



Stepan 

Third Quarter 2017 Results

October 25, 2017

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 (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, 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 Third Quarter 2017 Earnings Conference Call Agenda

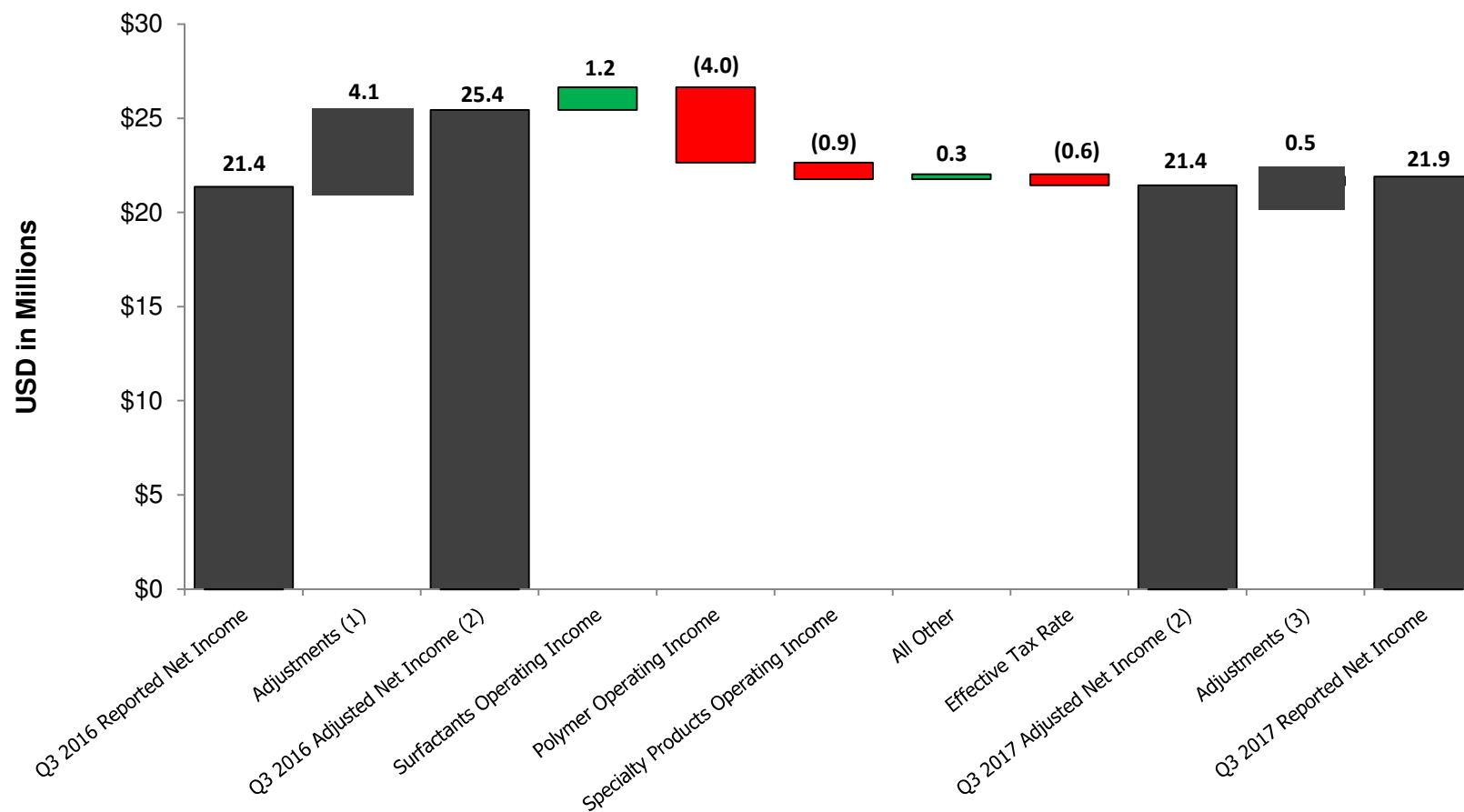
Third Quarter Financial Highlights	F. Quinn Stepan, Jr. <i>Chairman, President and Chief Executive Officer</i>
Third Quarter Results	Scott Beamer <i>Vice President and Chief Financial Officer</i>
Financial and Strategic Outlook	F. Quinn Stepan, Jr. <i>Chairman, President and Chief Executive Officer</i>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

Third Quarter 2017 Financial Recap

- **Q3 Reported Net Income was \$21.9 million, or \$0.94 per diluted share, a 3% increase versus \$21.4 million, or \$0.92 per diluted share, in Q3 2016.**
- **Q3 Adjusted Net Income* was \$21.4 million, or \$0.92 per diluted share, a 16% decrease versus \$25.4 million, or \$1.10 per diluted share, in Q3 2016. Adjusted net income in Q3 2017 excludes the following non-operational items:**
 - **Deferred compensation income of \$0.8 million, or \$0.03 per diluted share.**
 - **Restructuring expense of \$0.3 million, or \$0.01 per diluted share.**
- **Reported Surfactant Operating Income was \$22.5 million, an increase of \$1.7 million, or 8%, versus Q3 2016. The increase was primarily due to higher demand in the Functional Products and Household, Industrial and Institutional (HI&I) end markets, higher Distribution sales and lower manufacturing costs, mainly due to prior plant closures in Canada and Brazil. The increase was partially offset by lower Consumer Product commodity volume.**
- **Reported Polymer Operating Income was \$21.1 million, a decrease of \$6.0 million, or 22%, versus Q3 2016. The decrease over prior year was primarily due to higher crude-based raw material costs and lower volumes in North America.**
- **Reported Specialty Product Operating Income was \$1.0 million, a decrease of \$1.3 million versus Q3 2016, following strong Q2 2017 results primarily due to the timing of orders in our pharmaceutical and flavor businesses.**
- **Net-debt to total capitalization ratio declined 500 basis points to 5%. Year-to-date free cash flow was \$53 million.**
- **Increased the quarterly cash dividend to shareholders for the 50th consecutive year.**

Net Income Bridge – Q3 2016 to Q3 2017

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



(1) The adjustments to Reported Net Income in Q3 2016 were deferred compensation expense of \$4.1 million.

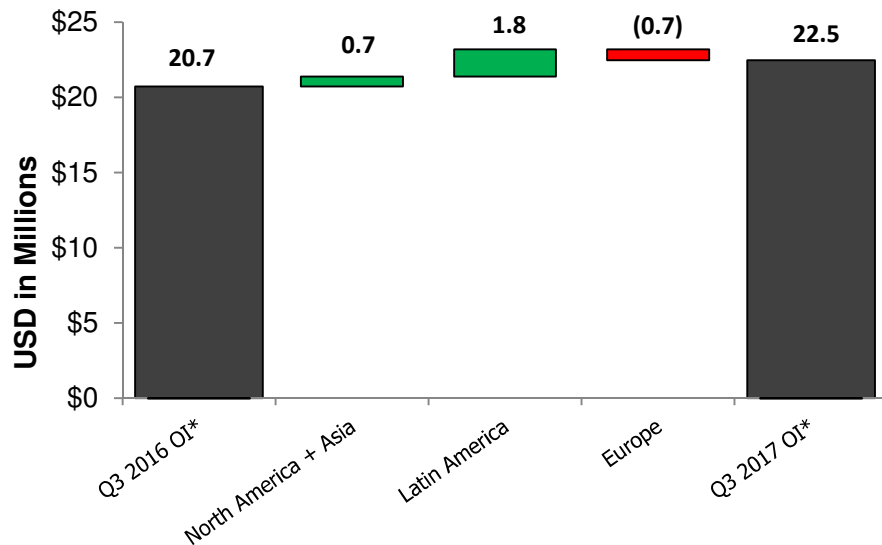
(2) Adjusted Net Income is a Non-GAAP measure which excludes certain significant, non-recurring items. See Appendix II for a reconciliation of Adjusted Net Income to Reported Net Income.

(3) The adjustments to Reported Net Income in Q3 2017 were deferred compensation income of \$0.8 million and business restructuring expenses of \$0.3 million.

Surfactants

Improved results from better product mix and savings from restructuring actions

<i>in millions \$</i>	Q3 2017	Q3 2016
Net Sales	\$321.4	\$290.5
Operating Income	\$ 22.5	\$ 20.7



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

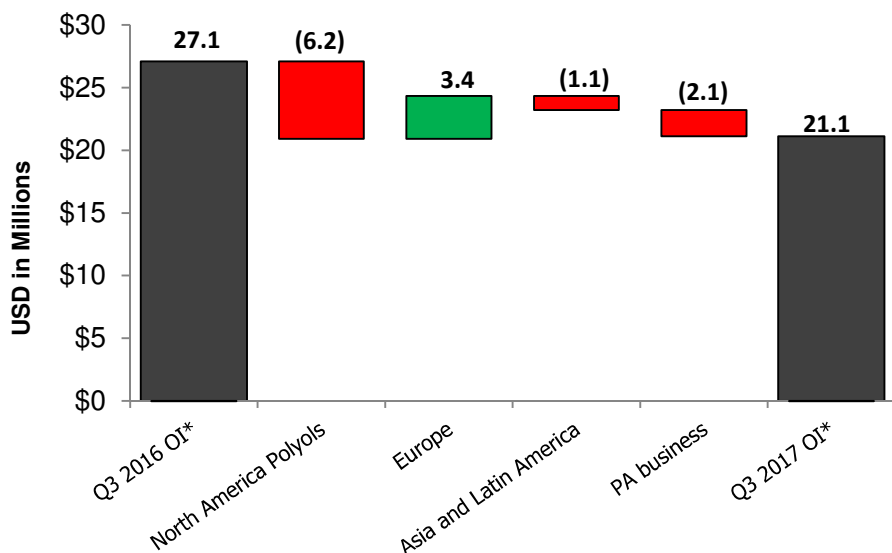
- Reported Operating Income was \$22.5 million, an increase of \$1.7 million, or 8%, compared to the prior year.
- North American increase was driven by higher demand for Agricultural, Oil Field and HI&I products, sales through our Distribution channel, and savings from the Canadian plant shutdown. Favorable results were partially offset by continued lower Consumer Product commodity volume.
- Latin American results benefited from the 2016 Tebras acquisition and savings related to the shutdown of our Bahia, Brazil site.
- European results declined, as higher volumes did not fully offset higher raw material costs and the negative impact of a customer bankruptcy.
- Foreign exchange positively impacted Net Sales by \$2.3 million and had no impact on Operating Income.

Polymers

Results down on higher raw material costs and lower volumes in North America

<i>in millions \$</i>	Q3 2017	Q3 2016
Net Sales	\$147.8	\$134.1
Operating Income	\$ 21.1	\$ 27.1

- Reported Operating Income was \$21.1 million, a decrease of \$6.0 million, or 22%, compared to the prior year.
- Global Polyol volumes declined 1%.
 - Rigid Polyol volume decreased due to lost share at one customer in North America.
 - Specialty Polyol volumes increased supported by the recent capacity addition in Poland.



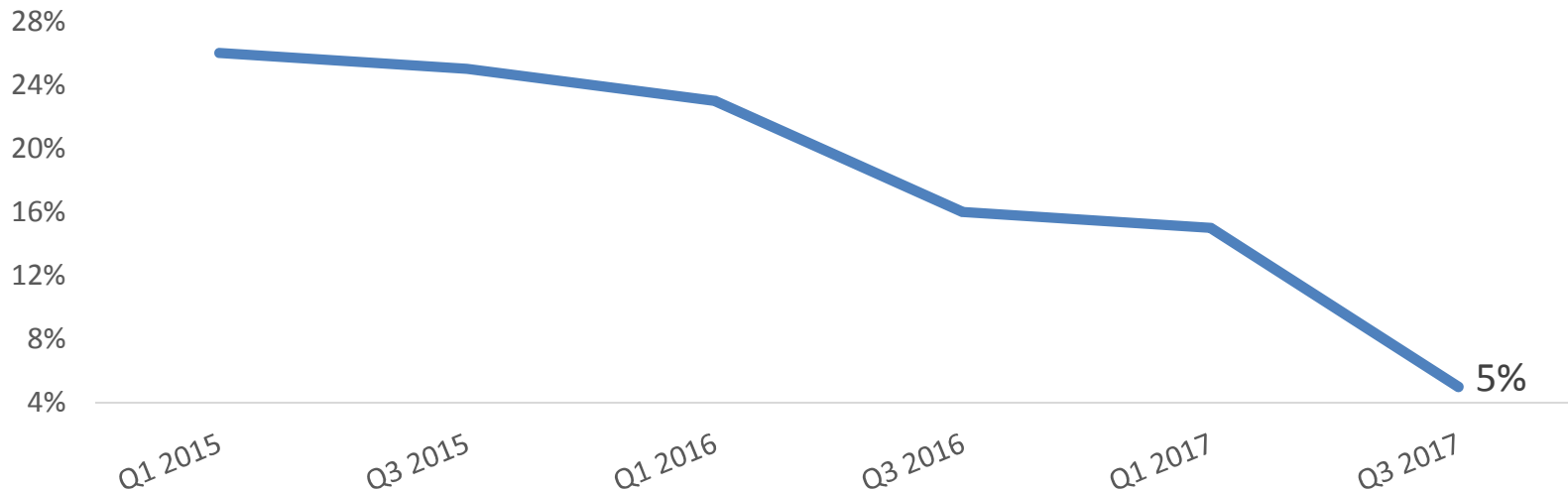
- North American results were also negatively impacted by higher raw material costs during the quarter.
- European results improved on higher volume and slightly improved margins. European Rigid Polyol volumes continued to be negatively impacted by MDI** shortages.
- China results were negatively impacted by higher plant operating costs and lower export shipments.
- Phthalic Anhydride (PA) results decreased over prior year due to a 2% reduction in sales volume and lower margins.
- Foreign exchange positively impacted Net Sales by \$3.6 million and Operating Income by \$0.4 million.

*OI = Operating Income

** MDI = Methylene Diphenyl Diisocyanate is reacted with a Stepan Polyol to make rigid foam insulation

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

Net-Debt Ratio / Cash Flows



- For year-to-date 2017
 - Cash flow from operations was \$125 million
 - Capital expenditures were \$58 million
 - Cash dividends paid were \$14 million
- Net-debt to EBITDA ratio was 0.23

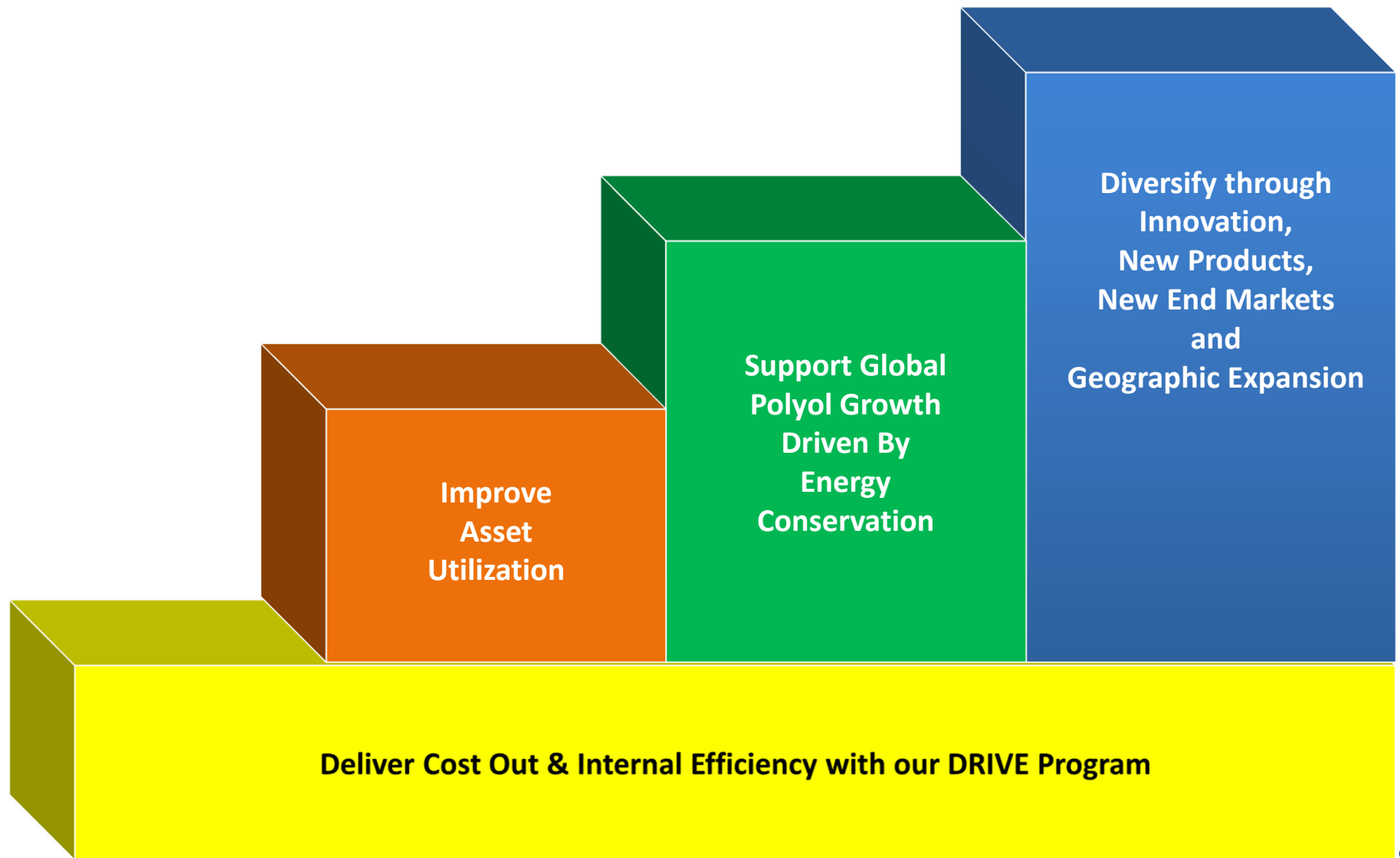
Year-to-date free cash flow was \$53 million vs \$37 million in prior year

Lowest net-debt to total capitalization ratio in 8 years

Financial strength to enable growth

- The net-debt to total capitalization ratio is defined as total debt minus cash (i.e., net debt) divided by net debt plus equity.
- Free cash flow is defined as cash flow from operations less capital expenditures less cash dividends paid.

Our Path to Increased Shareholder Value



Thank you for your interest in Stepan

Contact information:

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Appendix I

Update on Certain Expectations

	2016 Actual	2017 Expected
Capital expenditures	\$103 million	\$85 to \$95 million <div style="border: 1px solid black; padding: 2px; margin-left: 100px;"> Revised down from \$95 to \$105 million </div>
Debt repayments*	\$11.4 million	\$20.7 million
Interest expense	\$13.2 million	\$11.2 million
Effective Tax Rate	24%	26% to 28%

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

Appendix II

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

(\$ in thousands, except per share amounts)	Three Months Ended September 30			
	2017	EPS	2016	EPS
Net Income Reported	\$ 21,899	\$ 0.94	\$ 21,362	\$ 0.92
Deferred Compensation (Income) Expense	\$ (771)	\$ (0.03)	\$ 4,083	\$ 0.18
Business Restructuring	320	\$ 0.01	—	—
Adjusted Net Income	\$ 21,448	\$ 0.92	\$ 25,445	\$ 1.10

Reconciliation of Pre-Tax to After-Tax Adjustments

(\$ in thousands, except per share amounts)	Three Months Ended September 30			
	2017	EPS	2016	EPS
Pre-Tax Adjustments				
Deferred Compensation (Income) Expense	\$ (1,244)		\$ 6,585	
Business Restructuring	426		—	
Total Pre-Tax Adjustments	\$ (818)		\$ 6,585	
Cumulative Tax Effect on Adjustments	\$ 367		\$ (2,502)	
After-Tax Adjustments	\$ (451)	\$ (0.02)	\$ 4,083	\$ 0.18

Appendix III

Foreign Exchange Impact – Q3 2017

	Surfactants	Polymers	Specialty	Consolidated
(in Millions USD)				
Net Sales	2.3	3.6	0.2	6.1
Gross Profit	0.2	0.6	0.0	0.8
Operating Expenses	0.2	0.1	0.0	0.4
Operating Income	(0.0)	0.4	(0.0)	0.4
Pretax Income				0.4