



Stepan 

First Quarter 2018 Results

April 24, 2018

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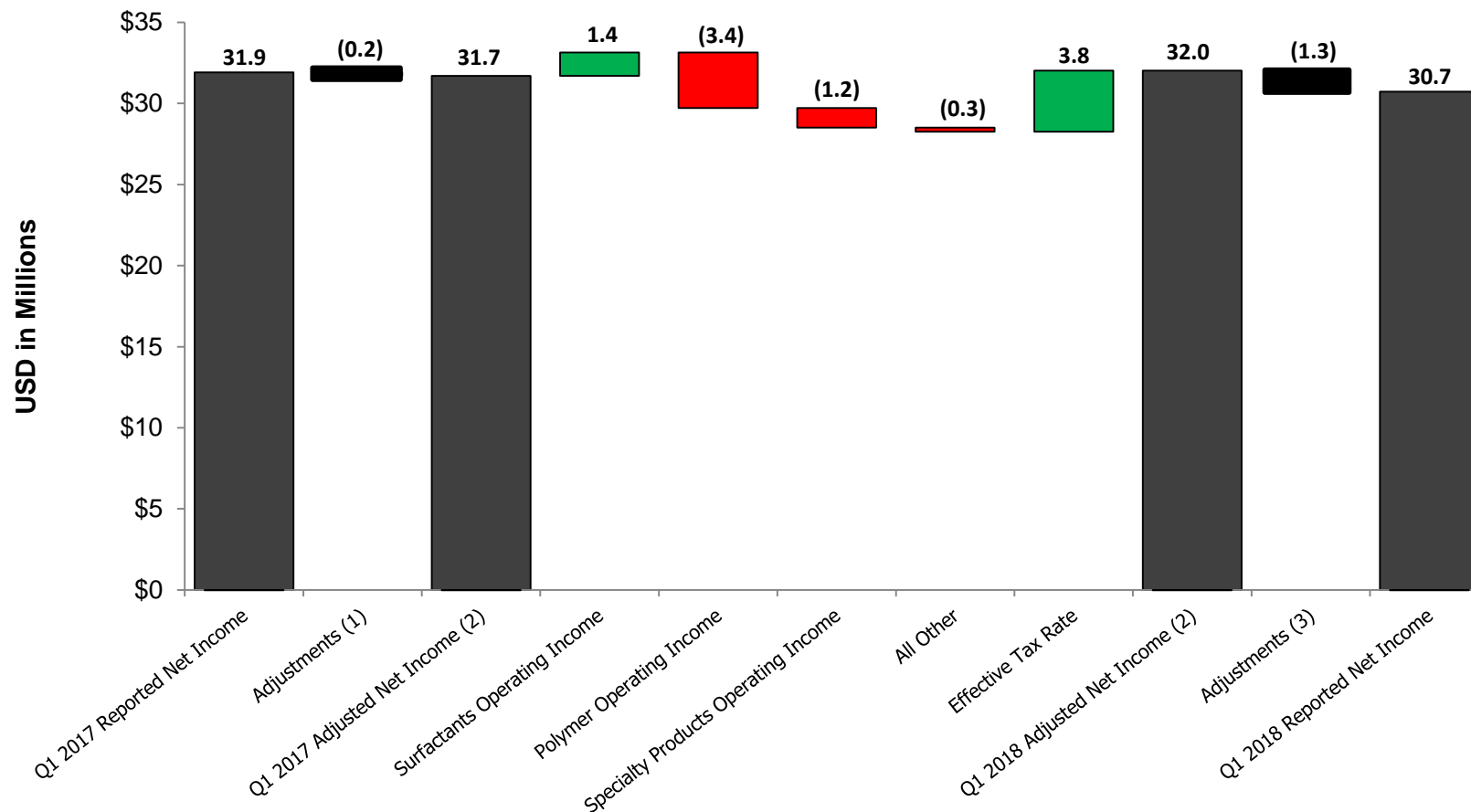
These forward-looking statements are made only as of the date hereof, and Stepan Company undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

First Quarter Financial Highlights	F. Quinn Stepan Jr., <i>Chairman, President and Chief Executive Officer</i>
First Quarter Results	Matt Eaken <i>Vice President, Corporate Controller and Interim 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>

- **Q1 Reported Net Income was \$30.7 million, or \$1.31 per diluted share, a 4% decrease versus \$31.9 million, or \$1.37 per diluted share, in Q1 2017.**
- **Q1 Adjusted Net Income* was \$32.0 million, or \$1.37 per diluted share, a 1% increase versus \$31.7 million, or \$1.36 per diluted share, in Q1 2017. Adjusted Net Income in Q1 2018 excludes the following non-operational items:**
 - **Deferred compensation expense of \$1.0 million, or \$0.05 per diluted share.**
 - **Restructuring expense of \$0.3 million, or \$0.01 per diluted share.**
- **Reported Surfactant Operating Income was a record \$40.3 million, an increase of \$1.9 million, or 5%, versus Q1 2017. The increase was primarily due to strong demand in North America and Europe.**
- **Reported Polymer Operating Income was \$16.9 million, a decrease of \$4.5 million, or 21%, versus Q1 2017. The decrease over prior year was primarily due to lower global Polyol volume.**
- **Reported Specialty Product Operating Income was a loss \$0.4 million, a decrease of \$1.6 million versus Q1 2017, primarily due to the timing of orders in our pharmaceutical and flavor business.**
- **U.S. tax reform favorably impacted Q1 results by \$0.8 million.**
- **Closed on the acquisition of the BASF plant and associated business in Ecatepec, Mexico on March 26th.**

Net Income Bridge – Q1 2017 to Q1 2018

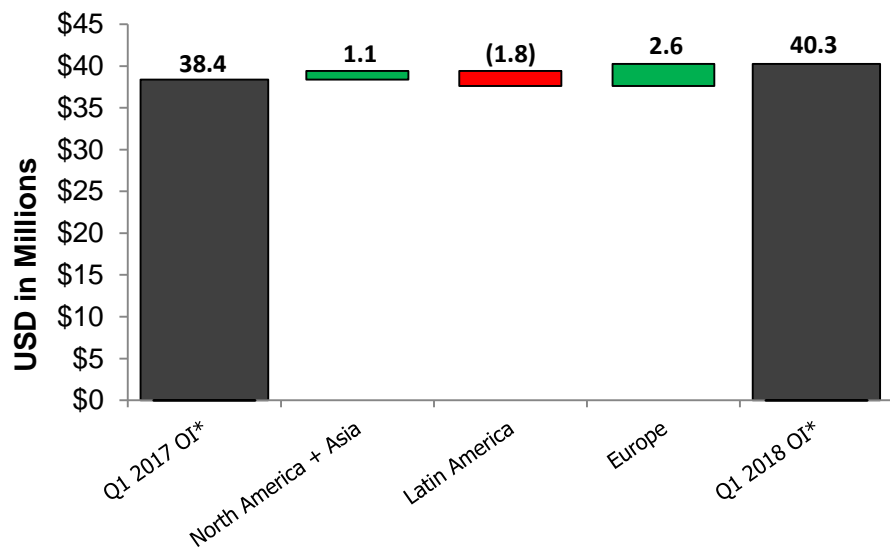
Note: All amounts are in millions of US dollars and are reported **after-tax**.



- (1) The adjustments to Reported Net Income in Q1 2017 were related to deferred compensation income of \$0.8 million and restructuring costs of \$0.6 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 Q1 2018 were related to deferred compensation expense of \$1.0 million and restructuring costs of \$0.3 million.

Record quarter of operating income

<i>in millions \$</i>	Q1 2018	Q1 2017
Net Sales	\$358.9	\$322.6
Operating Income	\$ 40.3	\$ 38.4



* OI = Operating Income

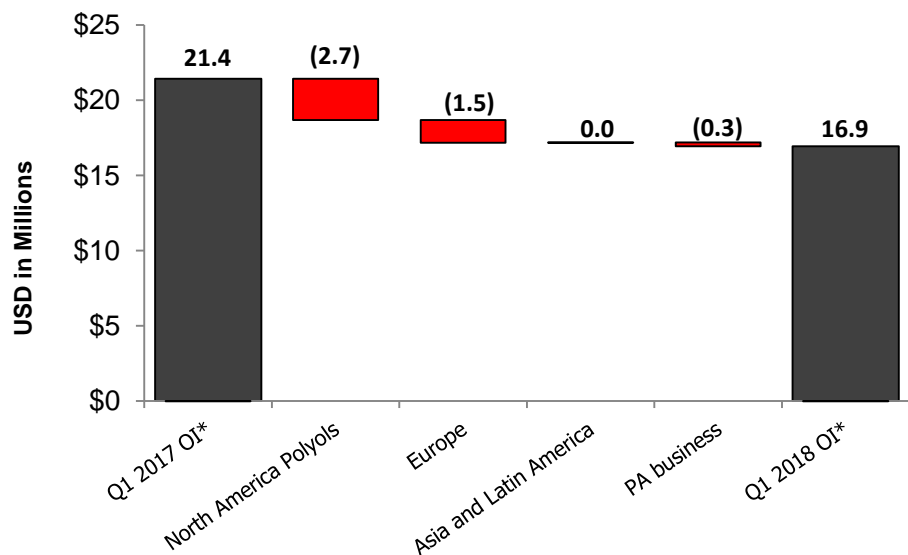
All amounts are shown on a pre-tax basis (unless noted differently)

- Reported Operating Income was \$40.3 million, an increase of \$1.9 million, or 5%, compared to the prior year. Volume increased 4%.
- North America increase was driven by higher demand for Personal Care and sales through our Distribution partners.
- Latin American results were down primarily due to lower commodity Consumer Product sales volume in Mexico due to high year-end inventory balances at Tier 1 customers and higher expenses associated with the Q1 acquisition in Mexico. Brazil operating income was down slightly despite growth in the Tier 2 and Tier 3 customer base.
- Acquisition of BASF plant and associated business in Ecatepec, Mexico closed on March 26th, 2018.
- European results higher on strong Consumer Products demand and growth in Agricultural Chemicals.
- Foreign exchange positively impacted Net Sales by \$10.2 million and Operating Income by \$0.5 million.

Decreased results due to lower volumes

<i>in millions \$</i>	Q1 2018	Q1 2017
Net Sales	\$121.9	\$126.6
Operating Income	\$ 16.9	\$ 21.4

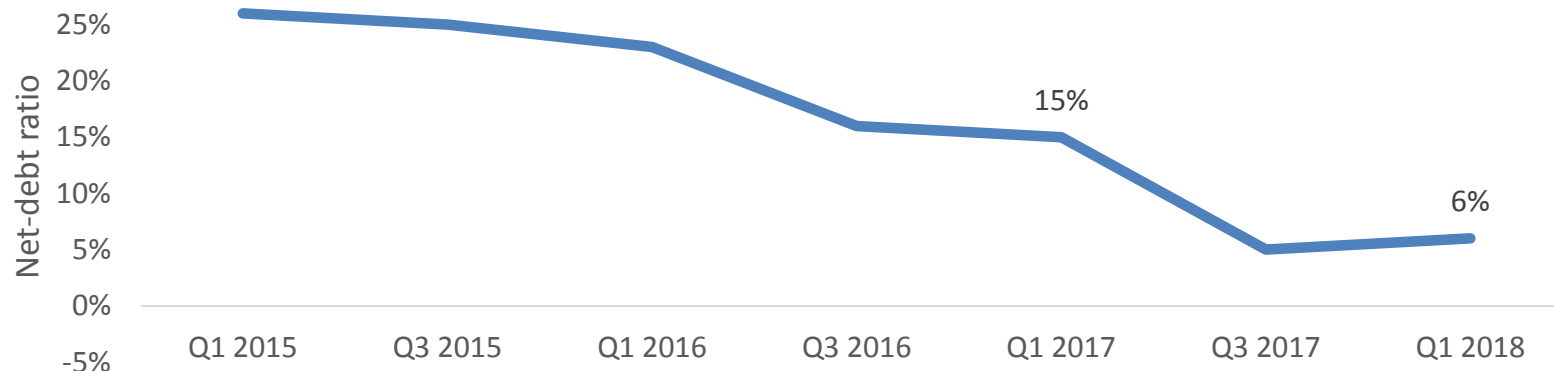
- Reported Operating Income was \$16.9 million, a decrease of \$4.5 million, or 21%, compared to the prior year.
- Global Polyol volumes decreased 10% due to share loss in North America and soft demand in Europe.
- North American results were also negatively impacted by higher raw material costs during the quarter, partially offset by a favorable class-action settlement.
- New Specialty Polyol reactor in Columbus, Georgia began production during the quarter.
- European volume decline impact was partially offset by the recapture of lost margins from higher raw material costs.
- Phthalic Anhydride (PA) results decreased due to lower sales volume.
- Foreign exchange positively impacted Net Sales by \$6.8 million and Operating Income by \$0.5 million.



*OI = Operating Income

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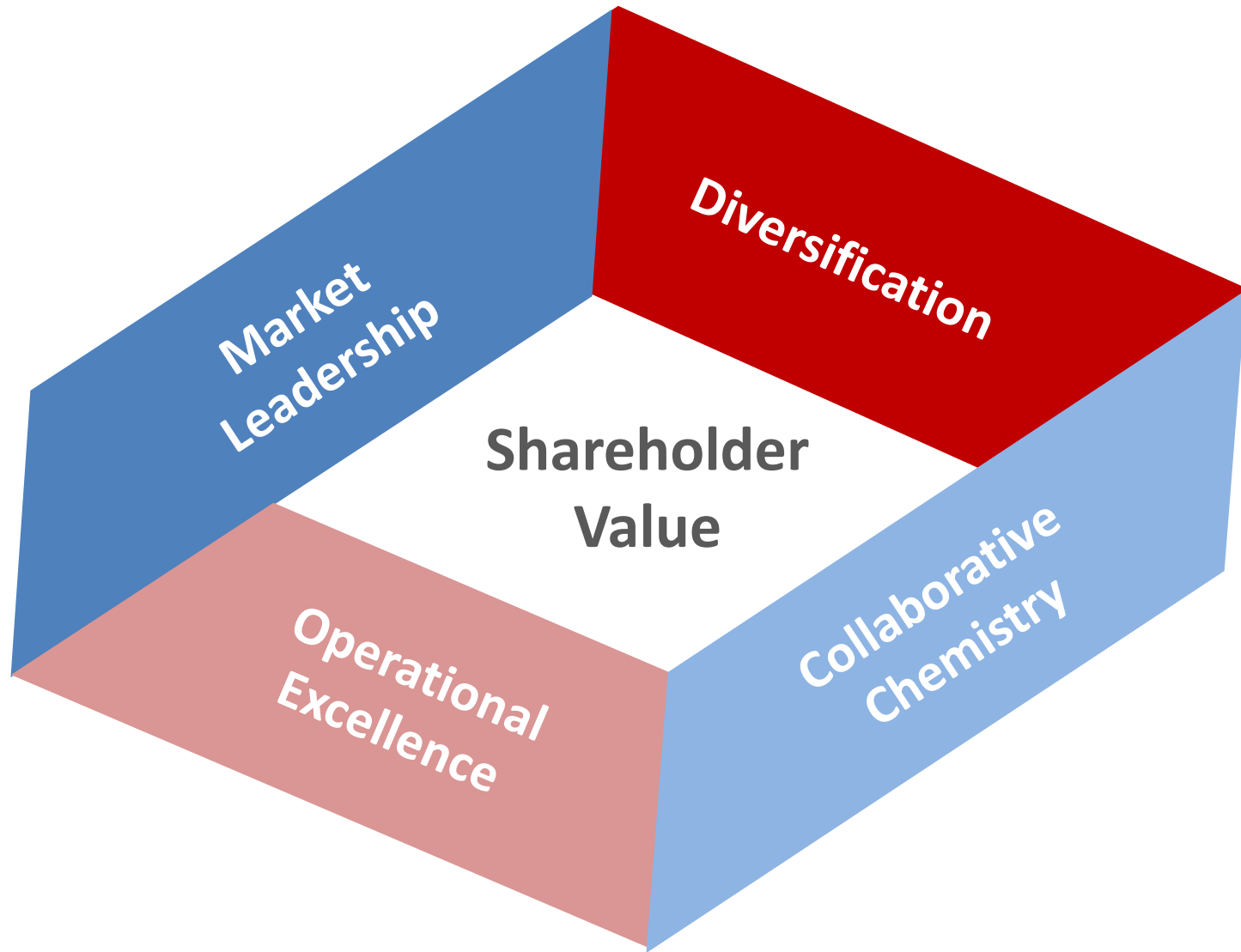
Historical net-debt ratio



- For the quarter
 - Cash flow from operations was \$1.0 million
 - Capital expenditures were \$27 million
 - Cash dividends paid were \$5 million
 - Share repurchases were \$3 million
- Net-debt to EBITDA ratio was 0.20

Some consumption of cash in Q1 is typical

Financial strength to enable growth



Vision: Innovative Chemical Solutions for a Cleaner, Healthier, More Energy Efficient World

Market Leadership

- Surfactant acquisition in Mexico enhances market position and supply capabilities in Latin America and should be slightly accretive in 2018
- Volume growth in anionic Consumer Products during the quarter
- Challenges for Global Rigid Polyol business despite attractive market

Diversification

- Volume growth in both Oilfield and Agricultural end-markets
- Volume growth in Tier 2 and Tier 3 Consumer Product customers
- New Specialty Polyol reactor in Columbus, Georgia began production

Collaborative Chemistry

- Continued focus on developing next generation of value-added technologies

Operational Excellence

- Optimization of our plant in Fieldsboro, New Jersey on-track to deliver savings in 2018
- Best Practice, Synergy and DRIVE opportunities at acquired Mexico facility

Shareholder Value





- A good start to 2018

Contact information:

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Update on Certain Expectations

	2017 Actual	2018 Expected
Capital expenditures 	\$79 million	\$105 to \$115 million
Debt repayments* 	\$20.7 million	\$20.7 million
Interest expense 	\$11.4 million	\$12.0 million
Effective Tax Rate** 	34%	20% to 23%

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

** 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 March 31			
	2018	EPS	2017	EPS
Net Income Reported	\$ 30,723	\$ 1.31	\$ 31,913	\$ 1.37
Deferred Compensation (Income) Expense	\$ 1,038	\$ 0.05	\$ (802)	\$ (0.03)
Business Restructuring	269	\$ 0.01	589	\$ 0.02
Adjusted Net Income	\$ 32,030	\$ 1.37	\$ 31,700	\$ 1.36

Reconciliation of Pre-Tax to After-Tax Adjustments

(\$ in thousands, except per share amounts)	Three Months Ended March 31			
	2018	EPS	2017	EPS
<u>Pre-Tax Adjustments</u>				
Deferred Compensation (Income) Expense	\$ 1,366		\$ (1,293)	
Business Restructuring	358		786	
Total Pre-Tax Adjustments	\$ 1,724		\$ (507)	
Cumulative Tax Effect on Adjustments	\$ (417)		\$ 294	
After-Tax Adjustments	\$ 1,307	\$ 0.06	\$ (213)	\$ (0.01)

Foreign Exchange Impact – Q1 2018

	Surfactants	Polymers	Specialty Products	Consolidated
(in Millions USD)				
Net Sales	10.2	6.8	0.5	17.6
Gross Profit	1.1	0.9	0.0	2.1
Operating Expenses	0.6	0.4	0.0	1.0
Operating Income	0.5	0.5	0.0	1.0
Pretax Income				1.1