



Stepan 

Second Quarter 2018 Results

July 25, 2018

Cautionary Statement

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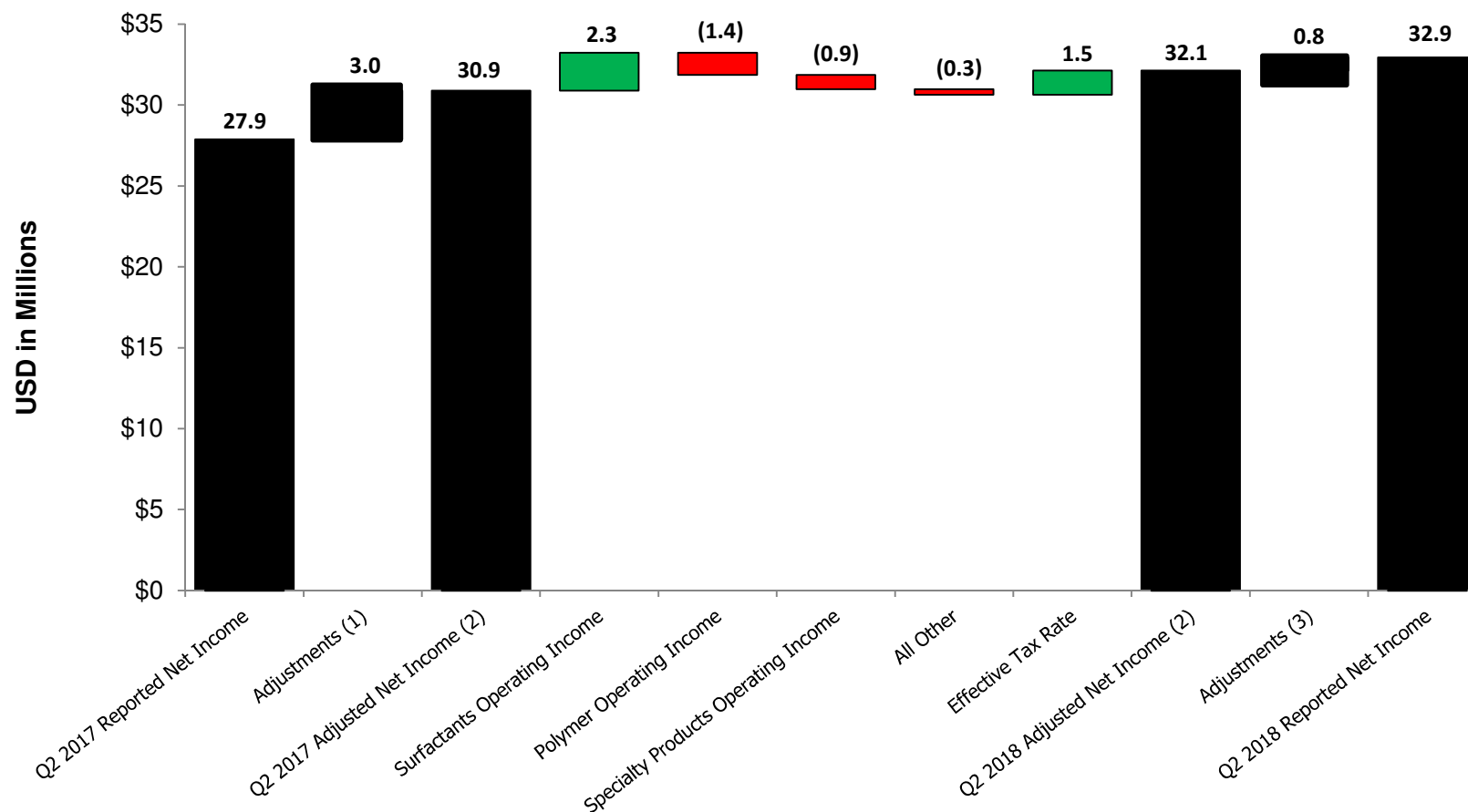
Second Quarter Financial Highlights	F. Quinn Stepan Jr., <i>Chairman, President and Chief Executive Officer</i>
Second Quarter Results	Luis Rojo, <i>Vice President and Chief Financial Officer</i>
Financial and Strategic Outlook	F. Quinn Stepan Jr., <i>Chairman, President and Chief Executive Officer</i>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

Stepan Second Quarter 2018 Financial Recap

- **Q2 Reported Net Income was \$32.9 million, or \$1.41 per diluted share, an 18% increase versus \$27.9 million, or \$1.19 per diluted share, in Q2 2017.**
- **Q2 Adjusted Net Income* was \$32.1 million, or \$1.38 per diluted share, a 4% increase versus \$30.9 million, or \$1.32 per diluted share, in Q2 2017. Adjusted Net Income in Q2 2018 excluded the following non-operational items:**
 - **Deferred compensation income of \$1.0 million, or \$0.04 per diluted share.**
 - **Restructuring expense of \$0.2 million, or \$0.01 per diluted share.**
- **Reported Surfactant Operating Income was \$34.2 million, an increase of \$3.1 million, or 10%, versus Q2 2017. The increase was primarily due to strong demand in North America.**
- **Reported Polymer Operating Income was \$19.5 million, a decrease of \$1.8 million, or 9%, versus Q2 2017. The decrease over prior year was primarily due to margin challenges in North America.**
- **Reported Specialty Products Operating Income was \$4.2 million, a decrease of \$1.2 million versus Q2 2017, primarily due to less profitable product mix in the food and nutritional business and anticipated order timing differences within the flavor business.**

Net Income Bridge – Q2 2017 to Q2 2018

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



(1) The adjustments to Reported Net Income in Q2 2017 consisted of deferred compensation expense of \$2.5 million and restructuring costs of \$0.5 million.

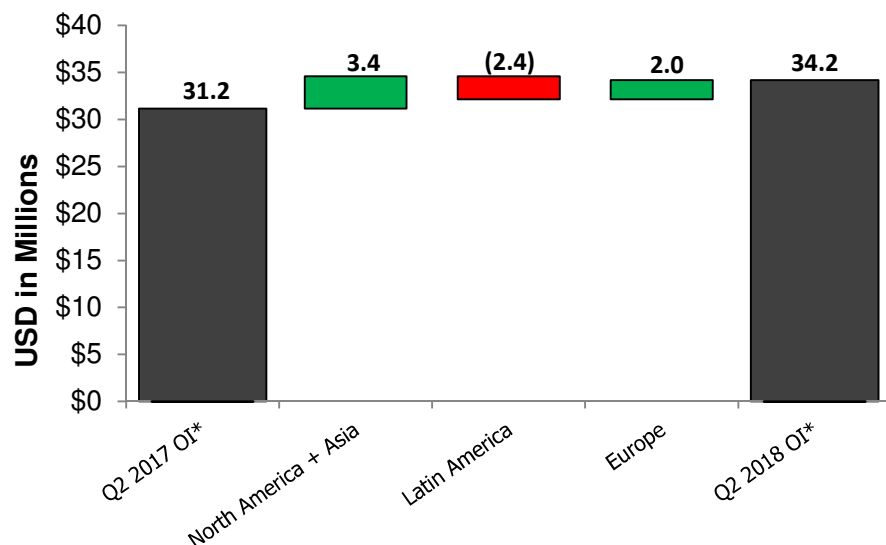
(2) Adjusted Net Income is a Non-GAAP measure which excludes certain significant, non-recurring items. See Appendix II for a reconciliation of Adjusted Net Income to Reported Net Income.

(3) The adjustments to Reported Net Income in Q2 2018 were related to deferred compensation income of \$1.0 million and restructuring costs of \$0.2 million.

Strong demand in North America drove profit improvement

<i>in millions \$</i>	Q2 2018	Q2 2017
Net Sales	\$356.9	\$329.3
Operating Income	\$ 34.2	\$ 31.2

- Reported Operating Income was \$34.2 million, an increase of \$3.0 million, or 10%, compared to the prior year. Excluding the Q1 acquisition in Mexico, Net Sales and volume increased 5% and 3%, respectively.
- North American increase was driven by higher Consumer Product commodity volume and higher demand for Oilfield products.
- Latin American results were down primarily due to higher feedstock and other supply chain transition costs from the Q1 acquisition in Mexico, partially offset by strong sales volume. We continue to believe that the acquisition should be slightly accretive for the year. Brazil operating income decreased due to lower Consumer Product commodity sales volume.
- European results were up primarily due to improved margins.
- Foreign exchange minimally impacted Net Sales and Operating Income.



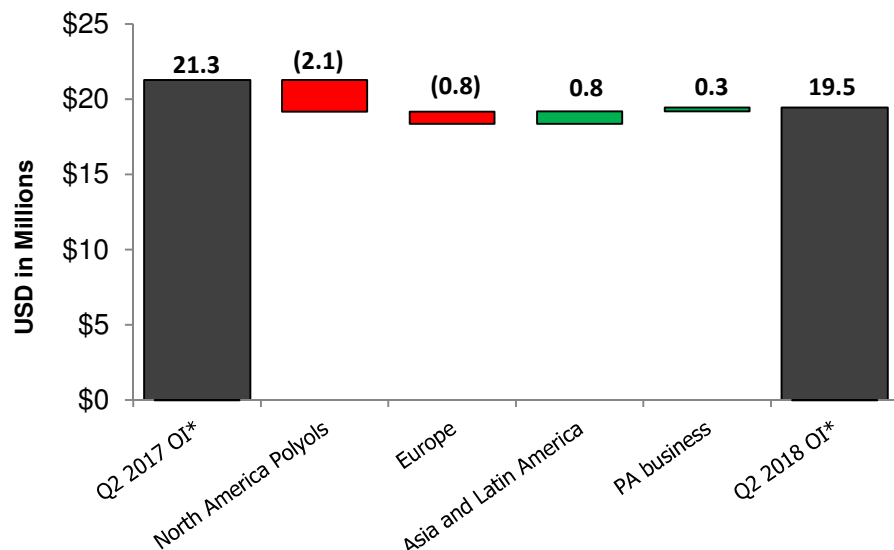
* OI = Operating Income

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

Decreased results primarily due to lower volumes and margins in North America

<i>in millions \$</i>	Q2 2018	Q2 2017
Net Sales	\$140.9	\$141.2
Operating Income	\$ 19.5	\$ 21.3

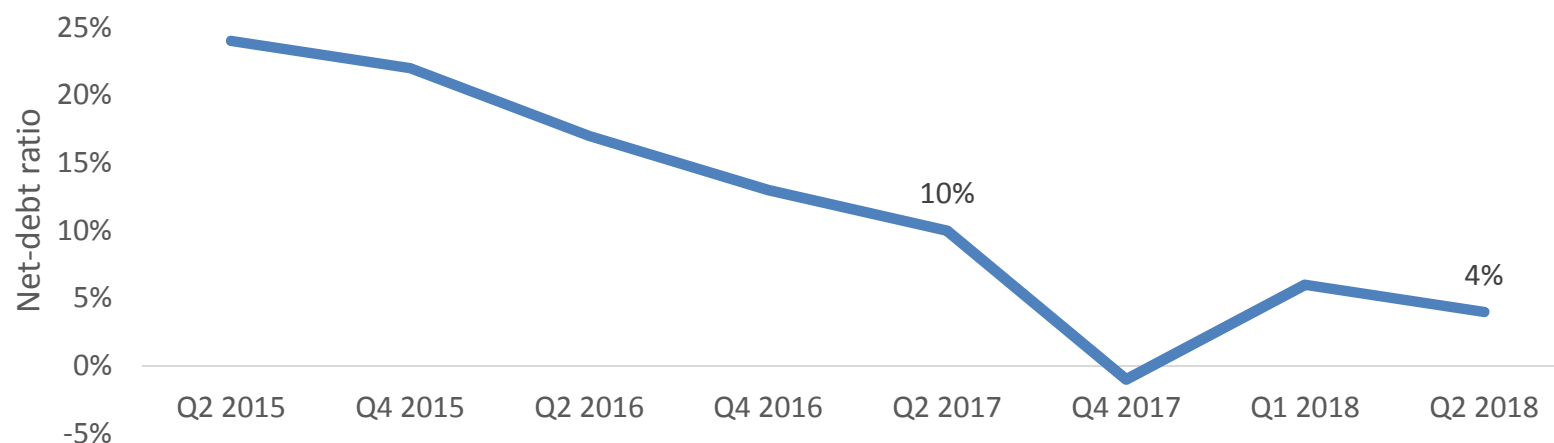
- Reported Operating Income was \$19.5 million, a decrease of \$1.8 million, or 9%, compared to the prior year. Net Sales were flat but global volume increased 1%.
- Global Polyol volume decreased 1%.
 - Share loss in North America Rigid was partially offset by higher Specialty Polyol volume supported by the new reactor in Columbus, Georgia and benefits from the continued strong rigid polyol market.
 - European volume matched prior year levels.
- North American results were also negatively impacted by margin pressures during the quarter.
- European margins improved sequentially from Q1 2018.
- Phthalic Anhydride (PA) results increased due to higher sales volume. Scheduled PA maintenance turnaround will negatively impact Q4.
- Foreign exchange positively impacted Net Sales by \$3.4 million and Operating Income by \$0.3 million.



*OI = Operating Income

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

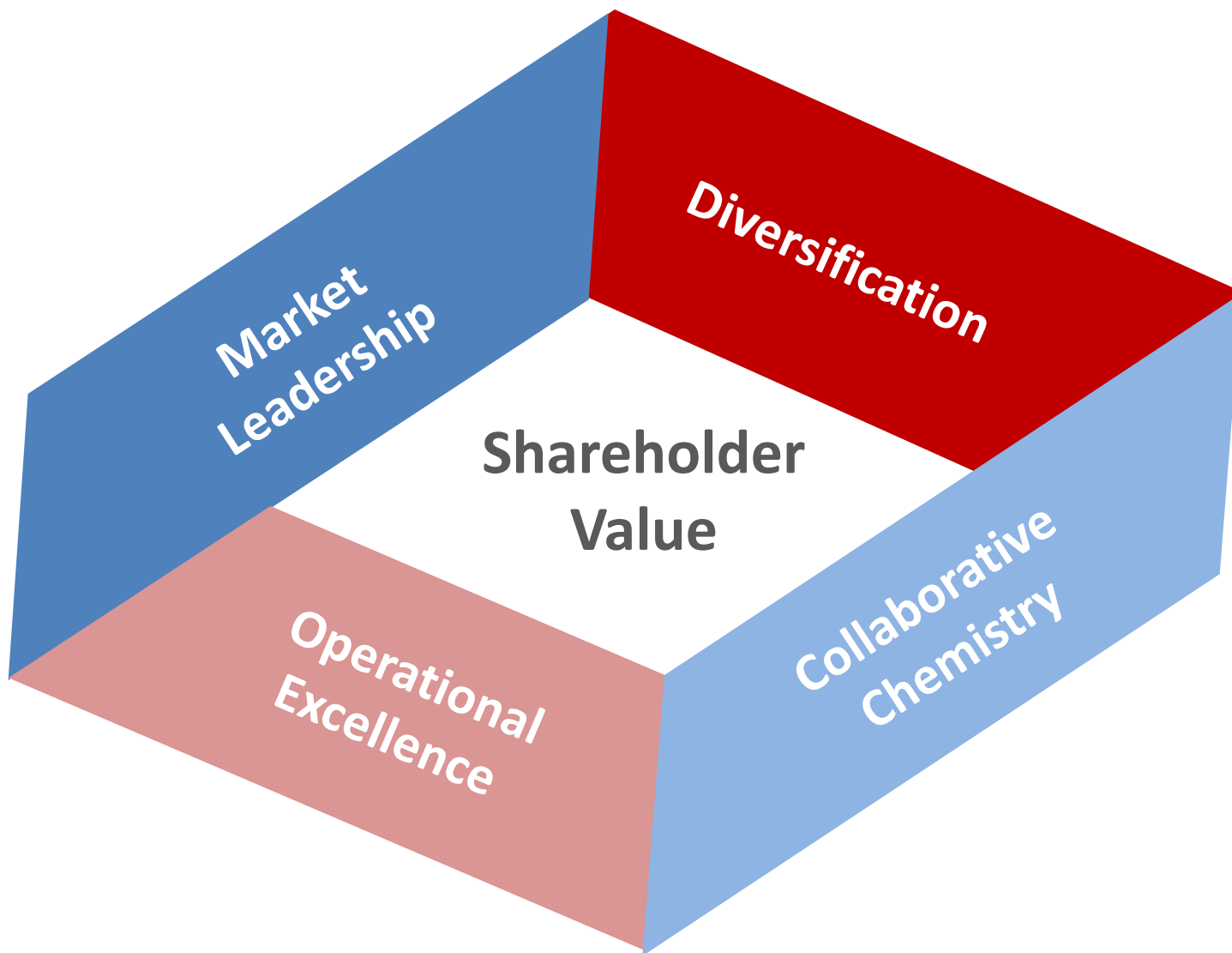
Historical net-debt ratio



- For the quarter
 - Cash flow from operations was \$52.8 million
 - Capital expenditures were \$16.3 million
 - We returned \$14.6 million to our shareholders via dividends and share repurchases
 - Free cash flow conversion was 99%

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.



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 for the year
- Continued volume growth in anionic Consumer Products during the quarter
- Volume opportunities for Global Rigid Polyol business in the second half may offset lower margins

Diversification

- Volume growth in Functional Products, particularly in the Oilfield end-market
- Volume growth in Tier 2 and Tier 3 Consumer Product customers
- New Specialty Polyol reactor in Columbus, Georgia contributing to higher volumes

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





- Delivered a record first half, with \$22 million returned to our shareholders via dividends and share repurchases

Stepan  Thank you for your interest in Stepan

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Update on Certain Expectations

	2017 Actual	2018 Expected
Capital expenditures 	\$79 million	\$90 to \$100 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 June 30			
	2018	EPS	2017	EPS
Net Income Reported	\$ 32,925	\$ 1.41	\$ 27,882	\$ 1.19
Deferred Compensation (Income) Expense	\$ (1,015)	\$ (0.04)	\$ 2,538	\$ 0.11
Business Restructuring	\$ 204	\$ 0.01	\$ 473	\$ 0.02
Adjusted Net Income	\$ 32,114	\$ 1.38	\$ 30,893	\$ 1.32

Reconciliation of Pre-Tax to After-Tax Adjustments

(\$ in thousands, except per share amounts)	Three Months Ended June 30			
	2018	EPS	2017	EPS
Pre-Tax Adjustments				
Deferred Compensation (Income) Expense	\$ (1,335)		\$ 4,094	
Business Restructuring	\$ 273		\$ 586	
Total Pre-Tax Adjustments	\$ (1,062)		\$ 4,680	
Cumulative Tax Effect on Adjustments	\$ 251		\$ (1,669)	
After-Tax Adjustments	\$ (811)	\$ (0.03)	\$ 3,011	\$ 0.13

Foreign Exchange Impact – Q2 2018

	Surfactants	Polymers	Specialty Products	Consolidated
(in Millions USD)				
Net Sales	0.9	3.4	0.3	4.6
Gross Profit	(0.1)	0.5	0.0	0.4
Operating Expenses	0.1	0.2	0.0	0.3
Operating Income	(0.1)	0.3	0.0	0.2
Pretax Income				0.3