

Stepan



Robert W. Baird & Co
2017 Global Industrial
Conference

November 7, 2017



We've Got Chemistry

Cautionary Statement

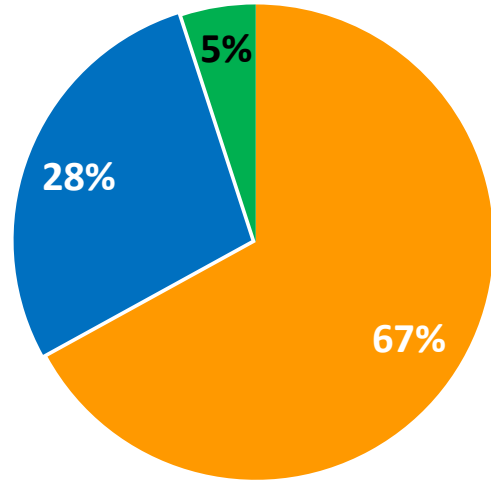
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These forward-looking statements are made only as of the date hereof, and Stepan Company undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

Stepan Company Profile

Sales by Segment



■ Surfactants ■ Polymers ■ Specialty

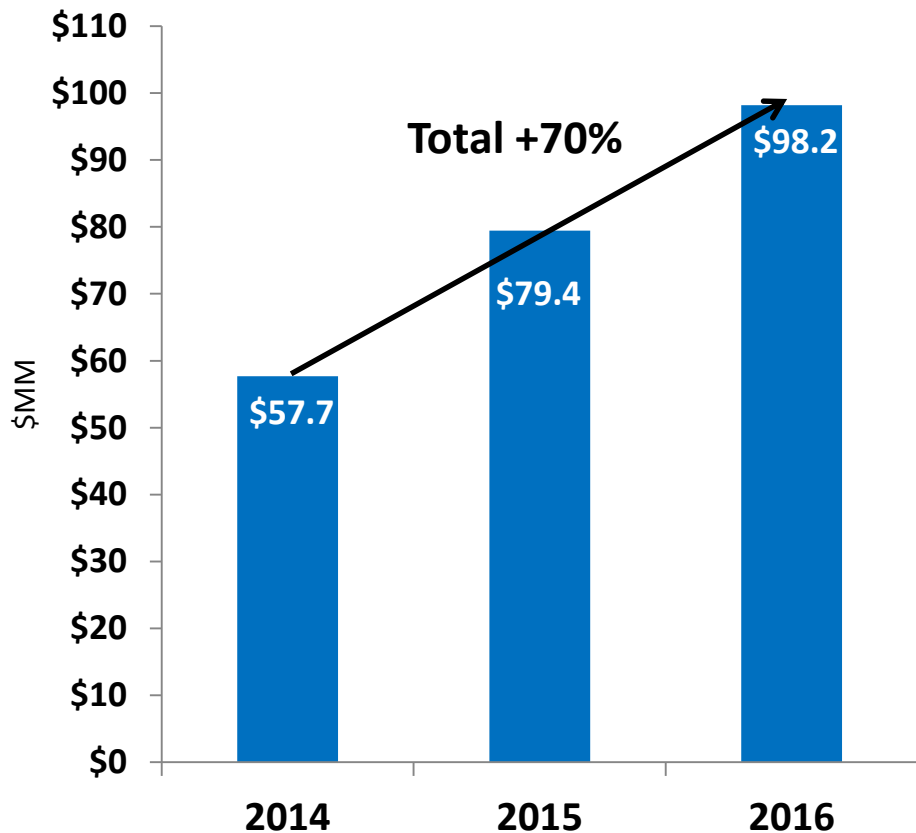
Overview

- \$1.8B in sales and \$98MM in adjusted net income in 2016
- 3 reportable segments
- 17 manufacturing sites with operations in 11 countries
- 60% of annual net sales tied to non-cyclical markets
- 10-year adjusted net income CAGR is 22%
- 49 consecutive years of increased dividends

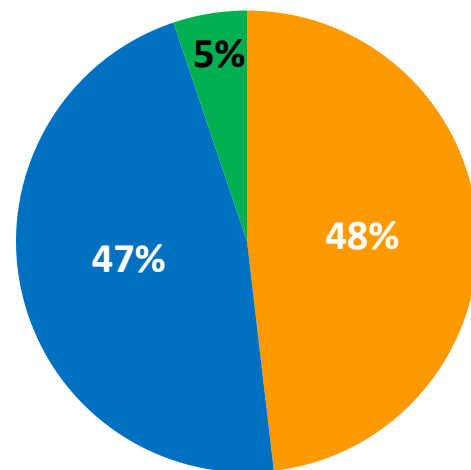


Stepan Company Profile

Adjusted Net Income*



Operating Income



Surfactants Polymers Specialty

Operating Income % of Sales	2015	2016	Change
Surfactants	8.6%	8.4%	-20bps
Polymers	16.5%	19.4%	+290bps
Specialty	5.6%	12.5%	+690bps

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

Surfactants

Sales by Market



- Functional
- HI&I
- Laundry
- Tier 2 and 3
- Personal Care

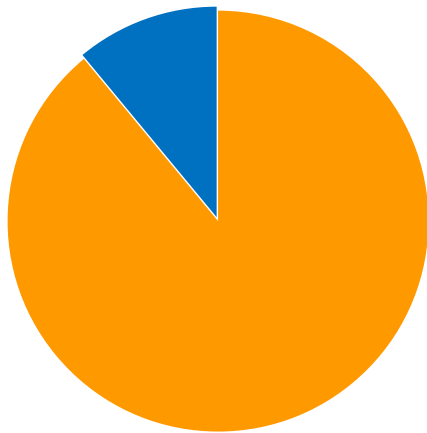
Overview

- \$1.2B in sales and \$100MM in operating income in 2016
- Focus on fixed cost reduction and asset utilization improvement for the U.S. Laundry business
- Growth opportunities:
 - Agricultural markets
 - Oilfield chemicals
 - Construction market served by Gypsum
 - Tier 2 and 3 customers



Polymers

Sales by Product

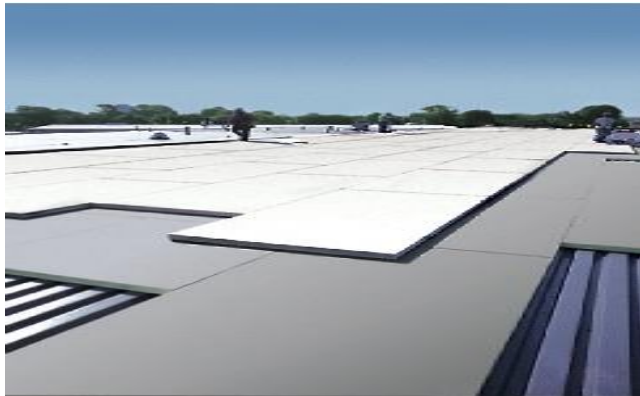


■ Polyols

■ PA

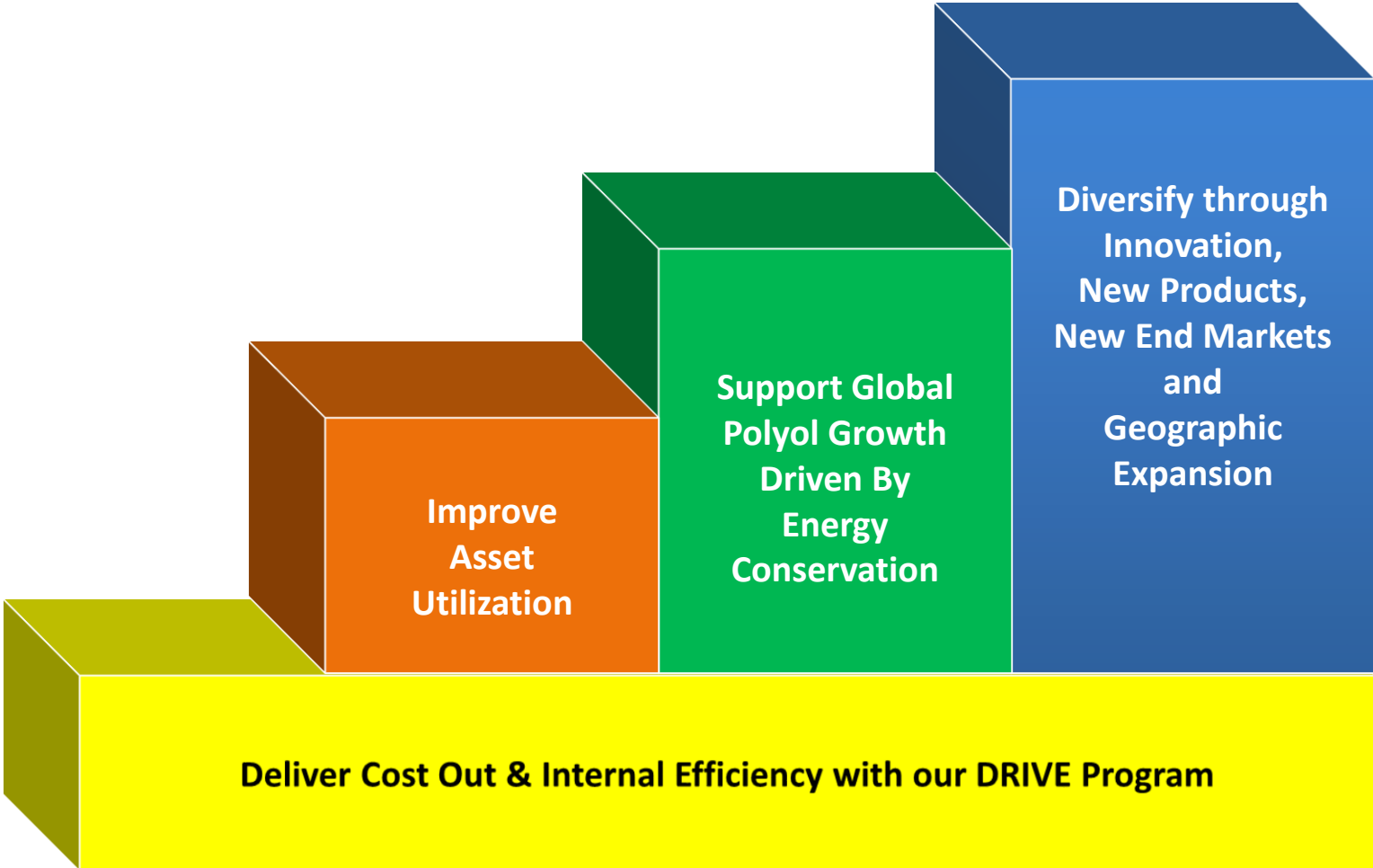
Overview

- \$0.5B in sales and \$97MM in operating income in 2016
- Positive macro trends with global energy conservation efforts
- Focus on supporting growth opportunities in the insulation market
- Growth opportunities:
 - Capacity additions in U.S, Europe and Asia to support growth in rigid polyols and opportunities in CASE*
 - Specialty polyurethane applications



*CASE – coatings, adhesives, sealants and elastomers

Our Path to Increased Shareholder Value



Cost Reduction and Asset Utilization Improvement

Addressing overcapacity situation in the U.S. Laundry business as well as rationalizing global footprint and reducing fixed costs

- **Closed Longford Mills, Canada plant**
 - \$3MM expected annual benefits starting in 2018
- **Exited TIORCO joint venture**
 - \$3MM annual savings in 2016
- **Reduced costs in the Lipid Nutrition business**
 - >\$3MM annual savings in 2016
- **Consolidated production in Brazil**



Focus on Growth Opportunities

Investing in Polyol business to support strong demand from the insulation market in US and Europe

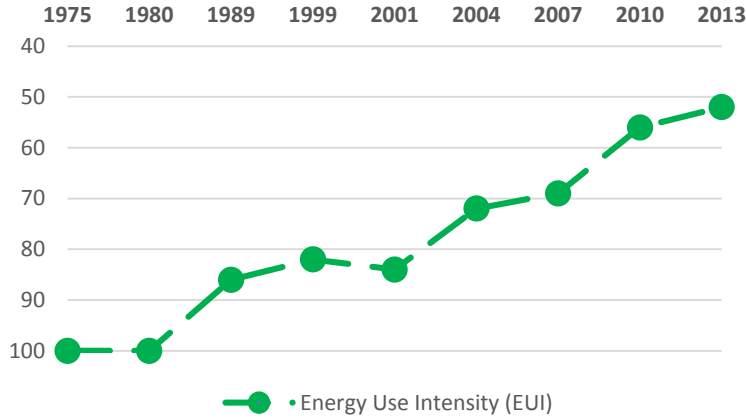
- **Started a polyol plant in Nanjing, China**
- **Polyol capacity additions in Poland in late 2016**
- **Adding production at Wesseling, Germany and Millsdale, IL, USA**
- **New Specialty Polyol reactor in Columbus, GA in late 2017**



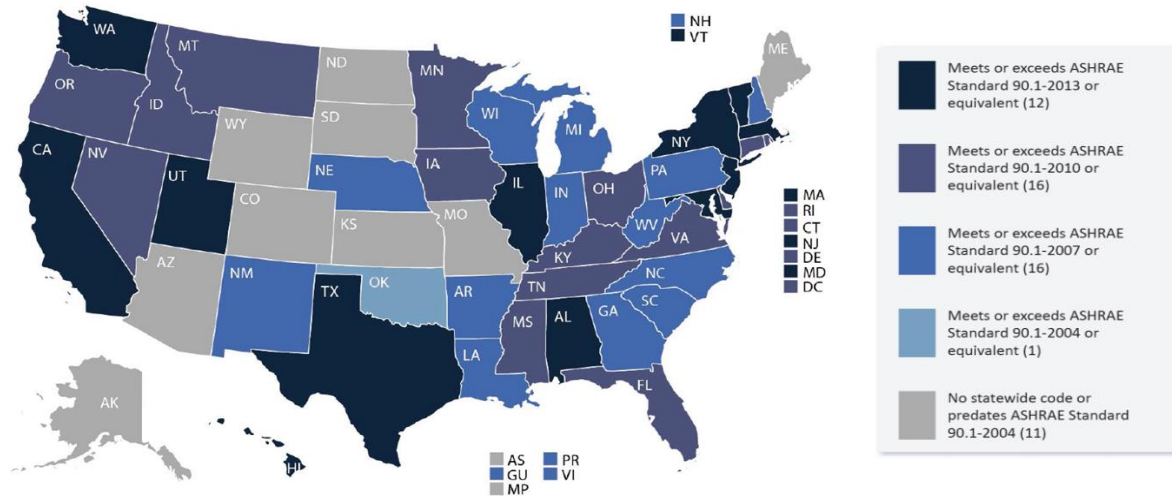
**Support Global
Polyol Growth
Driven By
Energy
Conservation**

Enhanced Energy Efficiency Driving Growth

Commercial Code Improvements and Stringency



- Global Energy conservations efforts
- Government mandated or recommended higher insulation levels in buildings
- Metal panel adoption in Europe
- Energy efficiency adoption rates in Asia are slow, but large opportunity remains

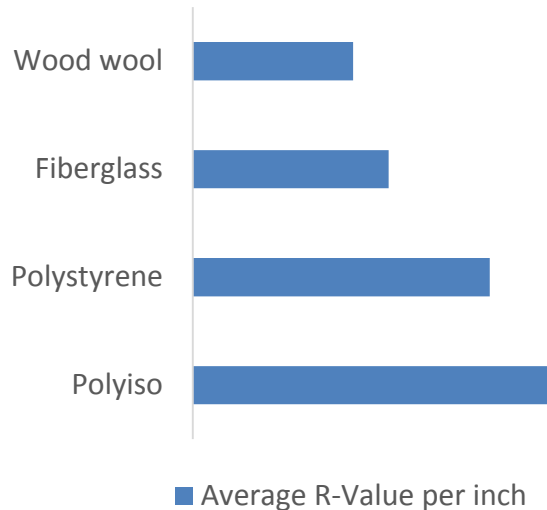


Source: U.S. Department of Energy

* Energy Use Intensity (EUI) is a measure energy efficiency calculated by units of energy consumed per square foot.

Increased focus on improving energy standards within the U.S. should continue to drive demand for Polyols used in insulation

Polyols Value to Customers and End Users



- Stepan is a leading producer of polyester polyols
- Our polyols impart superior insulation performance and durability to polyurethane foam insulations
- Used in polyisocyanurate boardstock , insulated metal panels and spray foam insulation

Stepan Strategy in Action

- (2012) Expansion of Wesseling, Germany
- (2015) Debottlenecking at Wesseling and Millsdale
- (2016) New plant in China
- (2016) Capacity expansion in Poland
- (2017) Debottlenecking at Wesseling and Millsdale plants
- (2017) Expansion at Columbus, GA plant

Global Polyol volume has grown at 8% CAGR over the past 5 years

Product Innovation and Geographic Expansion

Pursuing expansion in targeted markets and geographies

- **Focus on product innovation**
 - New R&D laboratory opened in China
 - New R&D laboratory and sales office in Houston, TX
- **Growth opportunities in existing markets**
 - Agricultural chemicals, oilfield chemicals, personal care and HI&I
 - Surfactant solutions to solvent replacement
- **CASE Polyol growth opportunities in U.S. and Europe**
- **Looking for strategic acquisitions**
 - Tebras acquisition in Brazil



Diversify through
Innovation,
New Products,
New End Markets
and
Geographic
Expansion

Macro Trends Supporting Global Ag Growth



- Global population growth expected to increase from 7 to 9 billion by 2040
- Income growth in emerging middle class expected to drive greater protein demand
- +70% crop production required from finite arable land

Chemistry will be part of the solution

Stepan Strategy in Action

- Expanding our product portfolio and providing environmentally advantaged products that enable cost effective solutions for our customers
- Cost effective formulations and improved label claims for our customers
- Large Agricultural market in Brazil supports Stepan strategy to have a balanced portfolio in targeted geographies

Oilfield Opportunity for Diversification and Growth



Oilfield Surfactant Applications

Tight/Shale Oil & Gas

- Flowback Modifiers
- Viscoelastic Surfactants
- Friction Reducers
- Biocides

Oil Sands

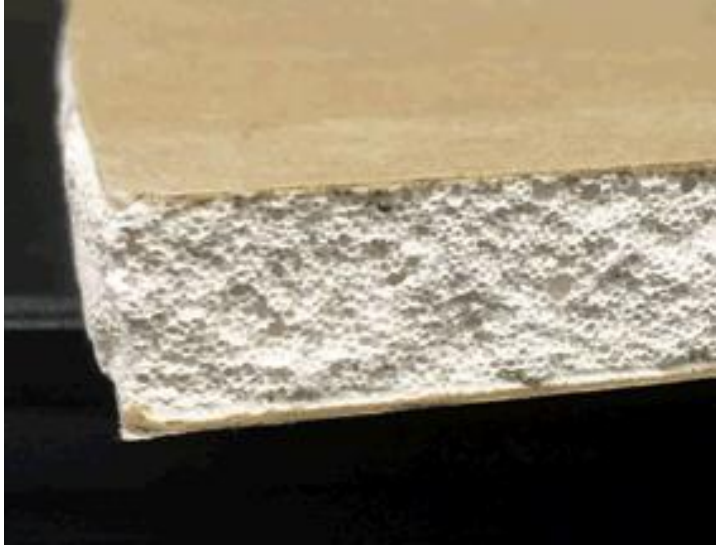
- Bitumen Dilution
- Water Treatment
- Rig/Equipment Cleaning
- Emulsion Breakers

- Horizontal drilling and hydraulic fracturing technologies used to obtain oil and natural gas are becoming both more precise and efficient
- Currently lower crude oil prices and reduced industry activity, although signs of market optimism

Stepan Strategy in Action

- 70% of our chemicals are used in oil and gas production versus drilling and stimulation
- We are committed to broadening our Oilfield strategy, serving the business through local, application focused resources and testing capabilities
- We continue to support Stepan Enhanced Oil Recovery surfactants in the market
- New office and lab in Houston focused on diversifying product line in anticipation of market recovery

Surfactants Providing Solutions to Gypsum Market



Macro Economic Trends

- Urbanization and global population growth will increase demand for construction products (Gypsum and Emulsion Polymers (EP))
- Universal consumers driving demand for better construction materials and practices

Stepan Strategy in Action

- Focused global business unit drives immediate response, support and value
- Focus on high performance solutions that improve energy efficiency, sustainability and speed of construction
- Leverage molecular structure knowledge to improve product performance (lighter and stronger Gypsum board)

Small business, but added ~\$4MM of operating income in 2016

Specialty Polyols Provide Solutions for CASE Markets



Macro Economic Trends

- Increasing demand to replace mechanical fasteners with adhesives in transportation vehicles, driven by new Corporate Average Fuel Economy (CAFE) lightweighting standards
- Adoption of superior price-performance materials in automotive, construction, and high-value industrial machine industries
- Industry transition to waterborne and green-products, which increases demand for polyols used in Waterborne Polyurethane Dispersions (PUDs) and solid powder resins



Stepan Strategy in Action

- Poland acquisition in 2010
- Columbus, GA acquisition in May 2013 diversified our polyol offering to accelerate our growth in CASE
- Adding reactors in both Poland and Columbus, GA
- We bring unique know-how in specialty polyurethane applications

Expanding into New Markets with Tebras Acquisition



Stepan Strategy in Action

- Acquired commercial business from Tebras
- Diversified and expanded customer base in Brazil
- 1,200 new customers that will benefit from Stepan's technical service and formulation support
- Potential room for expansion into additional product lines

Small business, but expected to be accretive to earnings in 2017

Operating Efficiency Improvement

DRIVE - Internal efficiency program focusing on supply chain optimization, procurement and SG&A expense reduction

- **2016 - \$15MM of benefits**
- **2017 - similar total savings expected**
- **The benefits are captured within each segment's operating results**

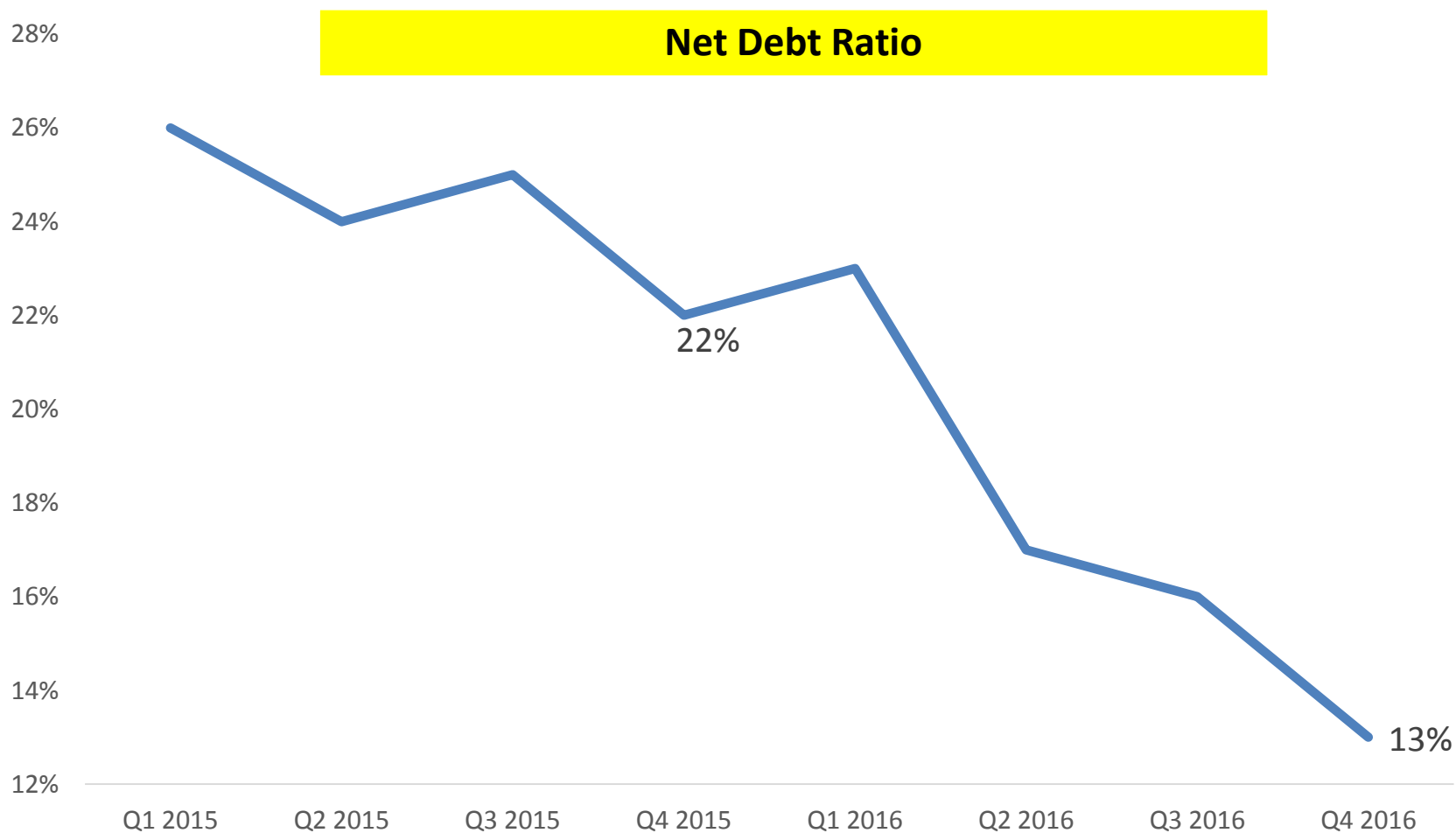


Deliver Cost Out & Internal Efficiency with our DRIVE Program

Stepan's Strategy Has Delivered Shareholder Value

- **2016 Adjusted Net Income was \$98MM, up 24% versus 2015**
- **2016 Free Cash Flow was a source of \$92MM versus \$48MM in 2015**
- **2016 ROIC was 9.7% versus 9.5% in 2015**
- **Stepan is one of only 27 public companies in the United States, which has paid increasing dividends for at least 49 consecutive years**

Financial Strength to Enable Growth



Thank you for your interest in Stepan Company (NYSE: SCL)

Contact information:

Scott Beamer – CFO

847-446-7500