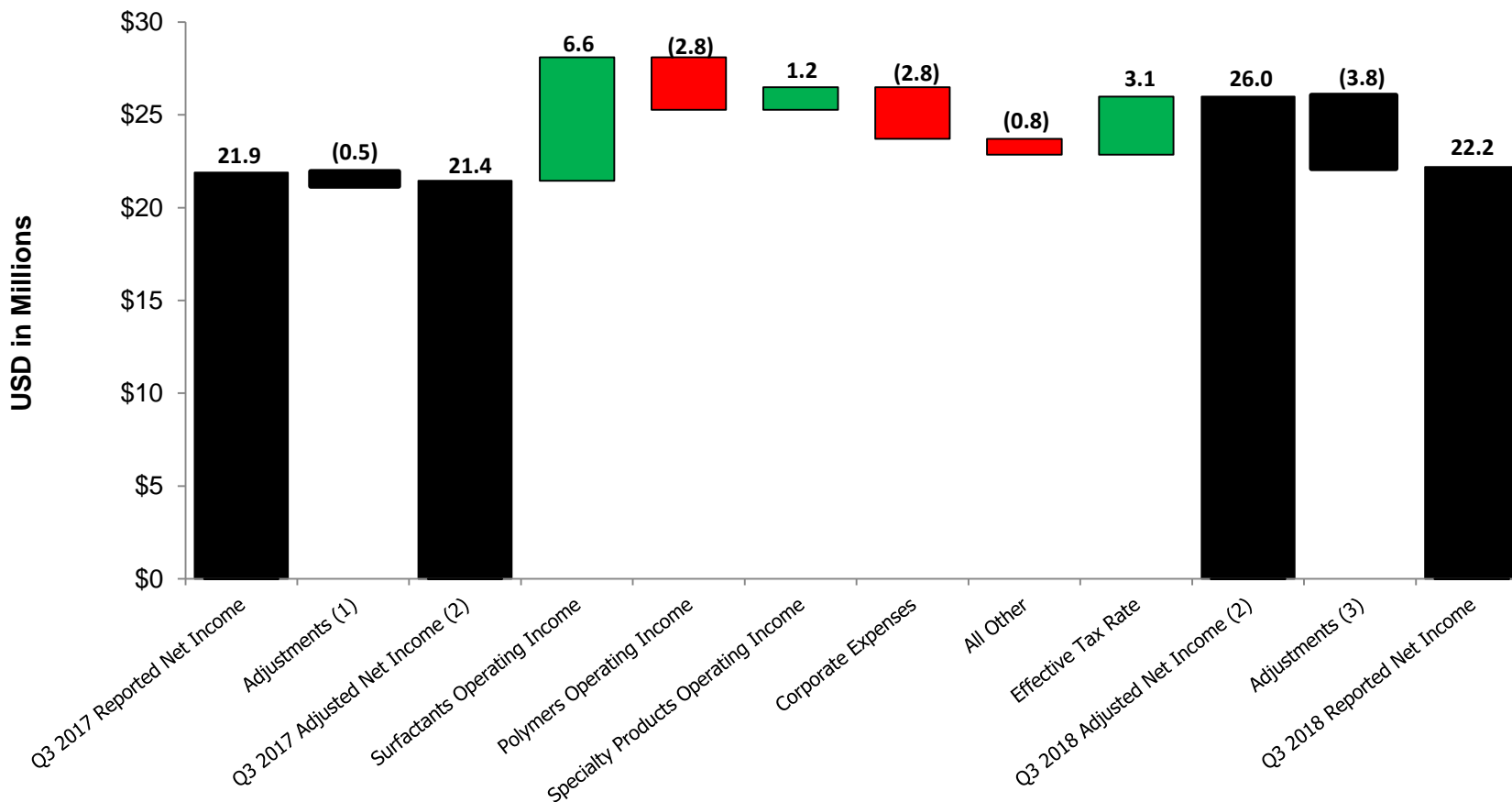
Third Quarter Financial Highlights	F. Quinn Stepan, Jr., <i>Chairman, President and Chief Executive Officer</i>
Third Quarter Results	Luis Rojo, <i>Vice President and Chief Financial Officer</i>
Financial and Strategic Outlook	F. Quinn Stepan, Jr., <i>Chairman, President and Chief Executive Officer</i>
Analyst / Shareholder Questions	
Closing Remarks	F. Quinn Stepan, Jr., <i>Chairman, President and Chief Executive Officer</i>

- **Q3 Reported Net Income was \$22.2 million, or \$0.95 per diluted share, a 1% increase versus \$21.9 million, or \$0.94 per diluted share, in Q3 2017.**
- **Q3 Adjusted Net Income<sup>(1)</sup> was \$26.0 million, or \$1.11 per diluted share, a 21% increase versus \$21.4 million, or \$0.92 per diluted share, in Q3 2017. Adjusted Net Income in Q3 2018 excluded the following non-operational items:**
  - **Deferred compensation expense of \$2.6 million, or \$0.11 per diluted share.**
  - **Restructuring expense of \$1.2 million, or \$0.05 per diluted share.**
- **Reported Surfactant Operating Income was \$31.2 million, an increase of \$8.6 million, or 38%, versus Q3 2017. The increase was primarily due to strong demand in North America. Global Surfactant volume increased 9% versus prior year.**
- **Reported Polymer Operating Income was \$17.4 million, a decrease of \$3.7 million, or 18%, versus Q3 2017. The decrease over prior year was primarily due to margin challenges and lower European volume.**
- **Reported Specialty Products Operating Income was \$2.7 million, an increase of \$1.7 million versus Q3 2017, primarily due to order timing differences within the flavor business.**

*(1) Adjusted Net Income is a non-GAAP measure which excludes certain significant, non-recurring items. See Appendix II for non-GAAP reconciliation.*

# Net Income Bridge – Q3 2017 to Q3 2018

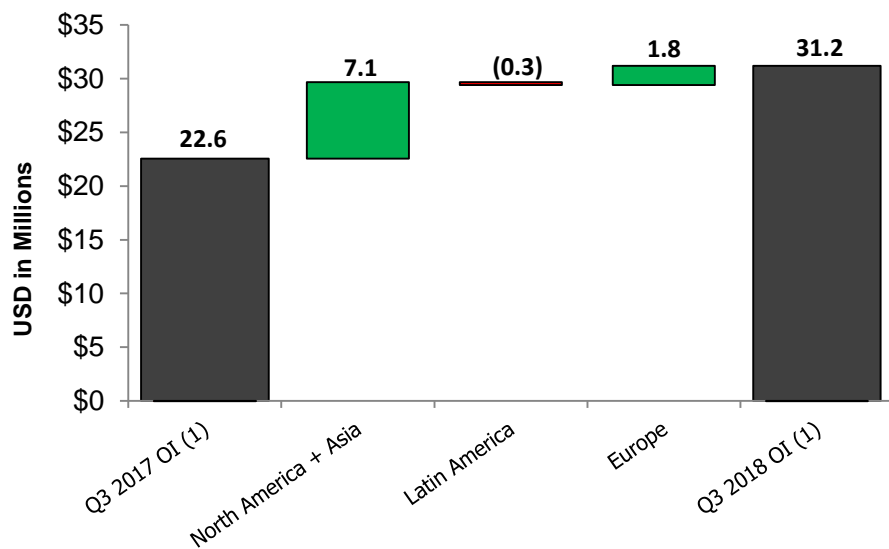
Note: All amounts are in millions of US dollars and are reported **after-tax**.



- (1) The adjustments to Reported Net Income in Q3 2017 consisted of deferred compensation income of \$0.8 million and restructuring costs of \$0.3 million.
- (2) Adjusted Net Income is a Non-GAAP measure which excludes certain significant, non-recurring items. See Appendix II for a reconciliation of Adjusted Net Income to Reported Net Income.
- (3) The adjustments to Reported Net Income in Q3 2018 consisted of deferred compensation expense of \$2.6 million and restructuring costs of \$1.2 million.

**Strong demand in North America drove profit improvement**

<i>in millions \$</i>	<b>Q3 2018</b>	<b>Q3 2017</b>
<b>Net Sales</b>	<b>\$346.9</b>	<b>\$321.4</b>
<b>Operating Income</b>	<b>\$ 31.2</b>	<b>\$ 22.6</b>



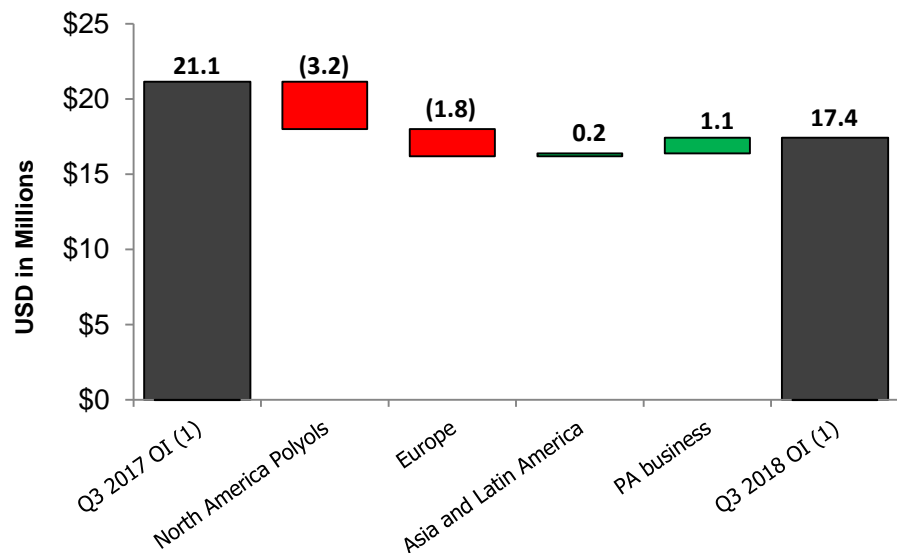
- Reported Operating Income was \$31.2 million, an increase of \$8.6 million, or 38%, compared to the prior year. Net Sales and volume increased 8% and 9%, respectively. Organic<sup>(2)</sup> Net Sales and volume increased 7% and 4%, respectively.
- North American increase was driven by higher Consumer Product commodity volume and higher demand for Functional Products.
- Latin American results were down primarily due to unfavorable product mix, partially offset by strong sales volume related to the Q1 acquisition in Mexico. The acquisition was accretive for the quarter and we believe should be slightly accretive for the year.
- European results were up primarily due to higher Consumer Product commodity volume and improved margins.
- Foreign exchange negatively impacted Net Sales by \$9.3 million and Operating Income by \$1.1 million.

(1) OI = Operating Income

(2) Organic = excluding the impact of the Q1 acquisition in Mexico and foreign exchange translation

Decreased results due to lower global margins and reduced volumes in Europe

<i>in millions \$</i>	Q3 2018	Q3 2017
<b>Net Sales</b>	<b>\$141.6</b>	<b>\$147.8</b>
<b>Operating Income</b>	<b>\$ 17.4</b>	<b>\$ 21.1</b>



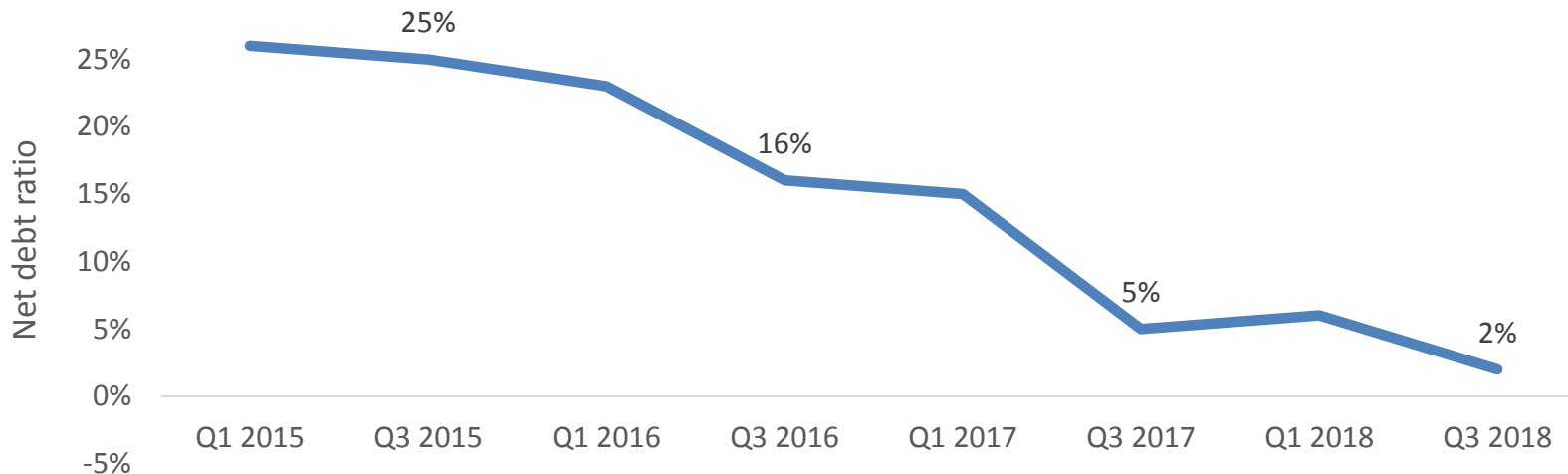
(1) OI = Operating Income

(2) MDI = Methylenebisphenylene Diisocyanate; a component product used with polyol to make insulation. Stepan does not produce MDI.

All amounts are shown on a pre-tax basis (unless noted differently)

- Reported Operating Income was \$17.4 million, a decrease of \$3.7 million, or 18%, compared to the prior year. Net Sales and volume decreased 4% and 1%, respectively. Foreign exchange negatively impacted Net Sales by 1%.
- Global Polyol volume increased 3% with Global Rigid Polyol volume growth of 4%.
  - North America volume increased due to share recapture and a continued strong rigid polyol market, partially offset by slightly lower Specialty Polyol volumes.
  - European volume decreased versus prior year levels due to the lingering effects of the 2017 MDI<sup>(2)</sup> shortages.
- North American and European results were negatively impacted by margin pressures during the quarter.
- Phthalic Anhydride (PA) results were up \$1.1 million. A scheduled PA maintenance turnaround will negatively impact Q4.
- Foreign exchange negatively impacted Net Sales by \$1.4 million but had minimal impact on Operating Income.

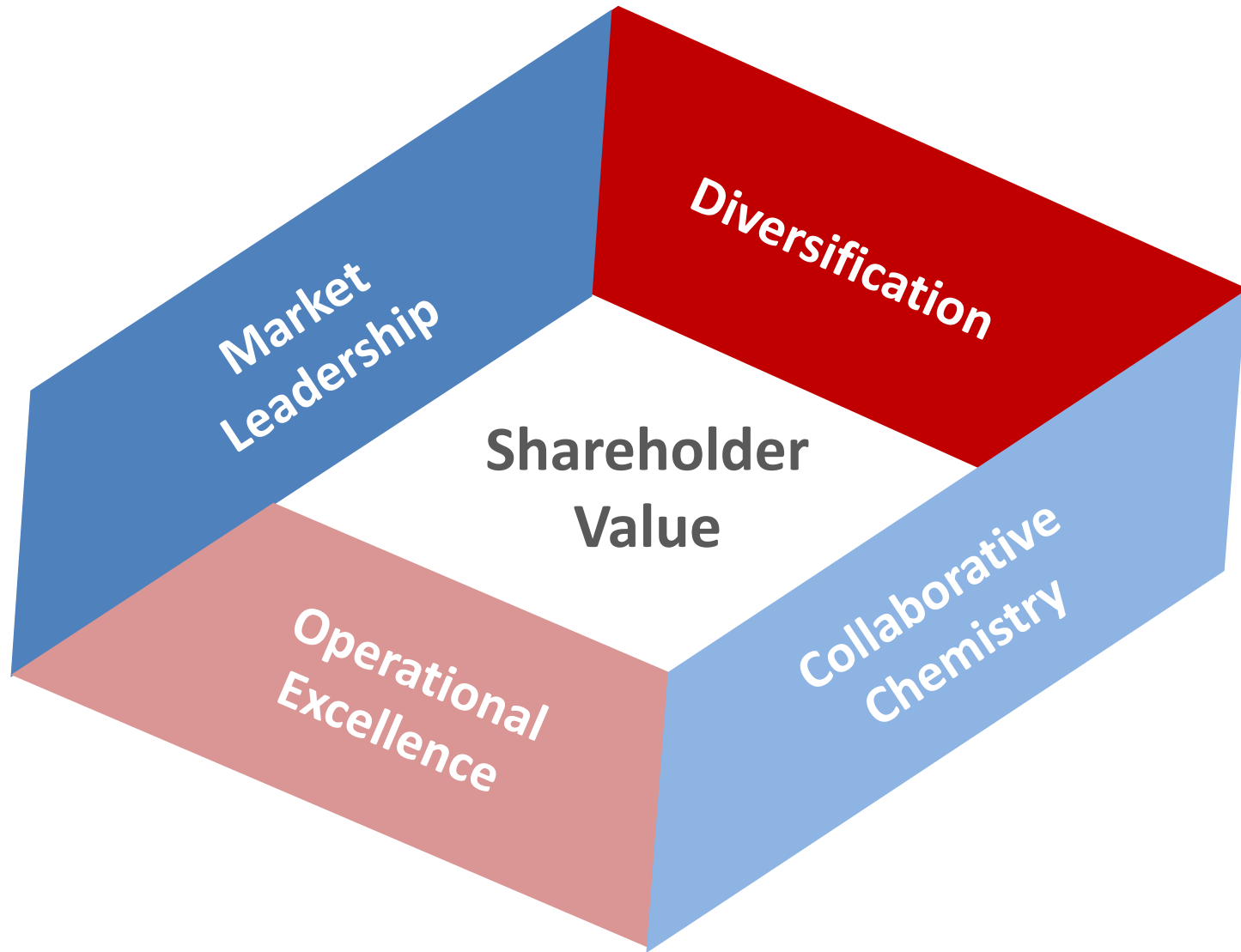
Historical net debt ratio



- For the quarter
  - Cash flow from operations was \$42.4 million
  - Capital expenditures were \$19.2 million
  - We returned \$6.6 million to our shareholders via dividends and share repurchases
  - Free cash flow conversion was 70%

**Financial strength to enable growth**





***Vision: Innovative Chemical Solutions for a Cleaner, Healthier, More Energy Efficient World***

## Market Leadership

- Surfactant acquisition in Mexico enhances market position and supply capabilities in Latin America and should be slightly accretive for the year
- Continued volume growth in anionic Consumer Products during the quarter
- Volume opportunities for Global Rigid Polyol in the second half will partially offset lower margins

## Diversification

- Volume growth in Functional Products, particularly in the Oilfield end market
- Continued growth in Global Tier 2 and Tier 3 Consumer Product customers / local heroes
- New Specialty Polyol reactor in Columbus, Georgia contributing to higher volumes

## Collaborative Chemistry

- Continued focus on developing next generation of value-added technologies

## Operational Excellence

- Optimization of our plant in Fieldsboro, New Jersey on-track to deliver savings in 2018
- Best practice, synergy and DRIVE opportunities at acquired Mexico facility
- Shutdown of our Surfactant operations at the Wesseling, Germany plant to deliver savings in 2019

## Shareholder Value





- Returned \$28.7 million to our shareholders via dividends and share repurchases
- Increased dividend 11%, marking the 51<sup>st</sup> consecutive year of an increase

**Contact information:**

**Luis Rojo – VP, CFO**

**847-446-7500**

## Update on Certain Expectations

	2017 Actual	2018 Expected
Capital expenditures 	\$79 million	\$90 to \$100 million
Debt repayments* 	\$20.7 million	\$20.7 million
Interest expense 	\$11.4 million	\$12.0 million
Effective Tax Rate** 	34%	19% to 22%

\* Debt repayments are projected according to the normal repayment schedule.

\*\* Analysis and evaluation of the new U.S. tax legislation is ongoing.

## Reconciliation of Non-GAAP Adjusted Net Income and Earnings Per Diluted Share

(\$ in thousands, except per share amounts)	Three Months Ended September 30			
	2018	EPS	2017	EPS
Net Income Reported	\$ 22,168	\$ 0.95	\$ 21,899	\$ 0.94
Deferred Compensation (Income) Expense	\$ 2,610	\$ 0.11	\$ (771)	\$ (0.03)
Business Restructuring	1,187	\$ 0.05	320	\$ 0.01
Adjusted Net Income	<u>\$ 25,965</u>	<u>\$ 1.11</u>	<u>\$ 21,448</u>	<u>\$ 0.92</u>

## Reconciliation of Pre-Tax to After-Tax Adjustments

(\$ in thousands, except per share amounts)	Three Months Ended September 30			
	2018	EPS	2017	EPS
<b>Pre-Tax Adjustments</b>				
Deferred Compensation (Income) Expense	\$ 3,434		\$ (1,244)	
Business Restructuring	1,715		426	
Total Pre-Tax Adjustments	\$ 5,149		\$ (818)	
Cumulative Tax Effect on Adjustments	\$ (1,352)		\$ 367	
After-Tax Adjustments	<u>\$ 3,797</u>	<u>\$ 0.16</u>	<u>\$ (451)</u>	<u>\$ (0.02)</u>

## Foreign Exchange Impact – Q3 2018

	<b>Surfactants</b>	<b>Polymers</b>	<b>Specialty Products</b>	<b>Consolidated</b>
(in Millions USD)				
Net Sales	(9.3)	(1.4)	(0.0)	(10.7)
Gross Profit	(1.6)	(0.1)	(0.0)	(1.7)
Operating Expenses	(0.6)	(0.1)	(0.0)	(0.7)
Operating Income	(1.1)	(0.0)	0.0	(1.1)
<b>Pretax Income</b>				<b>(0.9)</b>