



Stepan 

Third Quarter 2014 Results

October 22, 2014

Cautionary Statement

Except for historical information, all other information in this news release consists 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. The most significant of these 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), prospects for our foreign operations, foreign currency fluctuations, certain global and regional economic conditions, the probability of future acquisitions and the uncertainties related to the integration of acquired businesses, the probability of new products, 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 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, 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 the forward-looking statements, whether as a result of new information, future events or otherwise.

Third Quarter 2014 Financial Recap

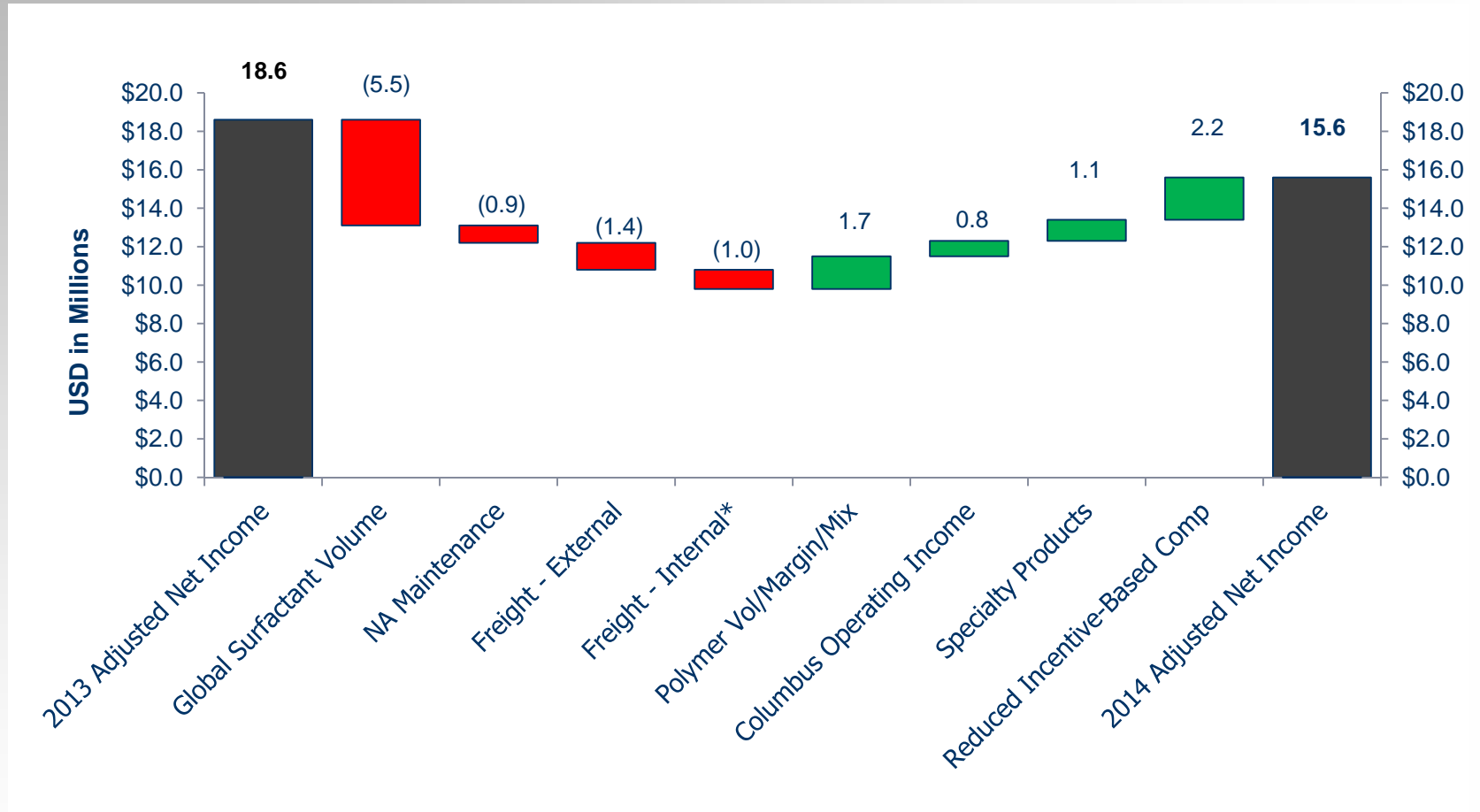
- **Q3 Reported Net Income of \$0.59 per diluted share was impacted by a few significant, non-recurring items.**
 - **Deferred Compensation income (\$2.7 million or \$0.12 per diluted share)**
 - **Change in reserve for a previously recognized environmental expense (\$2.7 million or \$0.12 per diluted share)**
 - **Phthalic Anhydride customer bankruptcy (\$2.1 million or \$0.09 per diluted share)**
 - **Q3 2013 benefited from a one-time insurance recovery (\$2.5 million or \$0.11 per diluted share)**
- **Adjusted Segment Operating Income* was \$5 million down vs. PY.**
- **Global Surfactants Operating Income was down \$13.0 million due to lower volumes in North America Consumer Products as well as higher freight and maintenance costs.**
- **Polymer Adjusted Operating Income ** was up \$6.3 million due to rigid foam insulation volume growth and the June 2013 Specialty Polyol acquisition.**

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

*** See appendix III for Non-GAAP reconciliation*

Q3 Adjusted Net Income Bridge **

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



* Primarily related to the planned Anaheim plant maintenance shutdown

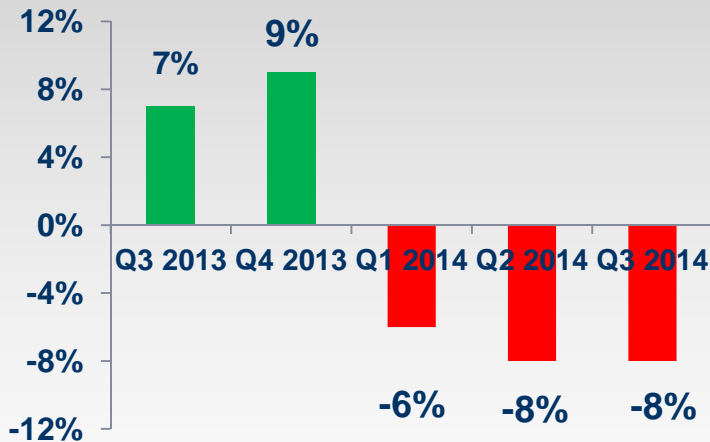
** Adjusted Net Income is a Non-GAAP measure which excludes certain significant, non-recurring items. See Appendix for reconciliation of Adjusted Net Income to Reported Net Income

Surfactants

<i>in million \$</i>	Q3 2014	Q3 2013
Net Sales	\$318.5	\$318.4
Operating Income	\$ 11.1	\$ 24.1

- Surfactant volumes down 8%
- North America Laundry volumes down 8% due to greater use of internal capacity by customers
- Biodiesel still not economically attractive
- Higher maintenance and freight costs in North America

Sales Volume vs. PY



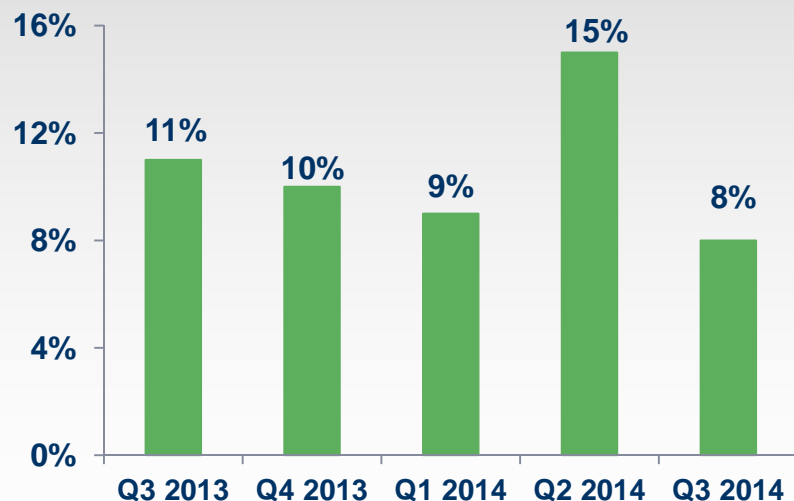
-
- Global Distribution business grew
 - Global Oilfield, including EOR* surfactants, grew

Opportunities to improve asset utilization are being aggressively pursued

* EOR = Enhanced Oil Recovery

<i>in million \$</i>	Q3 2014	Q3 2013
Net Sales	\$153.0	\$137.6
Operating Income Reported	\$ 18.3	\$ 19.1
Operating Income Adjusted *	\$ 21.7	\$ 15.4

Sales Volume vs. PY Excluding Acquisition



- Organic volume up 8%
 - Macro trend toward greater use of insulation
 - Government mandated or recommended higher energy standards
 - High energy prices
 - Improving U.S. economy
 - Europe pressured down by political factors
- Columbus acquisition delivering expected results
- China polyol plant on target for first half 2016 start-up

*Operating Income – Adjusted is a non-GAAP measure which excludes certain significant, non-recurring items. See appendix for Non-GAAP reconciliation

Conclusion / Strategic Update

- **Challenges remain in North America Surfactants, aggressively pursuing opportunities to improve asset utilization**
- **North American rigid foam insulation growth continued**
- **Columbus acquisition fully integrated and on track to deliver \$6 - \$8 million Operating Income; additional investments planned**
- **Enhanced Oil Recovery on track to deliver \$3 - \$5 million Operating Income improvement**
- **Continued investment in Brazil; announced Surfactants acquisition received anti-trust approval**
- **China plant progressing as planned**
- **Balance sheet remains strong; Will invest to grow and improve efficiency**
- **Forty-seventh consecutive year of increasing dividends**

Key Assumptions / Expectations

Item	Full Year Expectation
Capital Spending	Expect full year between \$100MM and \$110MM
Effective Tax Rate	September Year-To-Date = 27% Expect full year between 26% and 28%

Thank you for your interest in Stepan

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Appendix

Reconciliations for Net Income Excluding Deferred Compensation and Adjusted Net Income and Diluted Earnings Per Share

(Amounts in USD Millions, Except per Share Amounts)
(Amounts are reported after the affect of taxes)

	Three Months Ended			
	September 30			
	2014		2013	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net Income Attributable to Stepan Company As Reported	\$ 13.5	\$ 0.59	\$ 20.4	\$ 0.89
Deferred Compensation (Income) Expense, Net of Investment Income	(2.7)	(0.12)	0.7	0.03
Net Income Excluding Deferred Compensation	\$ 10.8	\$ 0.47	\$ 21.1	\$ 0.92
Environmental Remediation Liability Adjustment	2.7	0.12	-	-
Bad Debt Expense - Customer Bankruptcy	2.1	0.09	-	-
Business Interruption Insurance Recovery Income	-	-	(2.5)	(0.11)
Adjusted Net Income Attributable to Stepan Company	<u>\$ 15.6</u>	<u>\$ 0.68</u>	<u>\$ 18.6</u>	<u>\$ 0.81</u>

Appendix II

ADJUSTED SEGMENT OPERATING INCOME RECONCILIATION

(Amounts in USD Millions)
(Amounts are reported before the affect of taxes)

	Three Months Ended	
	September 30	
	<u>2014</u>	<u>2013</u>
Segment Operating Income As Reported	\$ 32.4	\$ 44.5
Business Interruption Insurance Recovery	-	(3.7)
Bad Debt Expense - Customer Bankruptcy	<u>3.4</u>	<u>-</u>
Adjusted Segment Operating Income	<u>\$ 35.8</u>	<u>\$ 40.8</u>

Appendix III

POLYMERS OPERATING INCOME- ADJUSTED RECONCILIATION

(Amounts in USD Millions)

(Amounts are reported before the affect of taxes)

	Three Months Ended	
	September 30	
	<u>2014</u>	<u>2013</u>
Polymers Operating Income As Reported	\$ 18.3	\$ 19.1
Business Interruption Insurance Recovery	-	(3.7)
Bad Debt Expense - Customer Bankruptcy	<u>3.4</u>	<u>-</u>
Polymers Operating Income - Adjusted	<u>\$ 21.7</u>	<u>\$ 15.4</u>