Stepan

Fourth Quarter 2016 Results

February 22, 2017

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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 (the Exchange Act). 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, the 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," "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.

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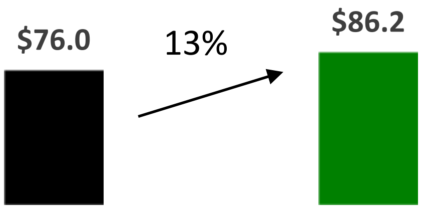
These forward-looking statements are made only as of the date hereof, and Stepan Company undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

Stepan Fourth Quarter and Full Year 2016 Earnings Conference Call Agenda

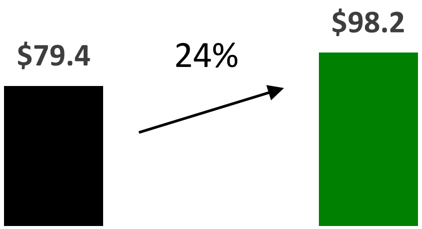
Full-Year Financial Highlights	F. Quinn Stepan Jr., *Chairman, President and Chief Executive Officer*
Fourth Quarter and Full Year Results	Scott Beamer *Vice President and Chief Financial Officer*
Financial and Strategic Outlook	F. Quinn Stepan Jr., *Chairman, President and Chief Executive Officer*
Analyst / Shareholder Questions	
Closing Remarks	F. Quinn Stepan Jr., *Chairman, President and Chief Executive Officer*

CEO Remarks – 2016 Highlights

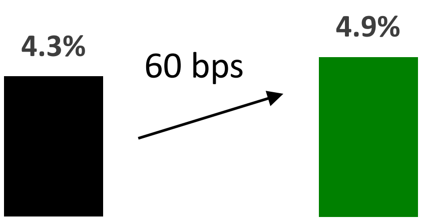
Reported Net Income



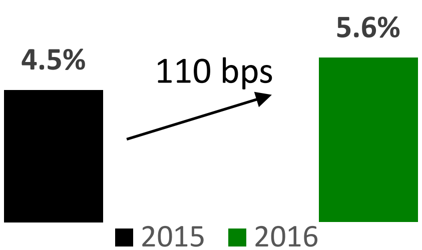
Adjusted Net Income*



Reported Net Income as a % of Sales



Adjusted Net Income as a % of Sales



Operating Income Drivers in 2016

- **Our internal operational efficiency program, DRIVE, contributed $15 million in pre-tax improvements.**
  - **Through active employee engagement, we used the process to reduce costs, improve our raw material margins and increase capacity of our units.**
  - **We expect the benefits to carryover into 2017.**
- **Surfactants delivered income growth on improved utilization from a new Laundry supply contract and DRIVE contributions, which was offset by non-recurring costs.**
- **Polymers results benefited from increased Rigid Polyol volumes due to global energy conservation efforts and new customer volumes.**
- **Restored Lipid Nutrition profitability.**
- **Reduced net debt from 23% to 13%.**

Operating Income Margins

Surfactants **	↓	(20 bps)	⇒	8.6%
Polymers	↑	350 bps	⇒	19.4%
Specialty Products	↑	690 bps	⇒	12.5%

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

*** Includes all non-recurring costs*

Fourth Quarter 2016 Financial Recap

- **Q4 Reported Net Income was $8.4 million or $0.36 per diluted share, a decrease versus $12.9 million or $0.56 per diluted share in Q4 2015. Reported net income was adversely impacted by the following non-operational and/or non-recurring items:**
  - **Deferred compensation expense ($2.7 million or $0.11 per diluted share).**
  - **Restructuring expense related to (i) severance and the decommissioning of the Canadian plant ($1.3 million or $0.06 per diluted share), (ii) the asset write-down related to our investment in Louisiana ($1.4 million or $0.06 per diluted share) and (iii) the asset write-down at the Bahia, Brazil site ($1.3 million or $0.06 per diluted share).**
  - **Income generated on a negotiated customer contract termination fee related to the Bahia, Brazil site was $2.8 million or $0.12 per diluted share.**

- **Q4 Adjusted Net Income* was $12.3 million or $0.52 per diluted share, a decrease versus $17.0 million or $0.74 per diluted share in Q4 2015.**

- **Results were negatively impacted by $8.9 million of pre-tax non-recurring costs, of which $8.3 million impacted Surfactants and $0.6 million impacted Polymers. The after-tax impact was $6.1 million, or $0.26 per diluted share.**

- **Surfactant Operating Income was $14.6 million, down $9.7 million versus Q4 2015 due primarily to $8.3 million of non-recurring expenses, accelerated deprecation related to the Canadian plant shutdown, higher raw material costs, and lower volumes.**

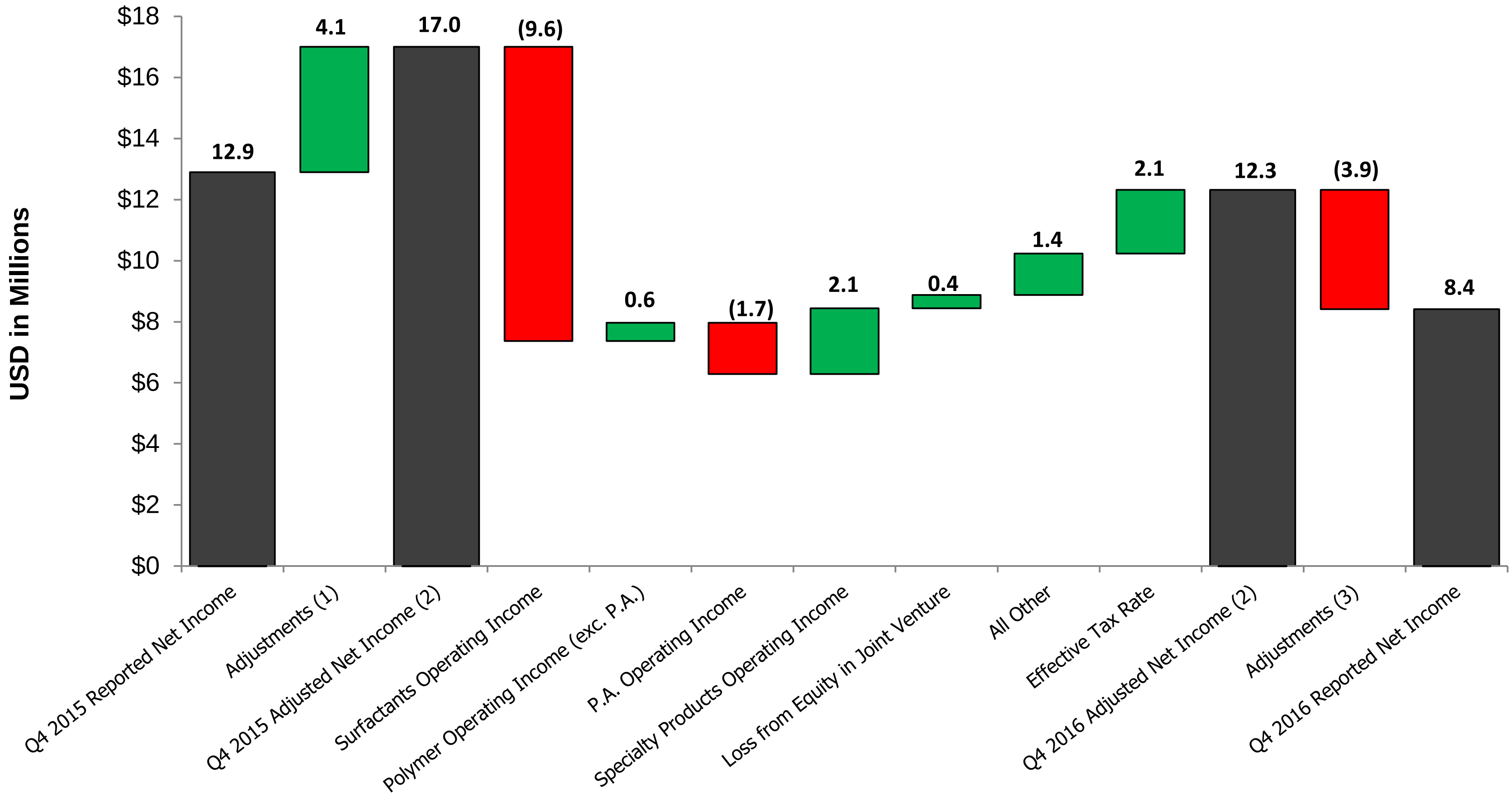
- **Polymer Operating Income was $16.5 million, down $1.6 million versus Q4 2015 due to a scheduled P.A. maintenance shutdown and operating costs at the new plant in China.**

- **Specialty Product Operating Income was $4.2 million, up $3.3 million versus Q4 2015 on improved results within our food and flavor business.**

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

Net Income Bridge – Q4 2015 to Q4 2016

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



(1) *The adjustments to Reported Net Income in Q4 2015 were related to deferred compensation expense ($2.7) and the TIORCO JV dissolution ($1.5).*

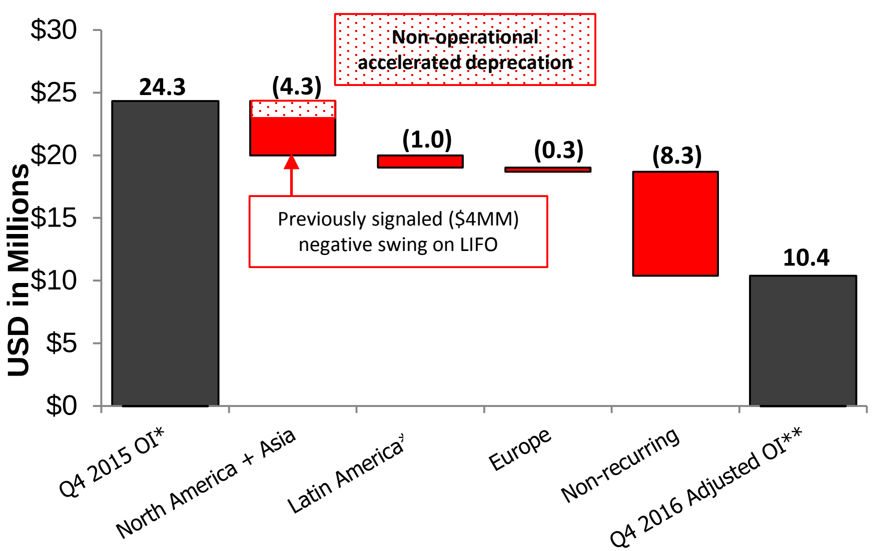
(2) *Adjusted Net Income is a Non-GAAP measure which excludes certain significant, non-recurring items. See Appendix II for a reconciliation of Adjusted Net Income to Reported Net Income.*

(3) *The adjustments to Reported Net Income in Q4 2016 were related to deferred compensation expense ($2.7), restructuring costs ($4.0) and income related to a negotiated customer contract termination fee related to the Bahia, Brazil site ($2.8).*

Surfactants

Although Q4 was impacted by LIFO and non-recurring items, the base business remains solid

in million $	Q4 2016	Q4 2015
Net Sales	**$282.5**	**$284.7**
Reported Operating Income	**$ 14.6**	**$ 24.3**
Adjusted Operating Income**	**$ 10.4**	**$ 24.3**



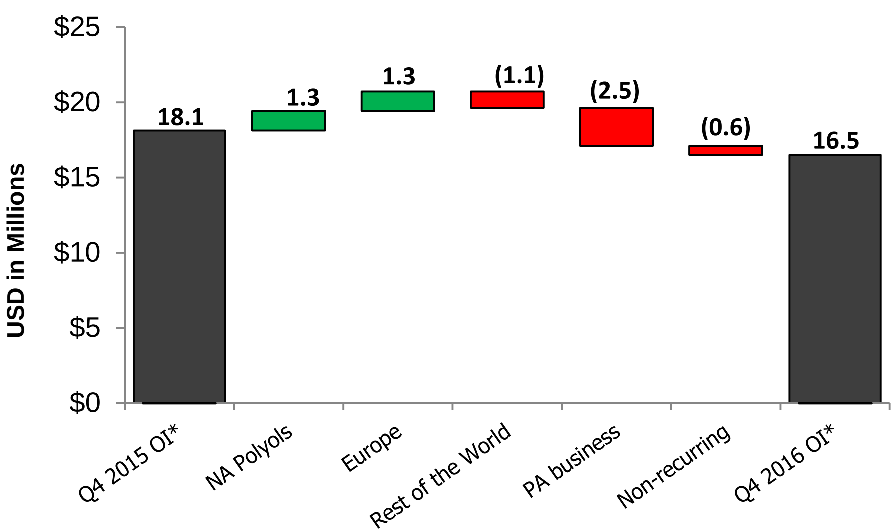
**OI = Operating Income*
*** Adjusted Operating Income is a non-GAAP measure. Refer to Appendix III.*
All amounts are shown on a pre-tax basis (unless noted differently)

- Reported Operating Income decreased $9.7 million over prior year. Volume declined 1%.
- North America decline was driven by lower margin on higher raw material costs, lower consumer product sales volume and accelerated depreciation related to the full shutdown of the Canadian plant. This was partially offset by favorable product mix within Functional Products.
- Latin America results, excluding a customer contract termination, were negatively impacted by lower sales volumes, partially offset by improved mix.
- Completed acquisition of Tebras/ PBC is expected to expand and diversify our customer base in Brazil and to provide an opportunity to sell our broader surfactant portfolio in 2017.
- European results negatively impacted by unfavorable foreign currency translation in the UK.
- Non-recurring costs represent European product claim commitments and remediation costs in the United States.
- Foreign exchange negatively impacted Net Sales by $6.4 million and Operating Income by $0.2 million.

Polymers

Seventh consecutive record year of operating income

in million $	Q4 2016	Q4 2015
Net Sales	**$116.3**	**$113.8**
Operating Income	**$ 16.5**	**$ 18.1**



- Operating Income decreased $1.6 million over prior year. Volume increased 6%.
- Global Rigid Polyol volumes up 14% over prior year due to strong market demand from increased insulation standards and growth in construction.
- New Specialty Polyol reactor in Poland began production in Q3 2016.
- China results negatively impacted by higher operating costs.
- Phthalic Anhydride (PA) results were down due to a scheduled maintenance shutdown.
- Non-recurring expense represent remediation costs in the United States.
- Foreign exchange negatively impacted Net Sales by $1.6 million and Operating Income by $0.1 million.

**OI = Operating Income.*
PA = Phthalic Anhydride
All amounts are shown on a pre-tax basis (unless noted differently)

Full Year 2016 Financial Recap

- **2016 Reported Net Income was a record $86.2 million or $3.73 per diluted share, a 13% increase versus $76.0 million or $3.32 per diluted share in 2015. Reported Net Income for 2016 included a few non-operational and/or non-recurring items:**
  - **Deferred compensation expense ($10.0 million or $0.43 per diluted share).**
  - **Restructuring expense related to (i) closure of the Canadian plant ($2.1 million or $0.09 per diluted share), (ii) the asset write-down related to our investment in Louisiana ($1.4 million or $0.06 per diluted share) and (iii) the asset write-down at the Bahia, Brazil site ($1.3 million or $0.06 per diluted share).**
  - **Income on a negotiated customer contract termination fee related to the Bahia, Brazil site was $2.8 million or $0.12 per diluted share.**

- **Adjusted Net Income* was a record $98.2 million or $4.25 per diluted share, a 24% increase versus $79.4 million or $3.46 per diluted share in 2015.**

- **Surfactant Operating Income was $99.8 million, down from $104.1 million versus 2015 due to non-operational accelerated depreciation costs related to the full shutdown of the Canadian plant ($4.5 million) and non-recurring costs related to European product claim commitments ($7.4 million) and remediation costs in the United States ($2.8 million). This was partially offset by improved performance in North America Laundry and DRIVE contributions.**

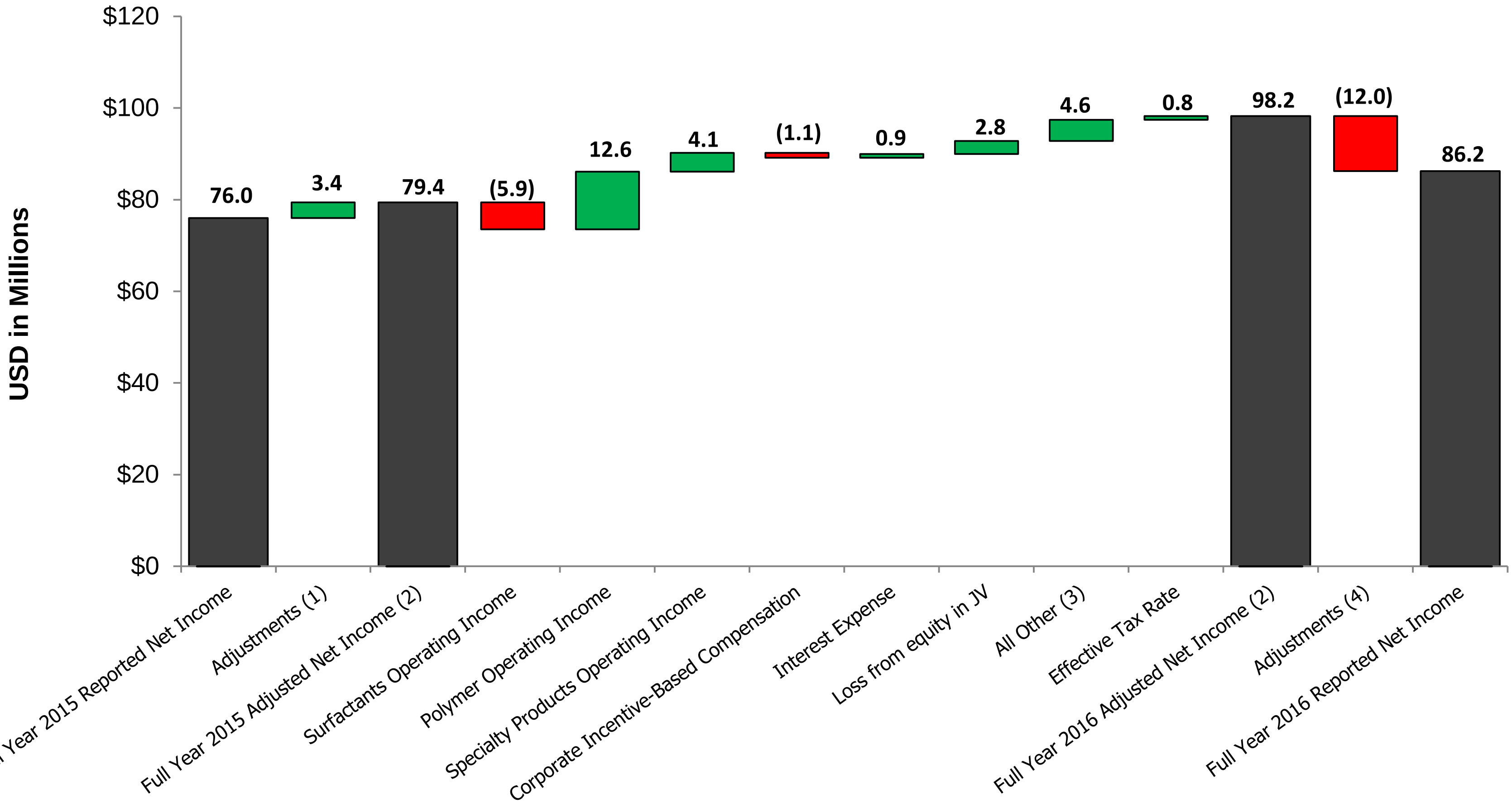
- **Polymers delivered its seventh consecutive record year despite being down for the quarter. Operating Income of $96.8 million increased from $80.9 million in the prior year. The increase was primarily due to volume growth within the Global Rigid Polyol business and improvements related to our internal efficiency program.**

- **Specialty Product Operating Income was $10.7 million, up $6.3 million versus $4.4 million reported in 2015 due to improved Lipid Nutrition results from actions taken in the fourth quarter of 2015 to lower costs, enhanced supply chain efficiencies and higher MCT volumes.**

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

Net Income Bridge – Full Year 2015 to Full Year 2016

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



(1) The adjustments to Reported Net Income in 2015 were related to deferred compensation expense ($3.5), the Tiorco JV dissolution expense ($1.5), gain on divestiture of product line ($1.8), and environmental remediation liability expense ($0.3).

(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) All Other primarily represents external consulting fees related to the efficiency initiative.

(4) The adjustments to Reported Net Income in 2016 were related to deferred compensation expense ($10.0), restructuring costs ($4.8) and income related to a negotiated customer contract termination fee related to the Bahia, Brazil site ($2.8).

Full-year 2016 results

Restructure
- Delivered benefits from TIORCO dissolution
- Restored Lipid Nutrition profitability
- Transitioned ethoxylation volumes from Canada to other sites in Stepan network. Utilized outside toller as necessary

Optimize
- Delivered income growth from efficiency program
- Full year of new commodity sulfonation volume positively impacted utilization of assets
- Government mandated maintenance shutdown in Germany (30 days)

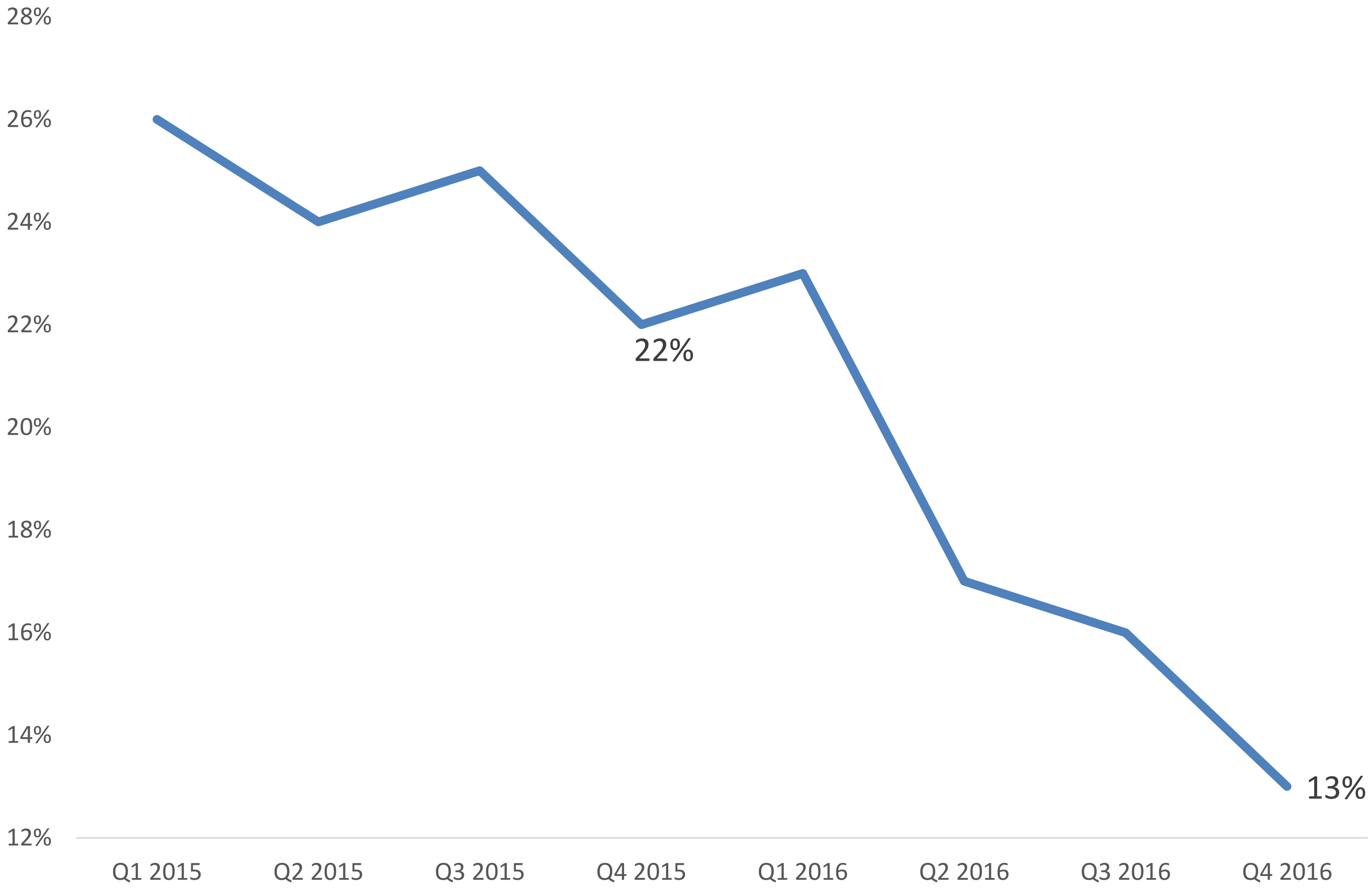
Diversify
- Start-up expenses and slower economic growth in China negatively impacted earnings
- Start-up of new CASE capacity in Poland was delayed

Grow
- Increased volumes for Rigid Polyol due to global energy conservation efforts
- New products / new customers in Latin America due to Tebras acquisition

Shareholder Value
- EPS grew
- Balance sheet remains strong
- Increased dividend for the 49th consecutive year

Legend:
- Represents a positive item
- Represents a neutral item
- Represents a headwind

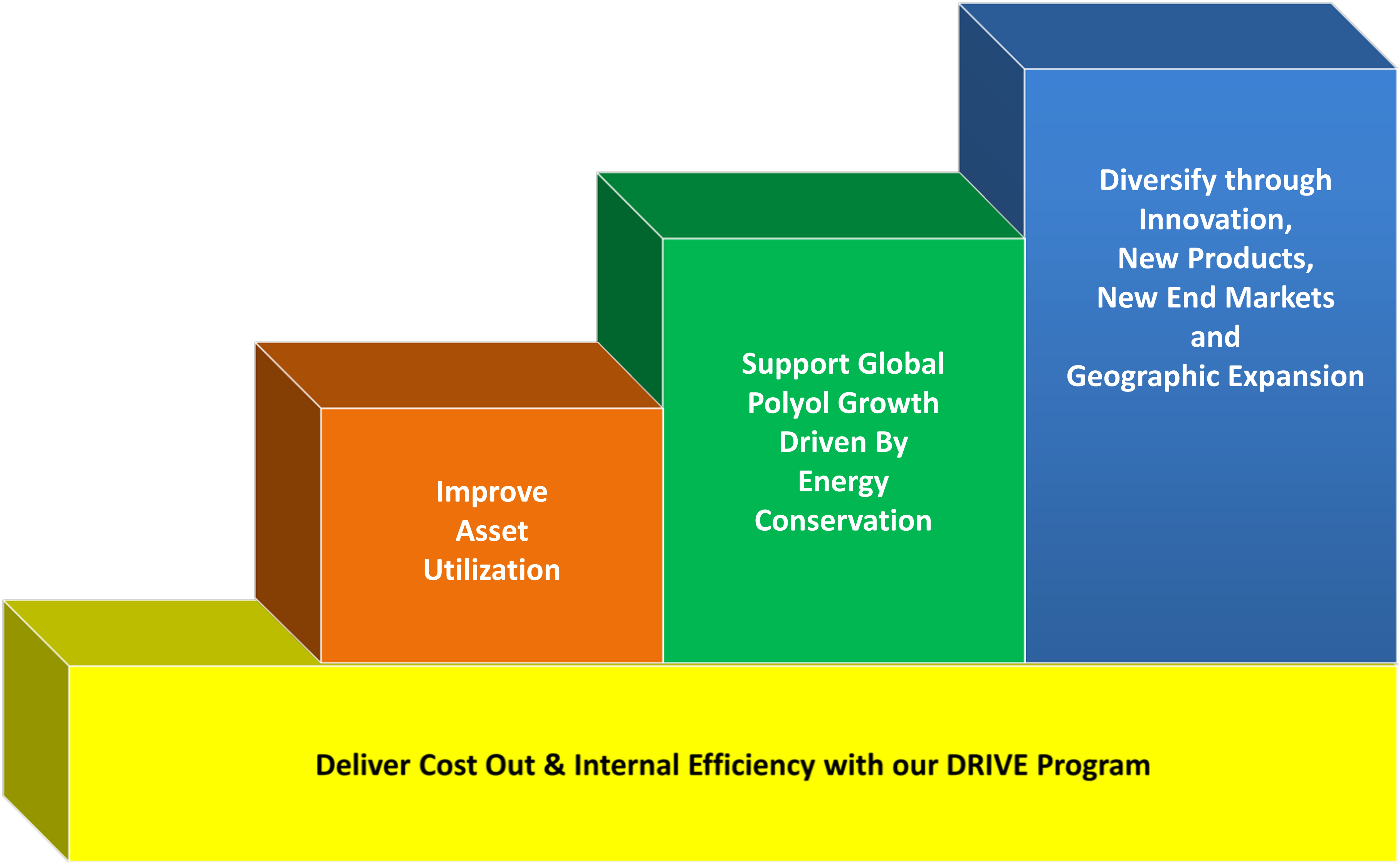
Net Debt Ratio



Financial strength to enable growth

The net debt ratio is defined as total debt minus cash (i.e., net debt) divided by net debt plus equity.

Our Path to Increased Shareholder Value



Thank you for your interest in Stepan

<u>Contact information:</u>

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Appendix I
Update on Certain Expectations

	2016	2017
Capital expenditures →	**$103 million**	**$100 to $120 million**
Debt repayments →	**$11.4 million**	**$20.7 million**
Interest expense →	**$13.2 million**	**$12.2 million**
Effective Tax Rate →	**24%**	**28% to 30%**

Appendix II

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

	Three Months Ended December 31				Twelve Months Ended December 31			
($ in thousands, except per share amounts)	2016	EPS	2015	EPS	2016	EPS	2015	EPS
Net Income Reported	$ 8,417	$ 0.36	$ 12,872	$ 0.56	$ 86,191	$ 3.73	$ 75,968	$ 3.32
Deferred Compensation (Income) Expense	$ 2,654	$ 0.11	2,675	$ 0.12	$ 9,977	$ 0.43	3,453	$ 0.15
Business Restructuring	4,028	$ 0.17	—	—	$ 4,824	$ 0.21	—	—
Contract Termination Settlement	(2,805)	$ (0.12)	—	—	$ (2,805)	$ (0.12)	—	—
Environmental Remediation Expense	—	—	—	—	—	—	341	$ 0.01
Gain on Divestiture of Product Line	—	—	—	—	—	—	(1,774)	$ (0.08)
TIORCO JV Dissolution	—	—	$ 1,461	$ 0.06	—	—	$ 1,461	$ 0.06
Adjusted Net Income	$ 12,294	$ 0.52	$ 17,007	$ 0.74	$ 98,187	$ 4.25	$ 79,449	$ 3.46

Reconciliation of Pre-Tax to After-Tax Adjustments

	Three Months Ended December 31				Twelve Months Ended December 31			
($ in thousands, except per share amounts)	2016	EPS	2015	EPS	2016	EPS	2015	EPS
Pre-Tax Adjustments								
Deferred Compensation (Income) Expense	$ 4,281		$ 4,314		$ 16,092		$ 5,569	
Business Restructuring	6,003		—		$ 7,064		—	
Contract Termination Settlement	(4,250)		—		$ (4,250)		—	
Environmental Remediation Expense	—		—		—		$ 550	
Gain on Divestiture of Product Line	—		—		—		$ (2,862)	
TIORCO JV Dissolution	—		2,356		—		$ 2,356	
Total Pre-Tax Adjustments	$ 6,034		$ 6,670		$ 18,906		$ 5,613	
Cumulative Tax Effect on Adjustments	$ (2,157)		$ (2,534)		$ (6,910)		$ (2,132)	
After-Tax Adjustments	$ 3,877	$ 0.16	$ 4,136	$ 0.18	$ 11,996	$ 4.25	$ 3,481	$ 3.46

Appendix III

Surfactants Reconciliation of Non-GAAP Adjusted Operating Income

in million $	**Q4 2016**	**Q4 2015**
Reported Operating Income	**$ 14.6**	**$ 24.3**
Contract Termination Settlement	($4.2)	-
Adjusted Operating Income	**$ 10.4**	**$ 24.3**

Appendix IV

Foreign Exchange Impact – Q4 2016

	Surfactants	Polymers	Specialty	Consolidated
(in Millions USD)				
Net sales	(6.4)	(1.6)	(0.0)	(8.1)
Gross Profit	(0.2)	(0.2)	(0.0)	(0.4)
Operating Expenses	(0.0)	(0.2)	(0.0)	(0.2)
Operating Income	(0.2)	(0.1)	(0.0)	(0.3)
Pretax Income				**(0.3)**