



**Stepan** 

**Third Quarter 2016 Results**

**October 18, 2016**

# Cautionary Statement

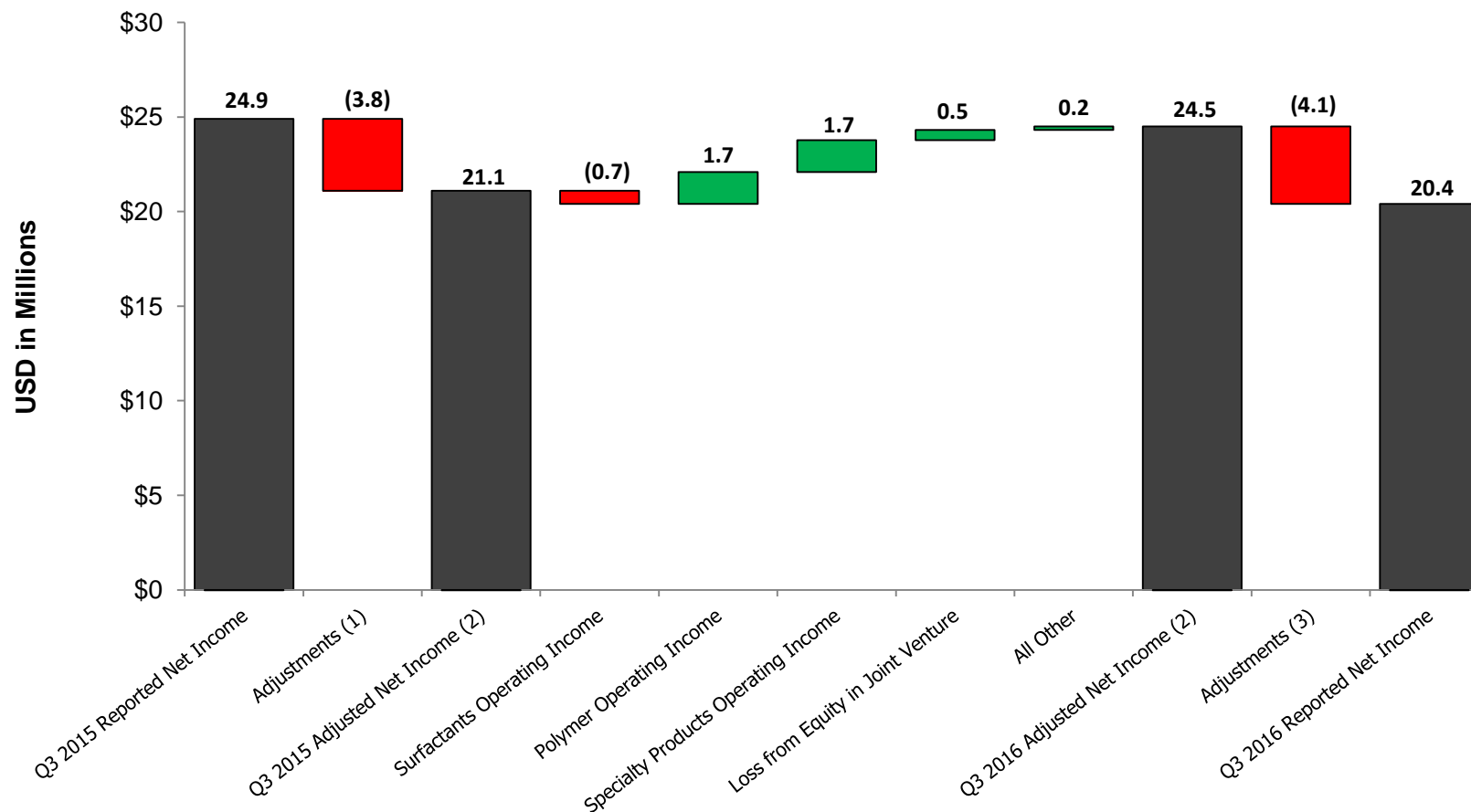
*Except for historical information, all other information in this presentation may consist of forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied. Significant risks and uncertainties are 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 related to our foreign operations, foreign currency fluctuations, certain global and regional economic conditions, costs related to expansion or other capital projects, the probability of future acquisitions and the uncertainties related to the integration of acquired businesses, the effect of customer product reformulations or new technologies, the loss of one or more key customer or supplier relationships, the costs and other effects of governmental regulation and legal and administrative proceedings, including the expenditures necessary to address and resolve environmental claims and proceedings, disruptions in production at manufacturing facilities, volatility of raw material, natural gas and energy costs, maintaining and protecting intellectual property rights, interruption or breaches of information technology systems, disruptions in transportation or significant changes in transportation costs, our level of indebtedness and general economic conditions. 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 2016 Financial Recap

- **Q3 Reported Net Income was \$20.4 million or \$0.89 per diluted share, an 18% decrease versus \$24.9 million or \$1.09 per diluted share in Q3 2015. Reported net income was adversely impacted by non-operational deferred compensation expense (\$4.1 million or \$0.17 per diluted share) due to a 22% increase in Stepan stock from Q2 2016 to Q3 2016.**
- **Q3 Adjusted Net Income\* was \$24.5 million or \$1.06 per diluted share, a 16% increase versus \$21.1 million or \$0.92 per diluted share in Q3 2015.**
- **Surfactant Operating Income was \$20.7 million, down \$1.1 million (or 5%) versus Q3 2015 due to lower results in Europe and Latin America, partially offset by continued growth in North America despite costs related to the Canadian plant shutdown.**
- **Polymer Operating Income was \$27.1 million, up \$2.5 million (or 10%) versus Q3 2015. The increase over prior year was due to volume growth within the Global Rigid Polyol business, partially offset by costs related to the 30 day government mandated plant shutdown in Germany, which has been completed.**
- **Specialty Product Operating Income was \$2.3 million, up \$2.6 million versus Q3 2015 on improved Lipid Nutrition results and timing of orders in our pharmaceutical and flavor businesses.**

# Net Income Bridge – Q3 2015 to Q3 2016

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



(1) The adjustments to Reported Net Income in Q3 2015 were related to deferred compensation income (\$3.8).

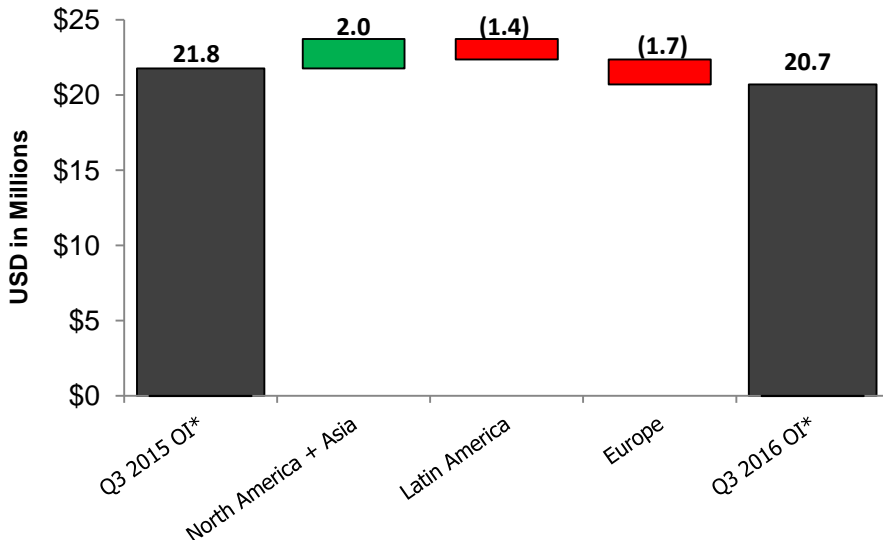
(2) Adjusted Net Income is a Non-GAAP measure which excludes certain significant, non-recurring items. See Appendix II for a reconciliation of Adjusted Net Income to Reported Net Income.

(3) The adjustments to Reported Net Income in Q3 2016 were related to deferred compensation expense (\$4.1).

# Surfactants

<i>in million \$</i>	Q3 2016	Q3 2015
<b>Net Sales</b>	<b>\$290.5</b>	<b>\$290.8</b>
<b>Operating Income</b>	<b>\$ 20.7</b>	<b>\$ 21.8</b>

- Operating Income was a \$20.7 million, a decrease of \$1.1 million over prior year. Volume was flat as compared to the prior year period.
- North America + Asia improvement was driven by higher volumes, lower raw material costs, DRIVE contributions and improved product mix in the Philippines.
- Within North America, accelerated depreciation related to the Canadian plant shutdown negatively impacted Operating Income by \$1.3 million.
- Latin America was down due to lower volumes in Brazil and Colombia.
- Closed on the acquisition of Tebras / PBC in Brazil on October 3, 2016
- After a record year in 2015, Europe results are down due to lower demand in our consumer products and distribution businesses.
- Foreign exchange negatively impacted Net Sales by \$4.7 million, with no impact to Operating Income.



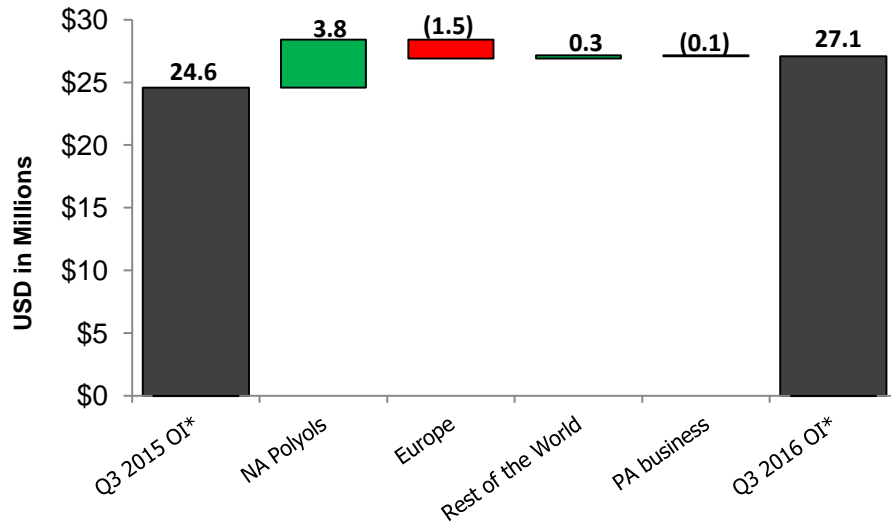
\*OI = Operating Income.

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

# Polymers

<i>in million \$</i>	Q3 2016	Q3 2015
<b>Net Sales</b>	<b>\$134.1</b>	<b>\$134.7</b>
<b>Operating Income</b>	<b>\$ 27.1</b>	<b>\$ 24.6</b>

- Operating Income was a \$27.1 million, an increase of \$2.5 million over prior year.
- North America and European Rigid Polyol volumes up 14% over prior year due to increased insulation standards and higher volume to metal panel applications.
- Construction of new Specialty Polyol reactor in Poland is complete; production to start in Q4 2016.
- Europe results negatively impacted by costs related to a planned every five year 30 day government-mandated shutdown at our site in Germany. Plant is now operating at full rates.
- In China, export shipments and lower operating costs reduced the expected losses.
- Phthalic Anhydride (PA) results decreased slightly over prior year on lower sales volume.
- Foreign exchange negatively impacted Net Sales by \$1.6 million, with no impact to Operating Income.

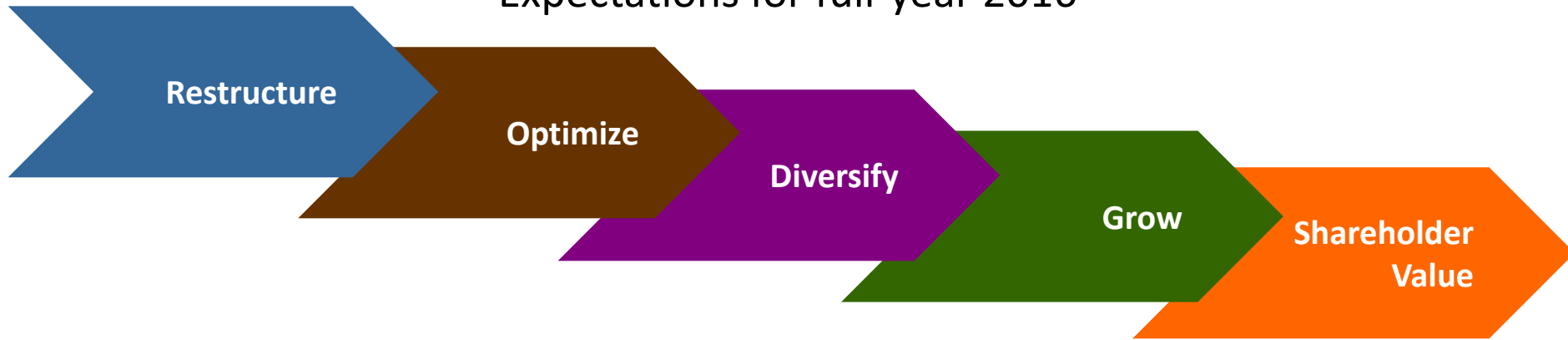


\*OI = Operating Income.

PA = Phthalic Anhydride

All amounts are shown on a pre-tax basis

## Expectations for full-year 2016



- **Record consolidated net income projected for full-year 2016**
- **Polymer volumes are expected to remain strong for the balance of 2016**
- **Surfactants is expected to deliver strong full-year 2016 results and is executing key strategic actions to enable long-term earnings growth**
- **Our internal efficiency program (DRIVE) is expected to deliver at least \$12 million of pre-tax savings**
- **Acquisition of Tebras / PBC is expected to expand and diversify our customer base in Brazil and provide an opportunity to sell our broader surfactant portfolio to Tebras/PBC's customer base**
- **Balance sheet is expected to remain strong**

# Thank you for your interest in Stepan

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# Appendix I

## Update on Certain Expectations

Item	Full Year
<b>Capital Spending</b>	<p><b>Expect between \$110MM and \$120MM for 2016 as we further invest in China, Poland and Brazil (which compares to \$119MM in 2015).</b></p>
<b>Debt</b>	<p><b>In 2015 we completed a \$100 million offering of 3.95% Senior Notes due in 2027</b></p> <p style="text-align: center;"><b>Net proceeds used primarily to fund capital expenditures and to pay off existing higher cost debt when due</b></p> <p><b>Expect 2016 interest expense to be in line with 2015</b></p> <p><b>Net debt to capital ratio as of September 30, 2016 was 16%</b></p>
<b>Effective Tax Rate</b>	<p><b>Expect between 27% and 29% in 2016</b></p> <p style="text-align: center;"><b>Previously expected between 30% and 32% in 2016</b></p>

# Appendix II

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

(\$ in thousands, except per share amounts)	Three Months Ended September 30				Nine Months Ended September 30			
	2016	EPS	2015	EPS	2016	EPS	2015	EPS
Net Income Reported	\$ 20,427	\$ 0.89	\$ 24,912	\$ 1.09	\$ 75,946	\$ 3.31	\$ 63,096	\$ 2.76
Deferred Compensation (Income) Expense	\$ 4,083	\$ 0.17	(3,814)	\$ (0.17)	\$ 7,323	\$ 0.32	778	\$ 0.03
Business Restructuring	—	—	—	—	\$ 796	\$ 0.03	—	—
Environmental Remediation Expense	—	—	—	—	—	—	341	\$ 0.01
Gain on Divestiture of Product Line	—	—	—	—	—	—	(1,774)	\$ (0.08)
Adjusted Net Income	\$ 24,510	\$ 1.06	\$ 21,098	\$ 0.92	\$ 84,065	\$ 3.66	\$ 62,441	\$ 2.73

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

(\$ in thousands, except per share amounts)	Three Months Ended September 30				Nine Months Ended September 30			
	2016	EPS	2015	EPS	2016	EPS	2015	EPS
<b>Pre-Tax Adjustments</b>								
Deferred Compensation (Income) Expense	\$ 6,585		\$ (6,152)		\$ 11,811		\$ 1,255	
Business Restructuring	—		—		\$ 1,061		—	
Environmental Remediation Expense	—		—		—		\$ 550	
Gain on Divestiture of Product Line	—		—		—		\$ (2,862)	
Total Pre-Tax Adjustments	\$ 6,585		\$ (6,152)		\$ 12,872		\$ (1,057)	
Cumulative Tax Effect on Adjustments	\$ (2,502)		\$ 2,338		\$ (4,753)		\$ 402	
After-Tax Adjustments	\$ 4,083	\$ 0.17	\$ (3,814)	\$ (0.17)	\$ 8,119	\$ 0.35	\$ (655)	\$ (0.03)

# Appendix III

## Foreign Exchange Impact – Q3 2016

	<b>Surfactants</b>	<b>Polymers</b>	<b>Specialty</b>	<b>Consolidated</b>
(in Millions USD)				
Net sales	(4.7)	(1.6)	0.0	(6.3)
Gross Profit	(0.2)	(0.2)	0.0	(0.4)
Operating Expenses	(0.2)	(0.1)	0.0	(0.3)
Operating Income	(0.0)	(0.0)	0.0	0.0
<b>Pretax Income</b>				<b>(0.1)</b>