



Stepan 

Fourth Quarter 2018 Results

February 21, 2019

Cautionary Statement

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.

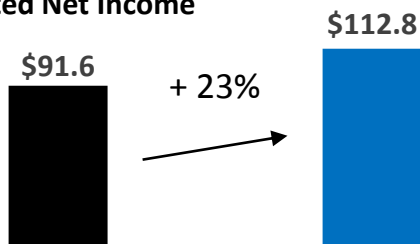
There are a number of risks, uncertainties and other important factors, many of which are beyond Stepan Company's control, that could cause actual results to differ materially from the forward-looking statements contained in this presentation. Such risks, uncertainties and other important factors include, among other factors, the risks, uncertainties and factors described in Stepan Company's Form 10-K, Form 10-Q and Form 8-K 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, 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.

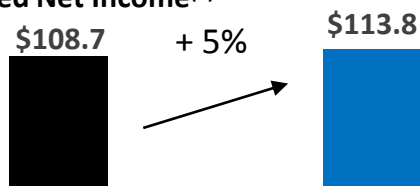
| | |
|--------------------------------------|---|
| | |
| Full-Year Financial Highlights | F. Quinn Stepan, Jr., <i>Chairman, President and Chief Executive Officer</i> |
| Fourth Quarter and Full-Year Results | Luis Rojo, <i>Vice President and Chief Financial Officer</i> |
| Financial and Strategic 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> |

CEO Remarks – 2018 Highlights

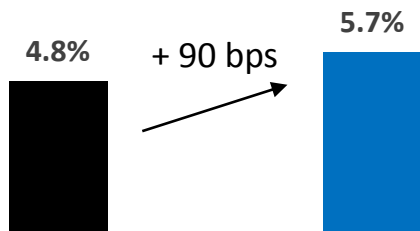
Reported Net Income



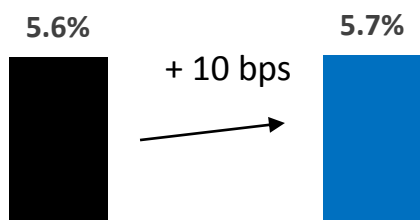
Adjusted Net Income⁽¹⁾



Reported Net Income as a % of Sales



Adjusted Net Income as a % of Sales



■ 2017 ■ 2018

- Record net income in 2018; eighth record annual net income over the last eleven years.
- Surfactants delivered record operating income due to strong demand in North America and manufacturing optimization.
- Polymer results were negatively impacted by margin challenges in North America and lower European volume.
- Specialty Product results improved due to strong volume and productivity in our flavor and pharmaceutical businesses.
- No net debt at year end.

Operating Income Margins

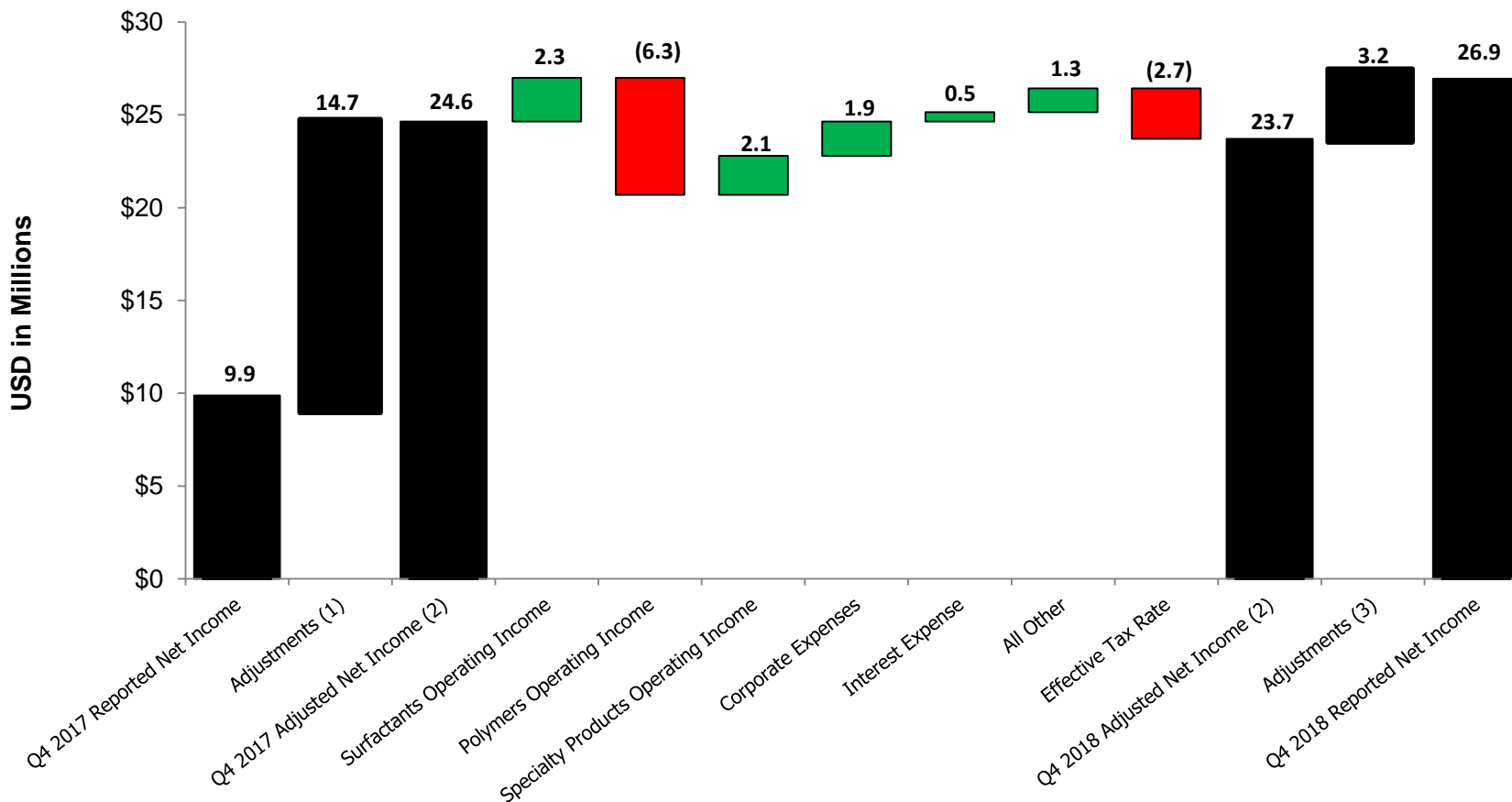
| | | | | |
|--------------------|---|-----------|---|-------|
| Surfactants | ↑ | 60 bps | → | 9.9% |
| Polymers | ↓ | (290 bps) | → | 12.2% |
| Specialty Products | ↑ | 220 bps | → | 14.5% |

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

- **Q4 Reported Net Income was \$26.9 million, or \$1.16 per diluted share, a 173% increase versus \$9.9 million, or \$0.42 per diluted share, in Q4 2017.**
- **Q4 Adjusted Net Income⁽¹⁾ was \$23.7 million, or \$1.02 per diluted share, a 4% decrease versus \$24.6 million, or \$1.06 per diluted share, in Q4 2017. Adjusted Net Income in Q4 2018 excluded the following non-operational items:**
 - **Deferred compensation income of \$3.4 million, or \$0.15 per diluted share.**
 - **Restructuring expense of \$0.2 million, or \$0.01 per diluted share.**
- **Reported Surfactant Operating Income was \$31.8 million, an increase of \$3.1 million, or 11%, versus Q4 2017. The increase was primarily due to higher margins in North America and contributions from the first quarter acquisition of a surfactant facility in Mexico.**
- **Reported Polymer Operating Income was \$10.8 million, a decrease of \$8.3 million, or 44%, versus Q4 2017. The decrease over prior year was primarily due to margin challenges, lower European volume and expenses related to the scheduled Phthalic Anhydride (PA) maintenance turnaround.**
- **Reported Specialty Products Operating Income was \$5.1 million, an increase of \$2.9 million versus Q4 2017, primarily due to higher volume and margins in our food business and anticipated order timing differences within our pharmaceutical business.**

Net Income Bridge – Q4 2017 to Q4 2018

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



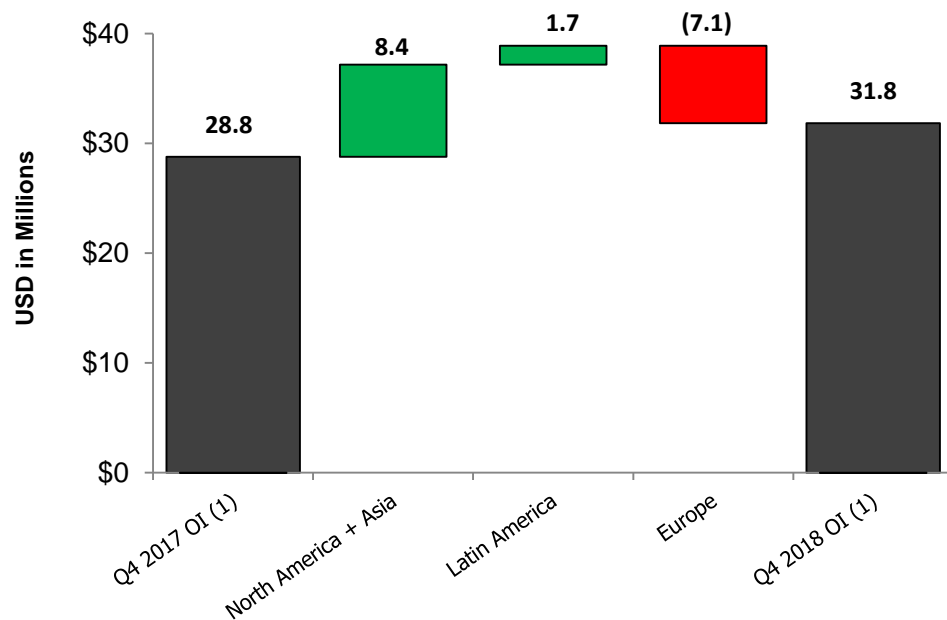
(1) The adjustments to Reported Net Income in Q4 2017 consisted of net expense from the U.S. tax reform bill of \$14.9 million, business restructuring expense of \$0.8 million and deferred compensation income of \$1.0 million.

(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 Q4 2018 consisted of deferred compensation income of \$3.4 million and restructuring costs of \$0.2 million.

Higher margins in North America drove profit improvement

| <i>in millions \$</i> | Q4 2018 | Q4 2017 |
|-------------------------|----------------|----------------|
| Net Sales | \$323.2 | \$324.2 |
| Operating Income | \$ 31.8 | \$ 28.8 |



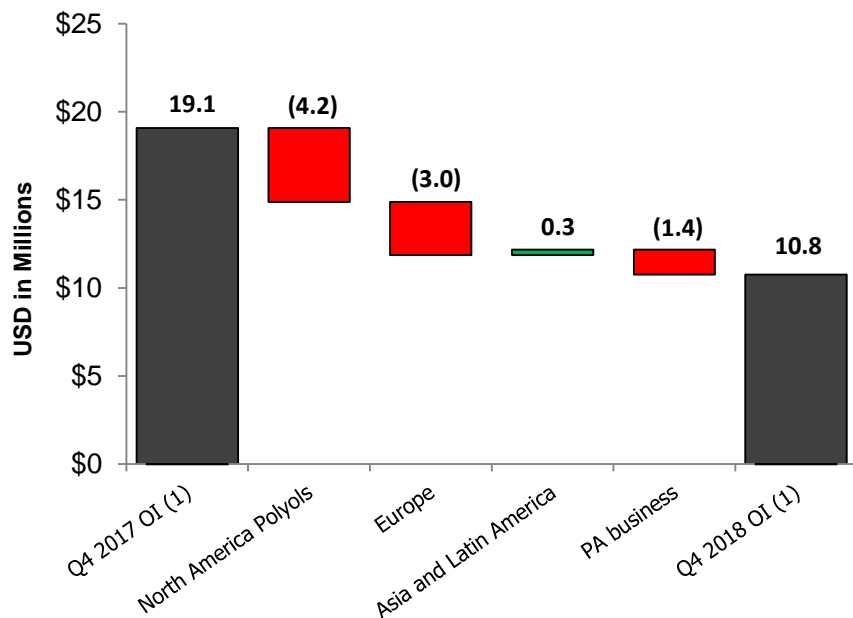
- Reported Operating Income was \$31.8 million, an increase of \$3.1 million, or 11%, compared to the prior year. Net Sales were flat and volume increased 2%. Organic⁽²⁾ Net Sales and volume decreased 1% and 2%, respectively.
- North American increase was primarily driven by favorable mix on sales through our distribution channel and manufacturing cost savings.
- Latin American results improved primarily due to increased demand in Brazil and strong sales volume related to the Q1 acquisition in Mexico. The acquisition was accretive for the quarter and the full year.
- European results decreased primarily due to the favorable resolution of a product claim in Q4 2017. Lower volume also unfavorably impacted results.
- Foreign exchange negatively impacted Net Sales by \$8.9 million and Operating Income by \$0.7 million.

(1) OI = Operating Income

(2) Organic = a non-GAAP measure which excludes 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> | Q4 2018 | Q4 2017 |
|-------------------------|----------------|----------------|
| Net Sales | \$123.0 | \$131.1 |
| Operating Income | \$ 10.8 | \$ 19.1 |



- Reported Operating Income was \$10.8 million, a decrease of \$8.3 million, or 44%, compared to the prior year. Net Sales and volume decreased 6% and 4%, respectively. Foreign exchange negatively impacted Net Sales by 2%.
- Global Polyol volume decreased 4%, with Global Rigid Polyol volume decline of 3%.
 - North American volume decreased due primarily to lower Specialty Polyol volumes.
 - European volume decreased versus prior year levels due to the lingering effects of the 2017 MDI⁽²⁾ shortages.
- North American and European results were negatively impacted by margin pressures during the quarter.
- PA results were down due to a scheduled PA maintenance turnaround.
- Foreign exchange negatively impacted Net Sales by \$2.3 million and Operating Income by \$0.1 million.

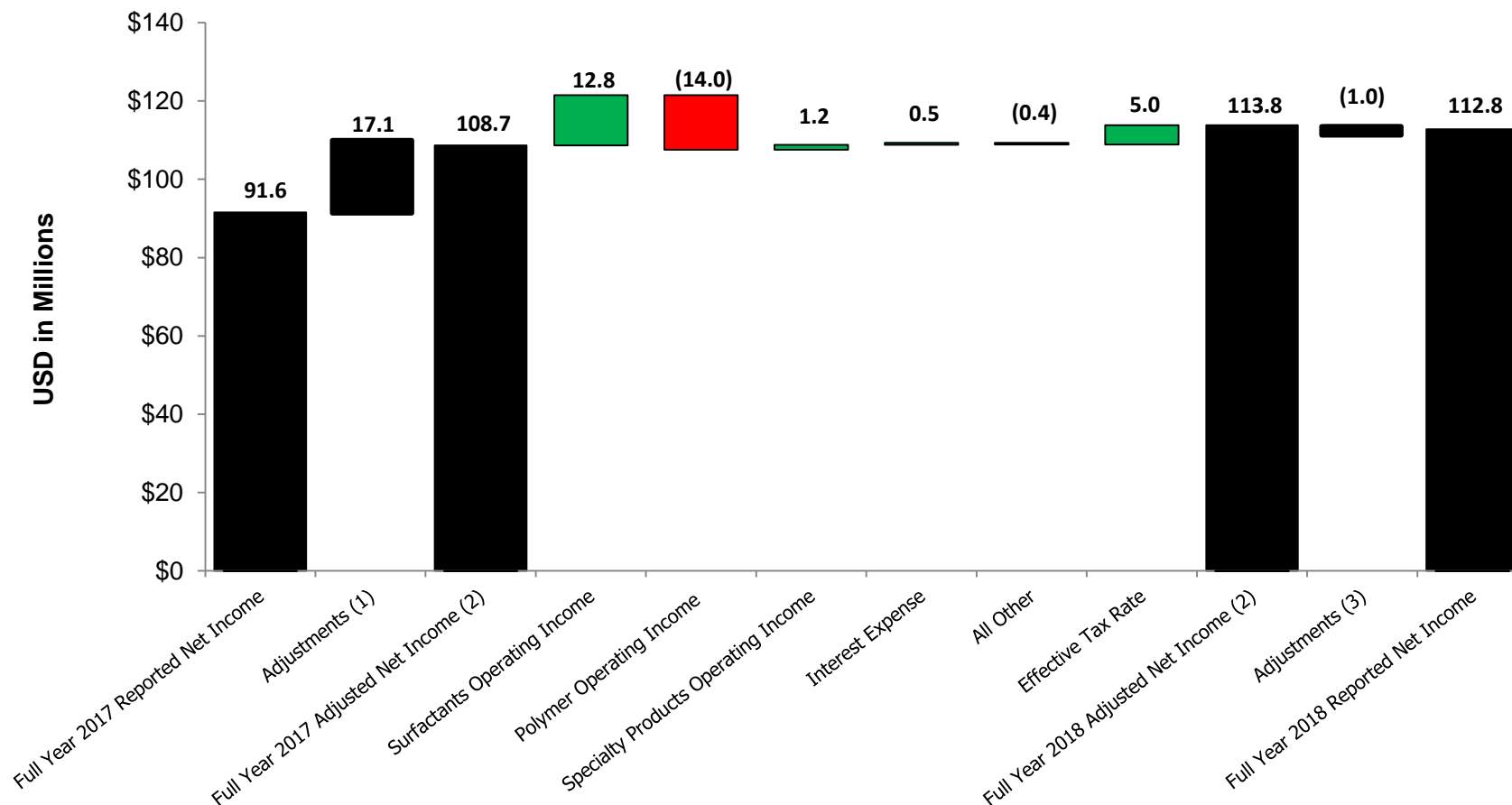
(1) OI = Operating Income

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

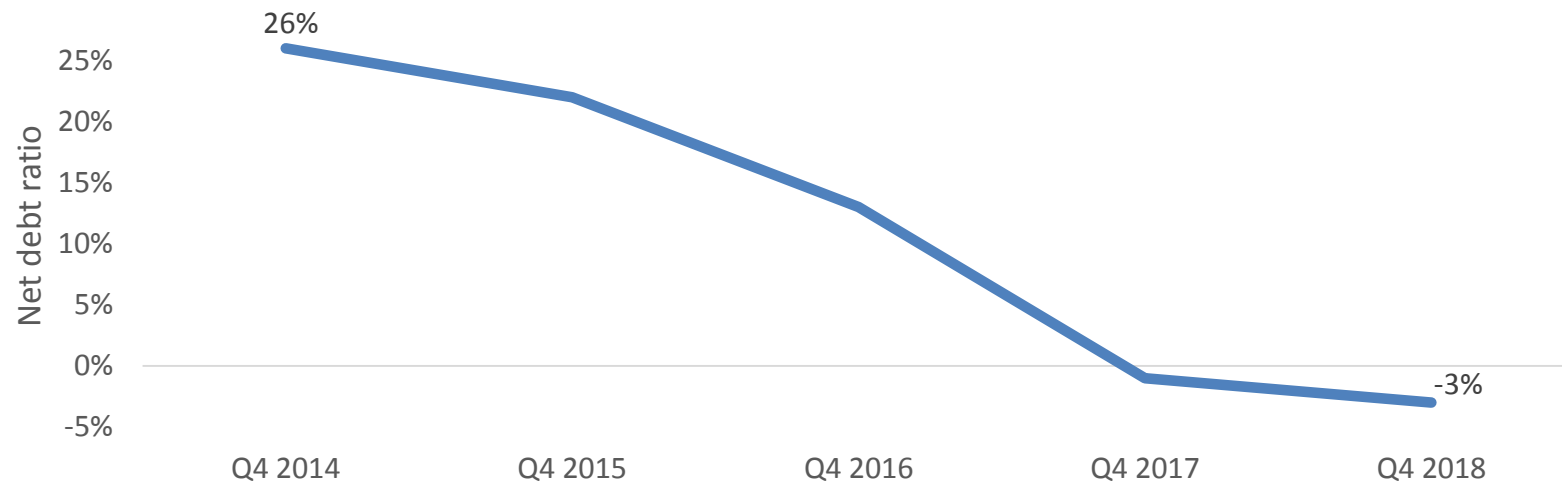
All amounts are shown on a pre-tax basis (unless noted differently)

- **2018 Reported Net Income was a record \$112.8 million, or \$4.83 per diluted share, a 23% increase versus \$91.6 million, or \$3.92 per diluted share, in 2017. Reported Net Income for 2018 included the following non-operational and/or non-recurring items:**
 - **Deferred compensation income of \$0.8 million, or \$0.03 per diluted share.**
 - **Restructuring expense of \$1.8 million, or \$0.08 per diluted share.**
- **Adjusted Net Income⁽¹⁾ was a record \$113.8 million, or \$4.88 per diluted share, a 5% increase versus \$108.7 million, or \$4.65 per diluted share, in 2017.**
- **Reported Surfactant Operating Income was a record \$137.5 million, up from \$120.9 million in 2017 due to strong demand in North America and manufacturing optimization efforts.**
- **Reported Polymer Operating Income was \$64.5 million, down from \$83.0 million in 2017 due to margin challenges in North America and lower European volume.**
- **Reported Specialty Product Operating Income was \$11.7 million, up \$1.7 million versus \$10.0 million reported in 2017 due to strong volume and productivity in our flavor and pharmaceutical business.**

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



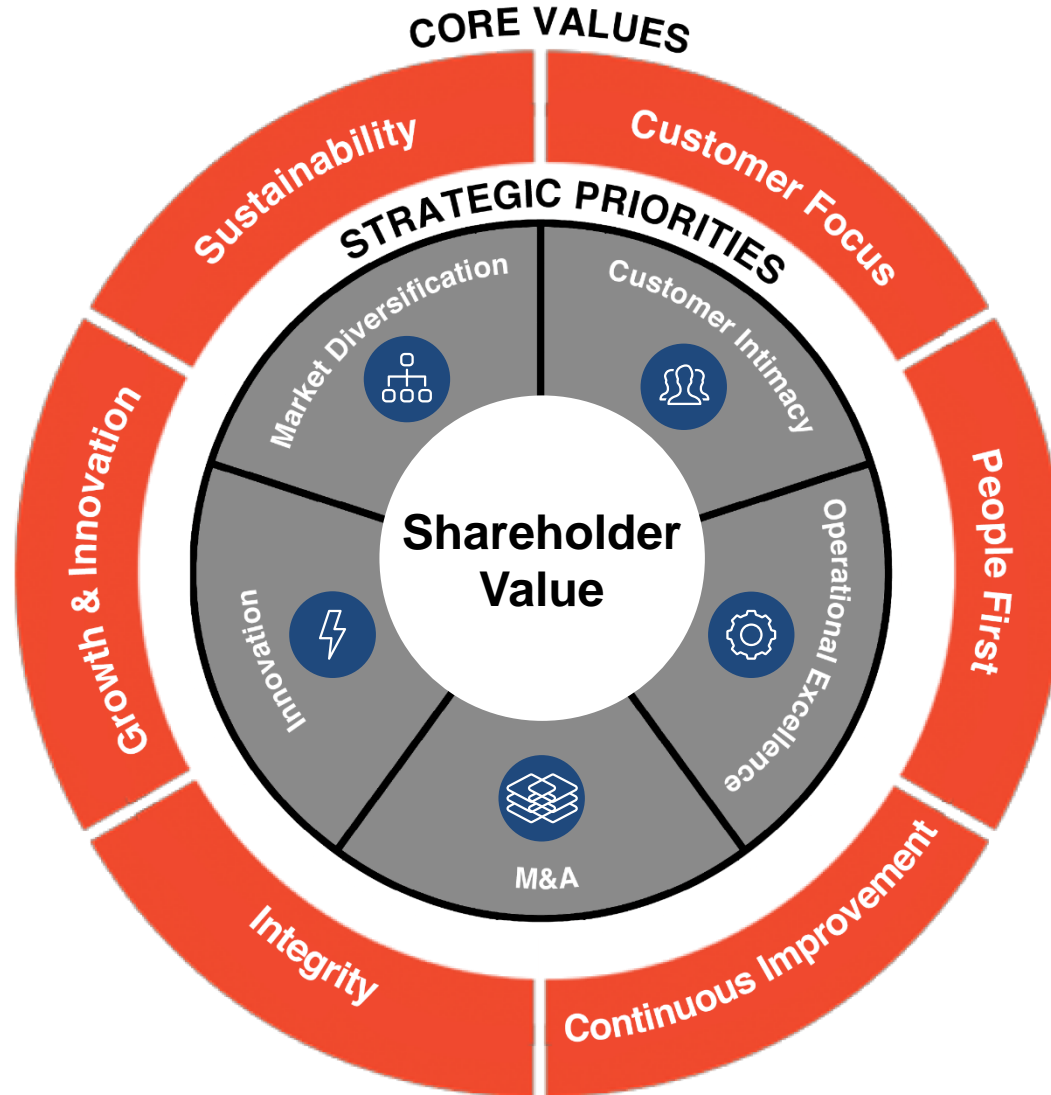
- (1) The adjustments to Reported Net Income in 2017 were related to net expense from the U.S. tax reform bill of \$14.9 million and restructuring costs of \$2.2 million.
- (2) Adjusted Net Income is a Non-GAAP measure which excludes certain significant, non-recurring items. See Appendix II for a reconciliation of Adjusted Net Income to Reported Net Income.
- (3) The adjustments to Reported Net Income in 2018 were related to deferred compensation income of \$0.8 million and restructuring costs of \$1.8 million.

Historical net debt ratio⁽¹⁾

- For 2018
 - Cash flow from operations was \$171 million
 - Capital expenditures were \$87 million
 - We returned \$36 million to our shareholders via dividends and share repurchases

Financial strength to enable growth

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



Market Diversification

- Continue to grow the agricultural, oilfield and personal care specialty end markets with new technologies
- Pursue opportunities to expand presence in specialty alkoxyates across key end markets

Customer Intimacy

- Grow Tier 2 and Tier 3 customer base; expand number of products to each
- Leverage network capabilities to service Tier 1 customers

Innovation

- Develop the next generation of Rigid Polyol technologies
- Create more environmentally friendly green solvent and surfactant chemistries
- Expand patent-pending technology for use in fracturing

Operational Excellence

- Deliver savings on the shutdown of our Surfactant operations at the Wesseling, Germany plant
- Utilize best practices to deliver further value from the Surfactant acquisition in Mexico

M&A

- Assess M&A to fill gaps in our product portfolio and to add new platform chemistries

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Update on Certain Expectations

| | 2017 Actual | 2018 Actual | 2019 Expected |
|-------------------------------------|--------------|--------------|------------------------|
| Capital expenditures → | \$79 million | \$87 million | \$120 to \$140 million |
| Debt repayments ⁽¹⁾ → | \$21 million | \$21 million | \$29 million |
| Interest expense → | \$11 million | \$11 million | \$9 million |
| Effective Tax Rate ⁽²⁾ → | 34% | 19% | 22% to 25% |

(1) Debt repayments are projected according to the normal repayment schedule.

(2) 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 December 31 | | | | Twelve Months Ended December 31 | | | |
|---|-----------------------------------|-----------|------------|-----------|------------------------------------|-----------|------------|-----------|
| | 2018 | EPS | 2017 | EPS | 2018 | EPS | 2017 | EPS |
| Net Income Reported | \$ 26,946 | \$ 1.16 | \$ 9,884 | \$ 0.42 | \$ 112,762 | \$ 4.83 | \$ 91,578 | \$ 3.92 |
| Deferred Compensation (Income) Expense | \$ (3,420) | \$ (0.15) | \$ (1,006) | \$ (0.04) | \$ (787) | \$ (0.03) | \$ (40) | \$ (0.00) |
| Business Restructuring | \$ 182 | \$ 0.01 | \$ 834 | \$ 0.04 | \$ 1,842 | \$ 0.08 | \$ 2,216 | \$ 0.09 |
| US Tax Reform Impact | — | — | \$ 14,937 | \$ 0.64 | — | \$ - | \$ 14,937 | \$ 0.64 |
| Adjusted Net Income | \$ 23,708 | \$ 1.02 | \$ 24,649 | \$ 1.06 | \$ 113,817 | \$ 4.88 | \$ 108,691 | \$ 4.65 |

Reconciliation of Pre-Tax to After-Tax Adjustments

| (\$ in thousands, except per share amounts) | Three Months Ended December 31 | | | | Twelve Months Ended December 31 | | | |
|---|-----------------------------------|-----------|------------|---------|------------------------------------|---------|-----------|---------|
| | 2018 | EPS | 2017 | EPS | 2018 | EPS | 2017 | EPS |
| Pre-Tax Adjustments | | | | | | | | |
| Deferred Compensation (Income) Expense | \$ (4,500) | | \$ (1,622) | | \$ (1,035) | | \$ (65) | |
| Business Restructuring | 242 | | 1,271 | | 2,588 | | 3,069 | |
| Total Pre-Tax Adjustments | \$ (4,258) | | \$ (351) | | \$ 1,553 | | \$ 3,004 | |
| Cumulative Tax Effect on Adjustments | \$ 1,020 | | \$ 179 | | \$ (498) | | \$ (828) | |
| US Tax Reform Impact | | | \$ 14,937 | | | | \$ 14,937 | |
| After-Tax Adjustments | \$ (3,238) | \$ (0.14) | \$ 14,765 | \$ 0.64 | \$ 1,055 | \$ 0.05 | \$ 17,113 | \$ 0.73 |

Foreign Exchange Impact – Q4 2018

| | Surfactants | Polymers | Specialty Products | Consolidated |
|----------------------|--------------------|-----------------|---------------------------|---------------------|
| (in Millions USD) | | | | |
| Net Sales | (8.9) | (2.3) | (0.1) | (11.3) |
| Gross Profit | (1.2) | (0.2) | (0.0) | (1.5) |
| Operating Expenses | (0.6) | (0.1) | (0.0) | (0.7) |
| Operating Income | (0.7) | (0.1) | (0.0) | (0.8) |
| Pretax Income | | | | (1.0) |

Foreign Exchange Impact – Full Year 2018

| | Surfactants | Polymers | Specialty Products | Consolidated |
|----------------------|--------------------|-----------------|---------------------------|---------------------|
| (in Millions USD) | | | | |
| Net Sales | (7.0) | 6.4 | 0.7 | 0.1 |
| Gross Profit | (1.8) | 1.1 | 0.0 | (0.7) |
| Operating Expenses | (0.5) | 0.4 | 0.1 | (0.1) |
| Operating Income | (1.3) | 0.7 | (0.0) | (0.6) |
| Pretax Income | | | | (0.5) |