



# Stepan



Investor Presentation

Midwest Investment Conference

*November 18, 2014*

## Core Components of Stepan's Strategy

**Leverage Technical and Market Leadership**

- Baseload Operations
- Economies of Scale

**Improve Mix**

**Geographic expansion**

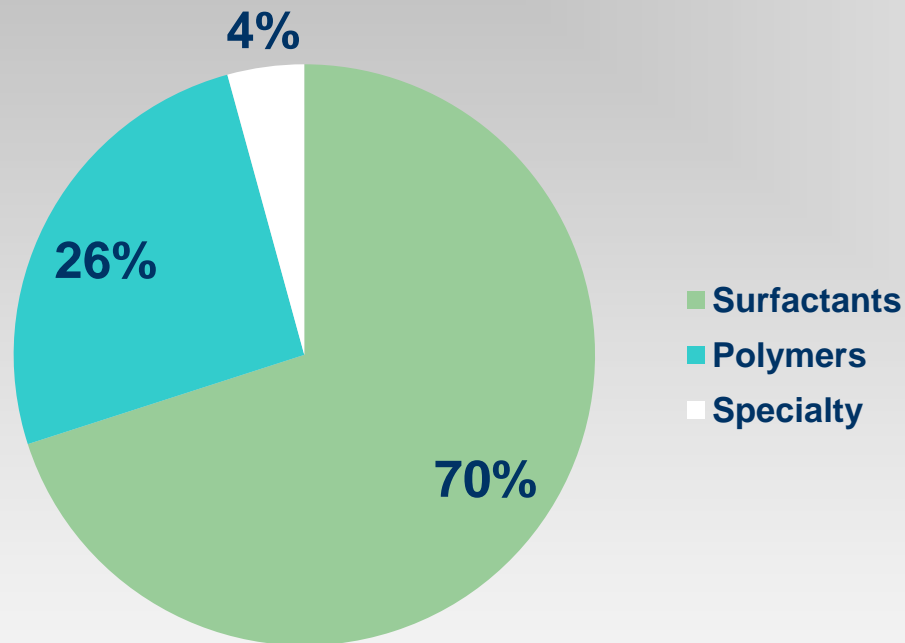
**Operational excellence**

# Cautionary Statement

*Except for historical information, all other information in this presentation may consist 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.*

# Stepan Company Profile

## 2013 Sales



- \$1.9B in Sales
- 3 Reportable Segments
- 17 manufacturing sites with operations in 12 countries
- 2000 employees
- Traded on NYSE as “SCL”



# Stepan Company Profile

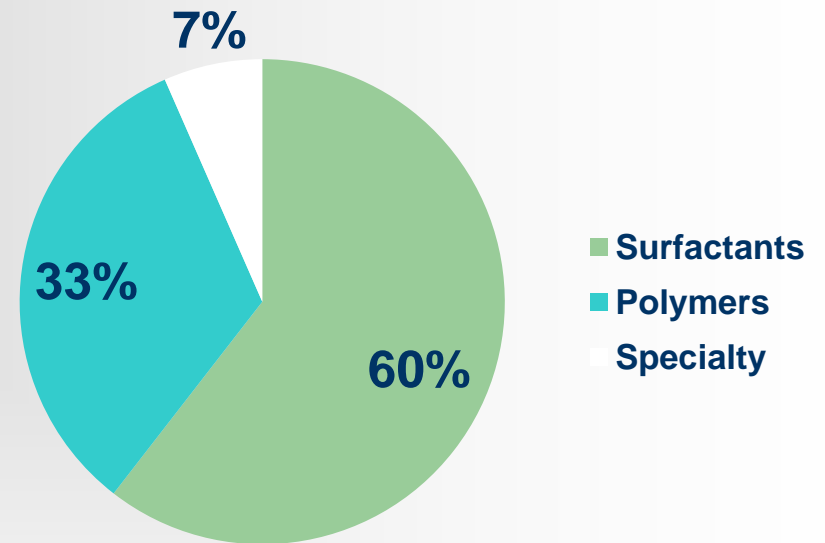


**5 years of record earnings prior to 2013**

\* = Net Income excluding deferred compensation income or expense is a Non-GAAP measure (see reconciliation in the appendix)

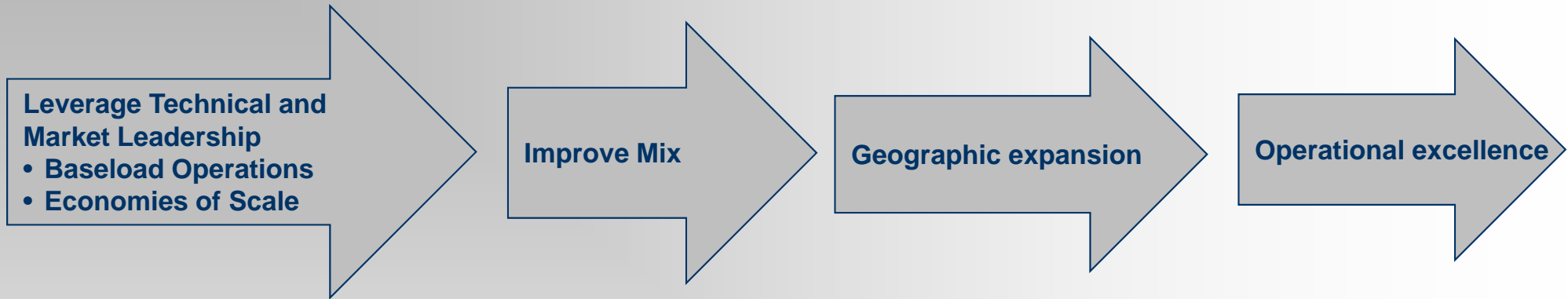
## Operating Income

**2013 = \$166MM**

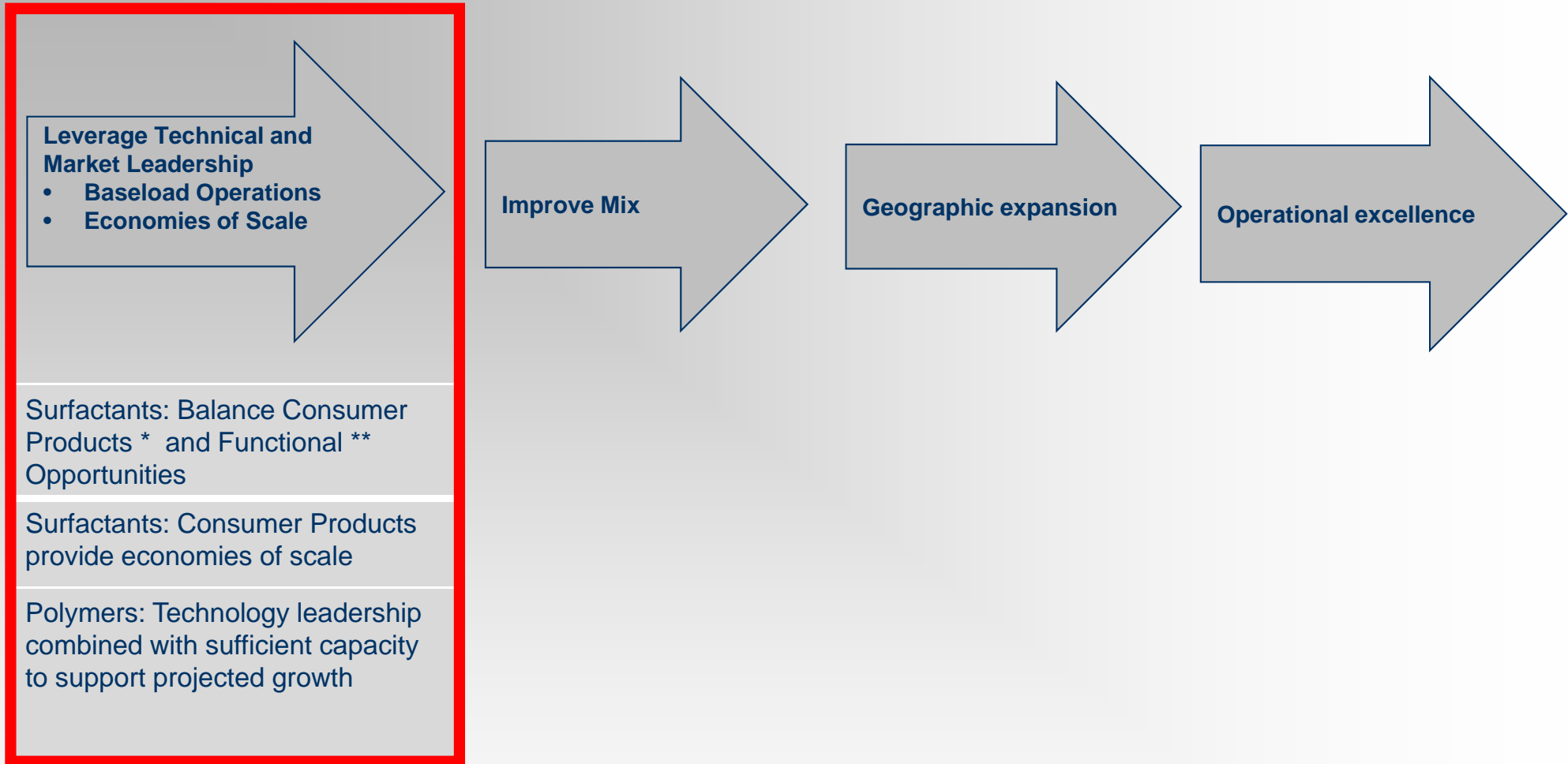


**Polymers contributes a higher % of Operating Income relative to % of Sales**

# Core Components of Stepan's strategy



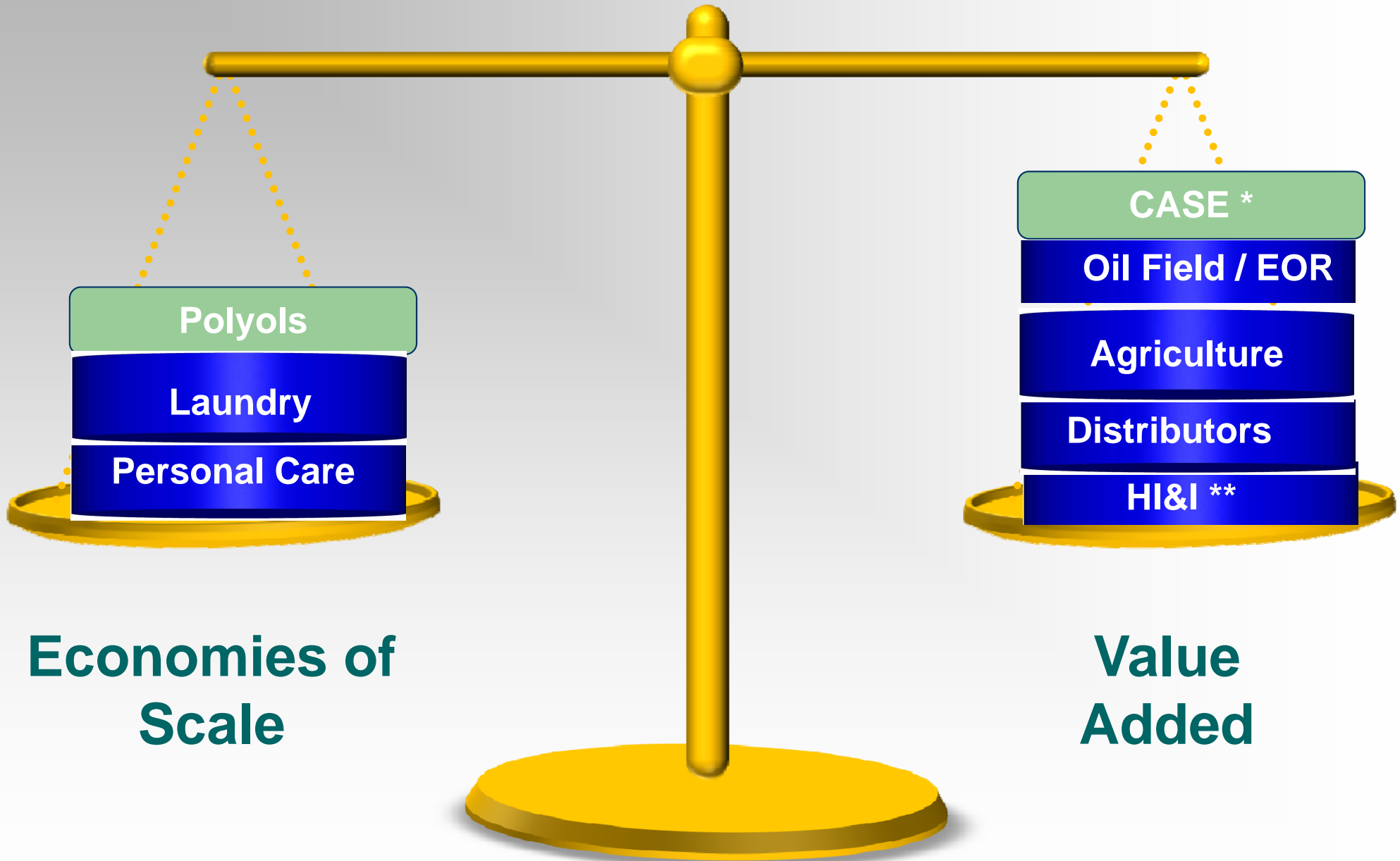
# Core Components of Stepan's strategy



\* Consumer Products = Personal Care and Laundry

\*\* Functional Surfactants have uses other than cleaning

# A balanced approach is integral to growing earnings



**Economies of Scale**

**Value Added**

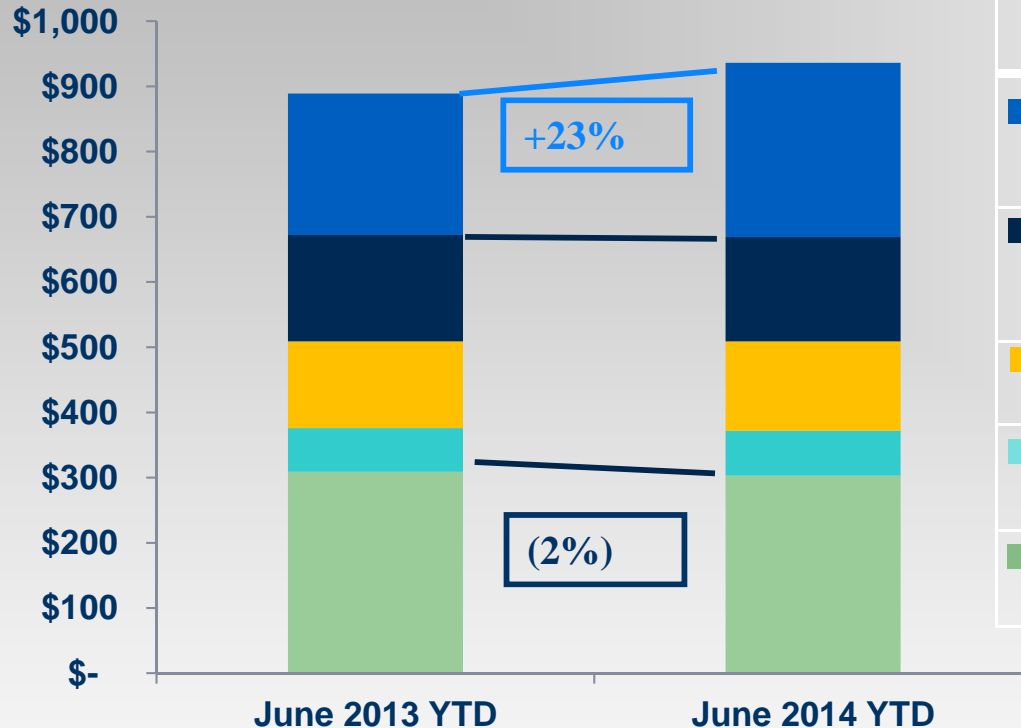
\* CASE = Coatings, Adhesives, Sealants, Elastomers

\*\* HI&I = Household, Institutional, and Industrial

# 2014 June YTD Sales

## Strong Polymers growth, decline in Consumer Products

Sales in \$MM USD



	<u>1H Comment vs. PY</u>	<u>Expectation</u>
 Polymers	Differentiated product along with strong macro factors	Generally continue
 Functional	Down (slow Ag*)	Ag* NA down year; Brazil expected to improve 2H
 Distributors	Flat	Generally continue
 Institutional & Industrial	Flat	Generally continue
 Consumer Products	Down (lost laundry business)	Will remain down vs. 2013

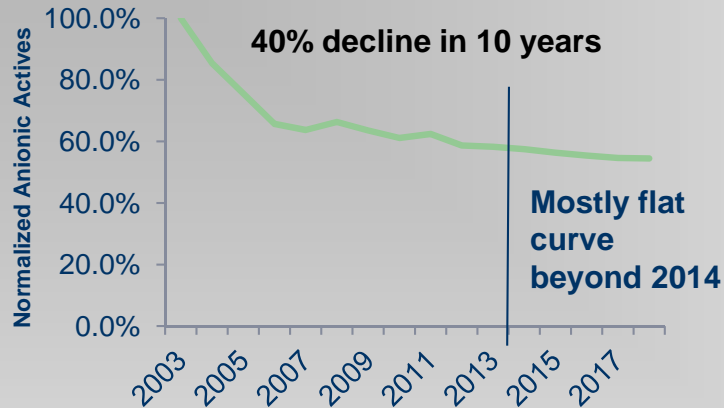
Operating Income (OI) % of Sales	
Polymers = 11%	Potential for OI% expansion as Polymers grows
Surf = 6%	

\*Ag = Agricultural

**The Consumer Products decline more than offset Polymers growth**



# North America Laundry is a large contributor to the 2014 June YTD Consumer Products decline



**Surfactant use per load has declined**

Source: Internal Stepan analysis  
2014 and beyond is a forecast

**Impact on Stepan**

- **Excess Sulfonation capacity**
- **Remaining Anionic Laundry business:**
  - **under long-term contracts**
  - **customers are not backward integrated**

**Stepan opportunities**

- **New laundry business**
- **Enhanced Oil Recovery (EOR) Surfactants**
- **Or additional sulfonation rationalization**

**Over time Surfactants use per load has declined due to:**

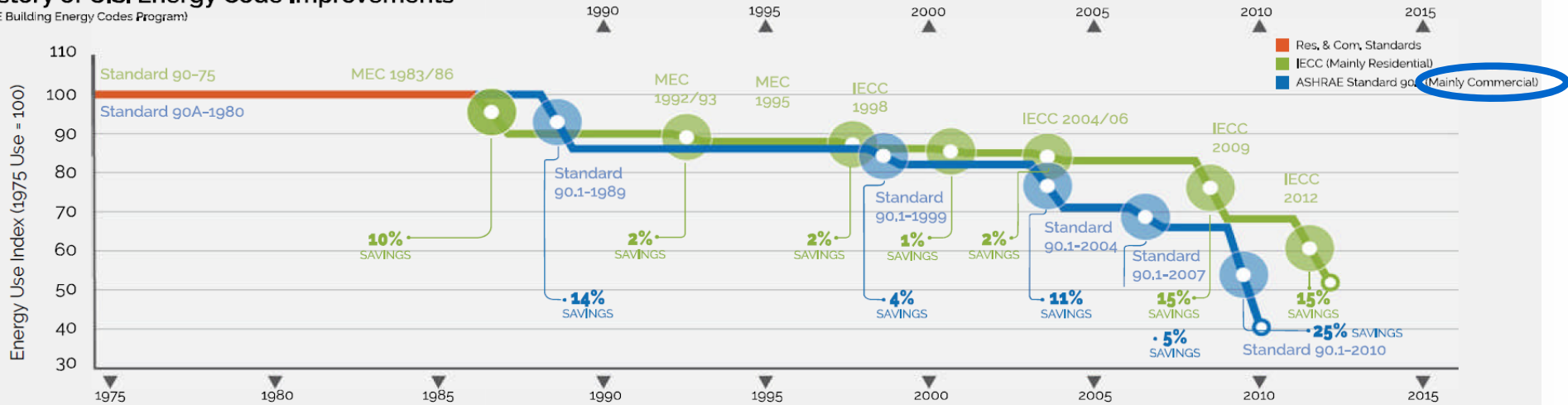
- **Increased use of enzymes**
- **Reduction in actives as Consumer Product companies concentrate products**
- **End consumer trading down from Premium to Economy products which use less Surfactants**

# Our other high volume business is Polyols for insulation

Energy efficiency is a key growth driver (Government mandated and consumer preference)

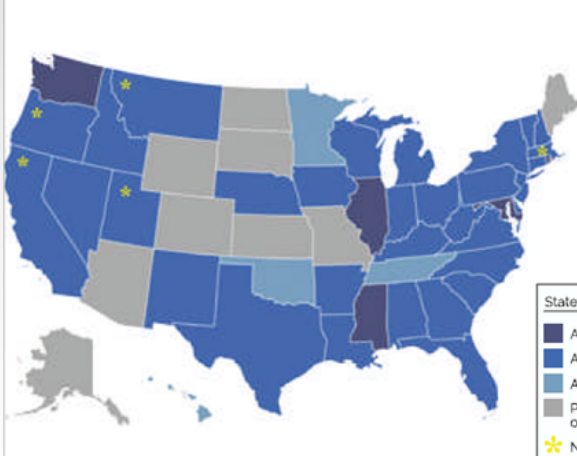
## History of U.S. Energy Code Improvements

(DOE Building Energy Codes Program)



Since 1989, the energy use index has declined by 60% per the commercial codes

### Commercial Code Status AS OF JANUARY 2014



**!** In one year, 3 new states have adopted the 90.1-2010, and 3 states plan to update their energy codes.

	2010	2014
Statewide code meets or exceeds:	0	5
ASHRAE Standard 90.1-2010 or equivalent	7	33
ASHRAE Standard 90.1-2007 or equivalent	22	4
ASHRAE Standard 90.1-2004 or equivalent	9	9
Precedes the ASHRAE Standard 90.1-2004 or no statewide code	13	5
New code to be effective at a later date		

Source: ASHRAE = the foremost source of technical and educational information, and the primary provider of opportunity for professional growth in the arts and sciences of heating, ventilating, air conditioning and refrigerating

From 7 to 38 states in the two most stringent standards

While Europe is in the lead, US states have been consistently increasing energy standards (and many are still catching up)

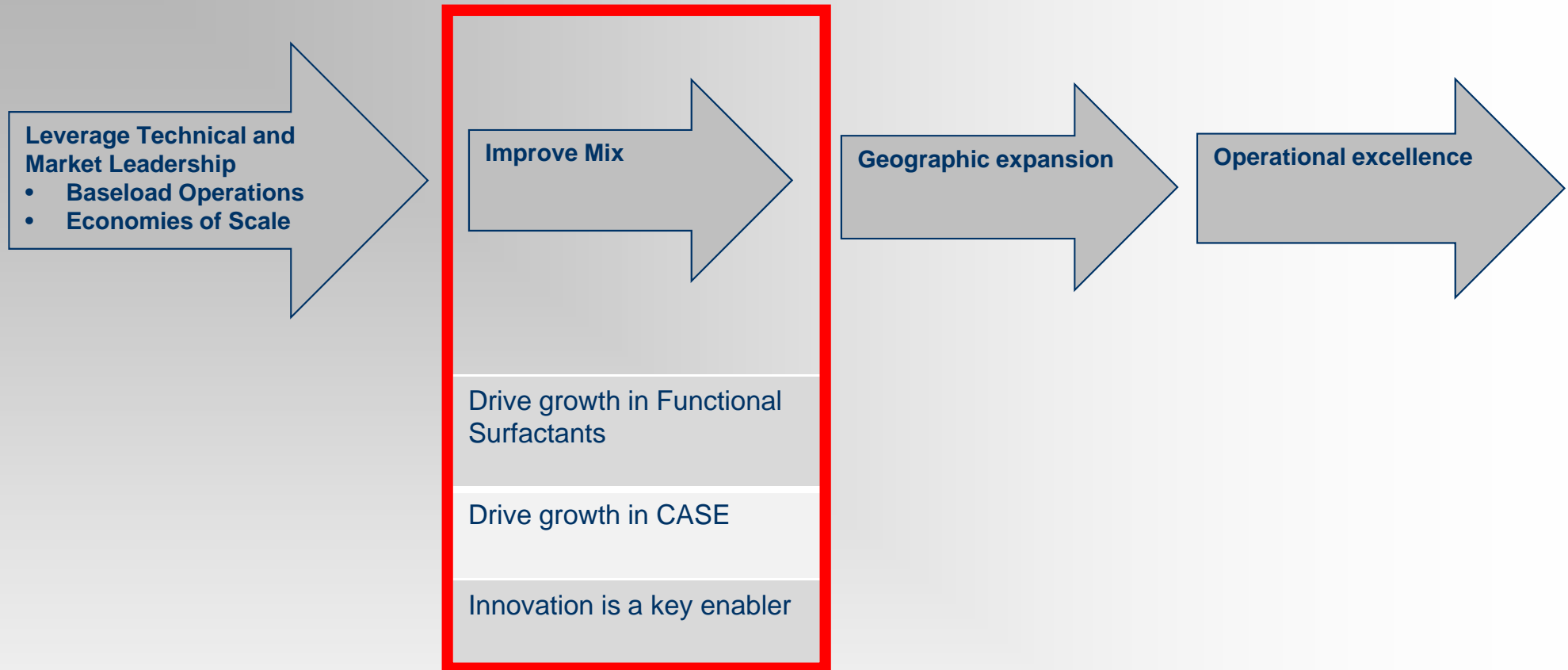
## In addition to energy efficiency, there are other growth factors for Polyols for insulation

- Potentially returning growth in commercial construction in North America
- Conversion to metal panels in Europe
- China

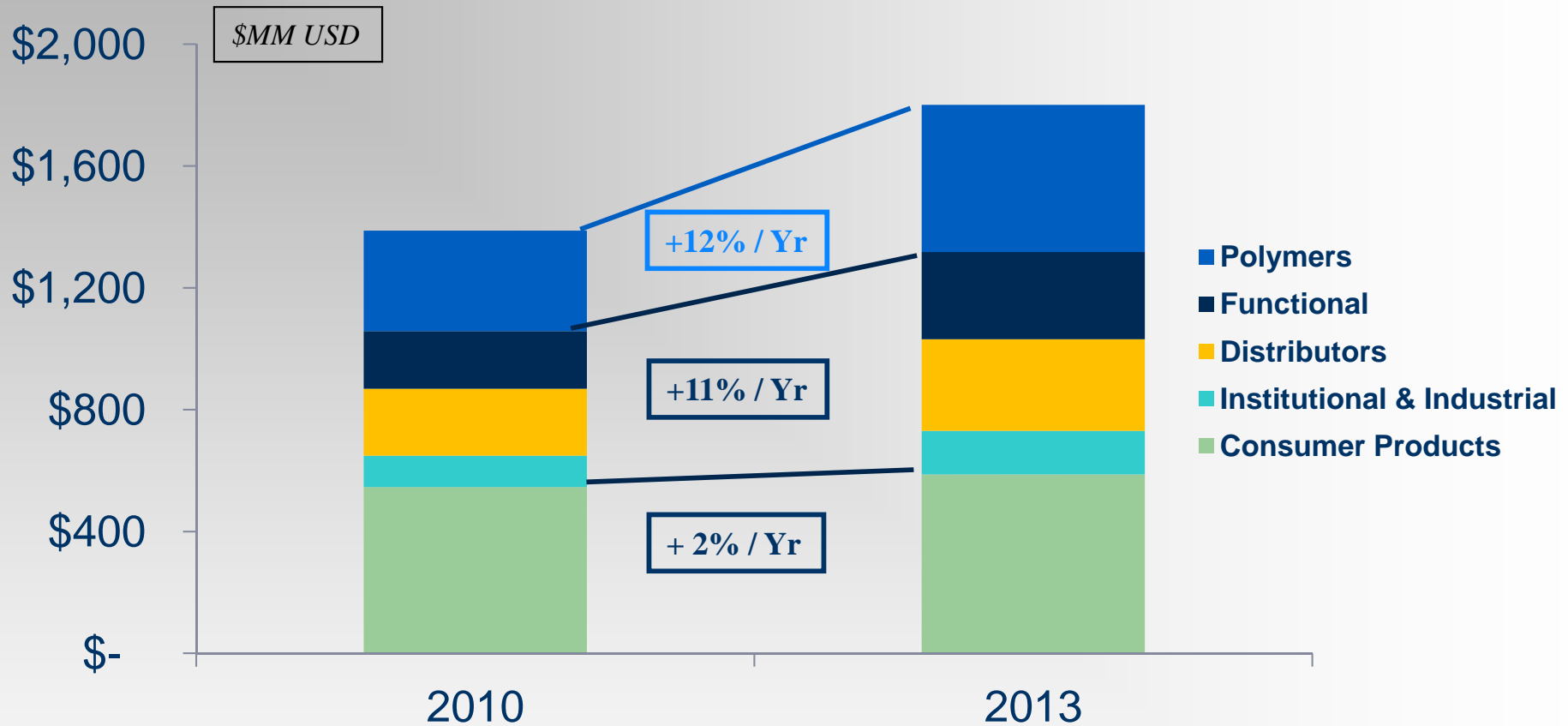
Capacity is in place to support the growth in North America and Europe

Planned capacity being built in China

# Core Components of Stepan's strategy



# Prior to 2014 - Increasing sales in higher end products



**Growth from**

- Functional Surfactants with focus on Agriculture and Oil Field
- Polymers through Polyols and CASE

# Global Agriculture presents an attractive opportunity for growth



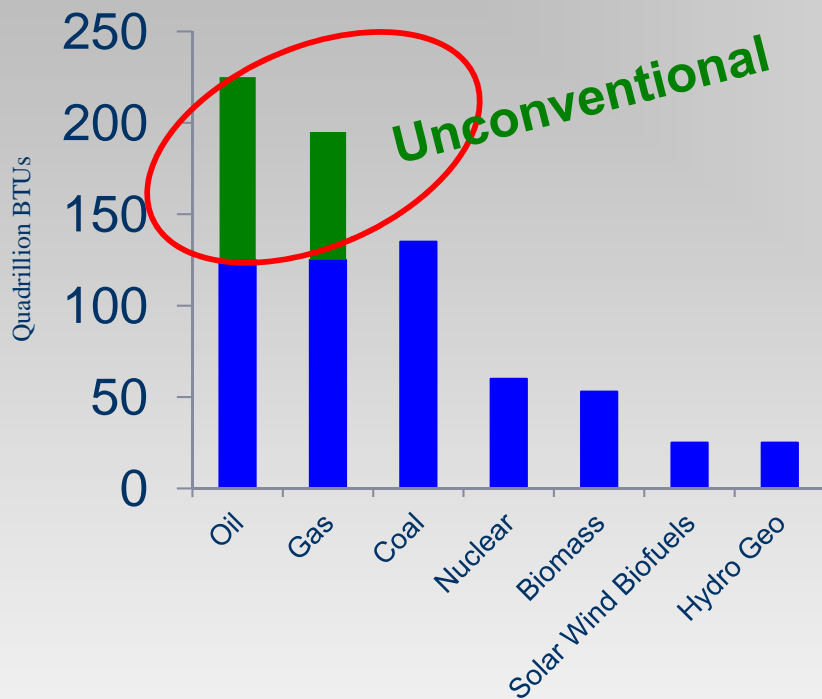
- Global Agriculture remains very attractive despite recent headwinds
    - 2014 becoming a difficult year industry-wide but not expected to repeat
- 
- Global population growth expected from 7 to 9 billion by 2040 \*
  - Income growth in emerging middle class expected to drive greater protein demand
  - 70% increase in crop production required

**Chemistry will be part of the solution**

\* Source: United Nations Department of Economics and Social Affairs and Phillips McDougal Agrireference Report (Sales Performance in 2012) dated December 2013

# Oilfield is the broader category - Enhanced Oil Recovery (EOR) is within Oil Field

2040 Projected Energy Mix



Projected Energy Mix: Adopted from ExxonMobil "The Outlook for Energy: A View to 2040" © 2013

\* US Department of Energy, April 2005

\*\* Innovative Energy Technology Program (IETP), Average Husky field results

•\*\*\* US Department of Energy

•\*\*\*\* Tiorco lab projects

## Surfactant Applications

- Oil Sands
    - Bitumen Dilution
    - Rig/Equipment Cleaning
  - Tight/Shale Oil and Gas
    - Flow Back Modifier
    - Friction Reducer
    - Biocides
  - Enhanced Oil Recovery
    - Mobilize Trapped Crude
    - Estimated 1.33 Trillion barrels of "stranded" oil in the US \*
    - Estimated 9.5% of oil recovered from EOR (126 Billion barrels) \*\*
    - 20% eligible for Enhanced Oil Recovery techniques (25 billion barrels) \*\*\*
    - 4-7 pounds of surfactant used per barrel (100-175 billion pounds of EOR surfactants) \*\*\*\*
- Water Treatment
  - Emulsion Breakers
  - Gellants
  - Stimulation Foamer

Potentially big opportunity with capacity currently in place

# Entry into CASE diversifies Polymers beyond commercial roofing

CASE is attractive to Stepan:

- Growth opportunities
- Diversification
- We bring unique know-how in specialty applications in Polyurethanes

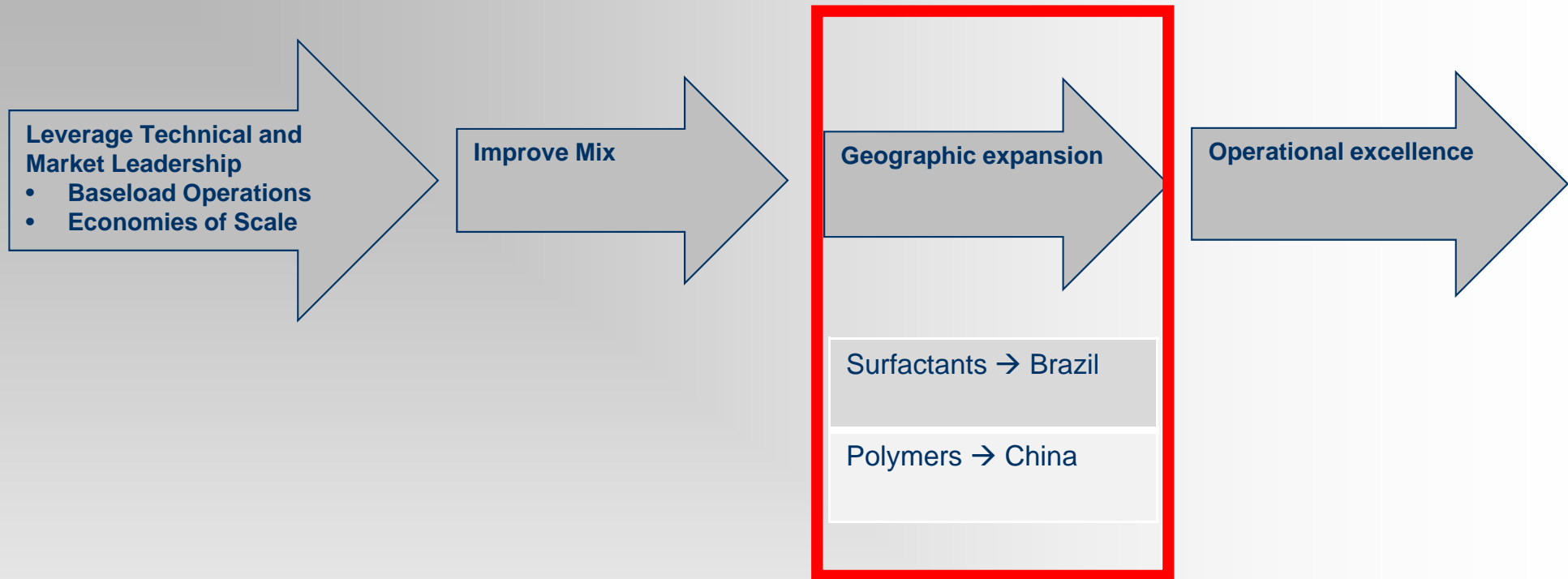
## Stepan strategy in action

- Columbus, Georgia acquisition in May 2013 diversified our Polyol offering and “should accelerate our growth in CASE and PUSH \*”
- On track to deliver \$6 - \$8MM incremental Operating Income in 2014

\* PUSH = Polyurethane Systems House



# Core Components of Stepan's strategy



# Getting “Big in Brazil” is a core component of our strategy



- We believe Brazil provides the right combination of
    - Consumer surfactant drivers
    - Opportunities to grow in Agriculture and Oil Field
  - Brazil is the 5<sup>th</sup> most populous country with a large and growing middle class \*
  - Consumer product market is evolving toward developed country standards (“Universal Consumer”)
    - Should drive growth in Powder and liquid detergents and liquid personal wash
- 
- Brazil has the most farmable land in the world \*\*
  - Brazil can produce far more food than its population needs \*\*
  - The world will need a global food system \*\*\*
  - Brazil will ship food to other parts of the world \*\*\*

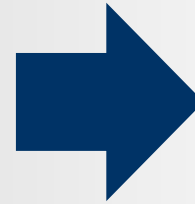
**Growing in Brazil is a core component of our strategy**

\* Source: World Population Review March 23, 2014

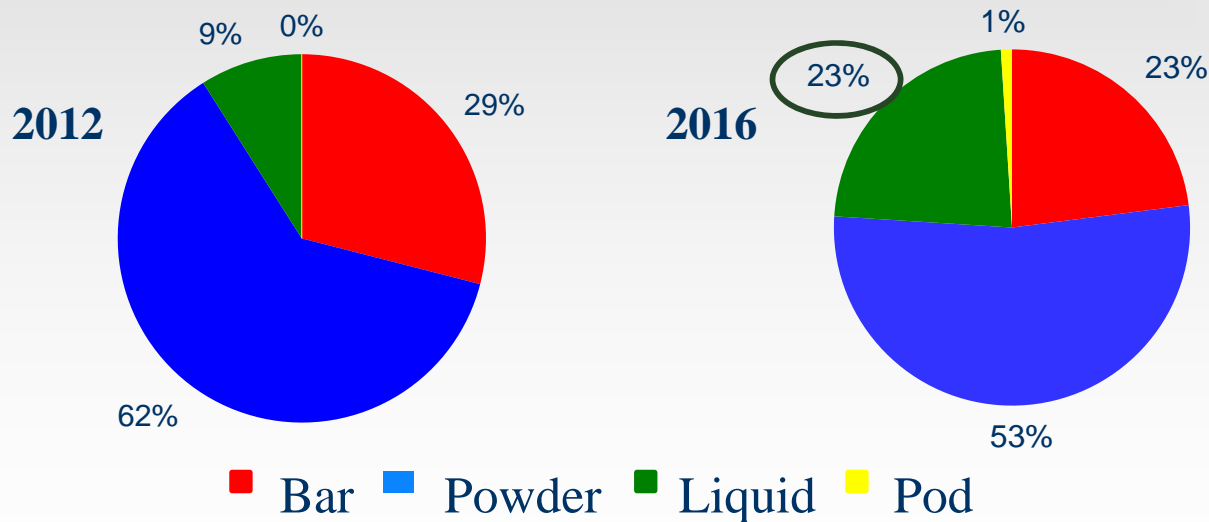
\*\* Source: Phillips McDougall Agrireference Report (Sales Performance in 2012) dated December 2013

\*\*\* Source: BBC Podcast Aug 23, 2014 – “In the Balance: The future of food”

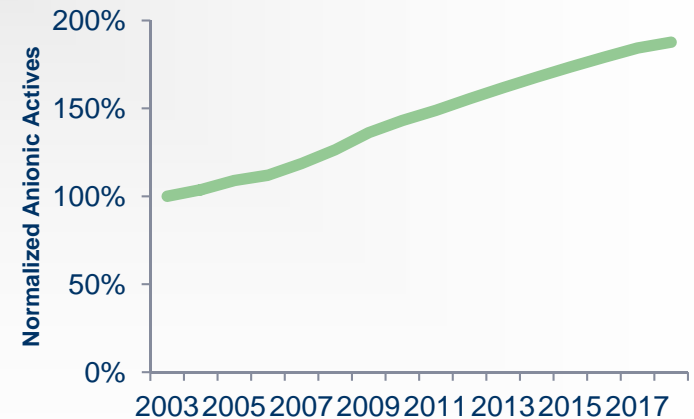
# Brazilian Laundry Product Evolution



Surfactant use increases with each phase → to Powders → to Liquids



Surfactant Use Per Load



Source: Internal Stepan analysis 2014 and beyond is a forecast

Brazil presents a growth opportunity in Consumer Products

## Growing Polymers in China is also key to our strategy

### China is a large, growing market for insulation

- Chinese Government is mandating greater energy efficiency throughout economy and more use of insulation
- Significant MDI\* investment in China which is reacted with Polyol to make insulation

#### SCL History in China

- 2005 start up of Polyol plant
- 2013 Government mandated plant shut-down
- 2013 SCL had \$2MM of additional costs to shut-down plant and establish interim supply chain
- SCL on 4Q 2013 Earnings Call → We plan to build a new plant
- SLC on Q2 2014 Earnings Call → We signed EPC\* contract;  
Expected operational in 2016

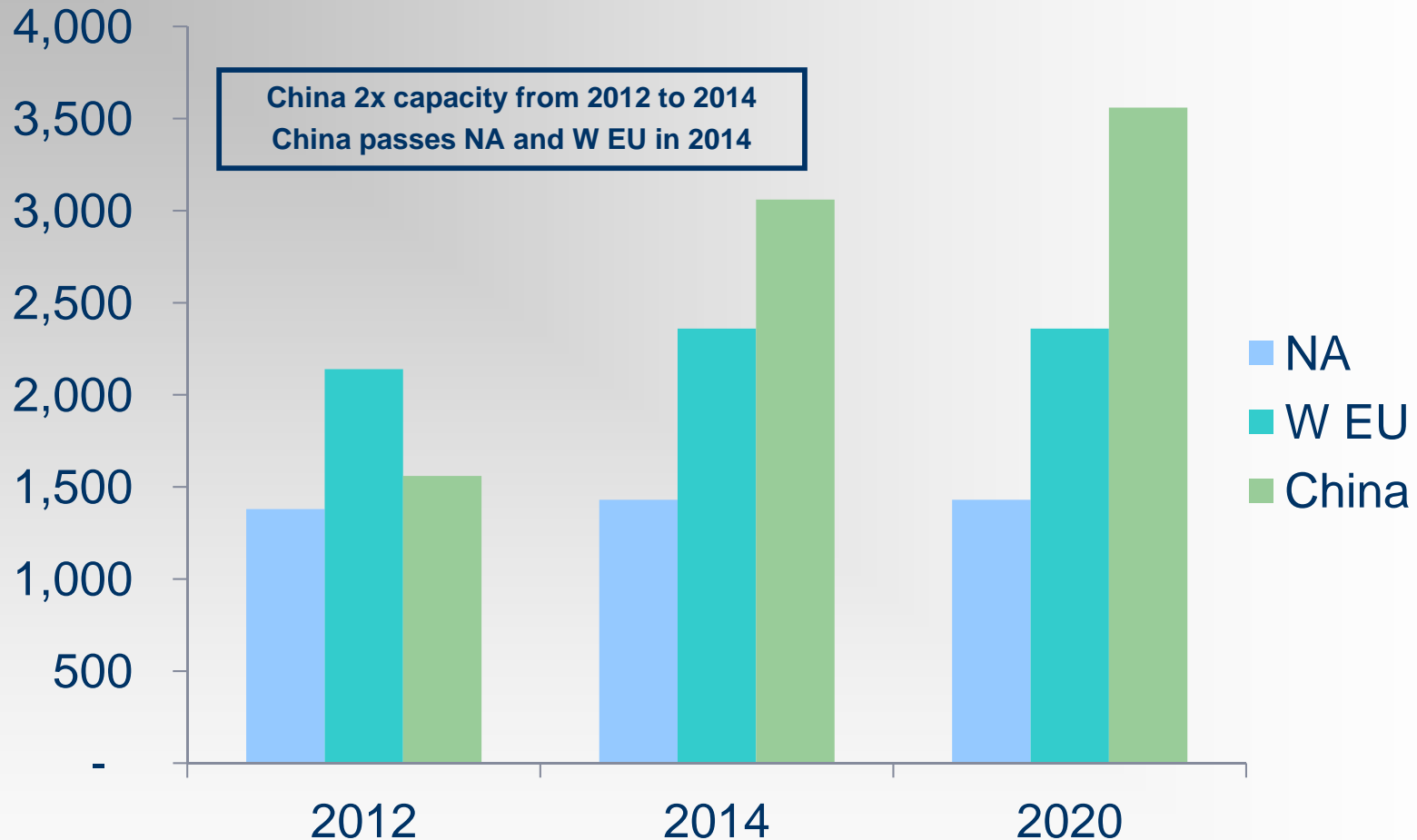
\* MDI = Methylenebisphenylene Diisocyanate

\*\* EPC = Engineering, Procurement and Construction

**We plan to accelerate our participation in what we expect will be the largest Polyol market in the world**

# Global MDI Capacity

*Thousand Metric Tons*

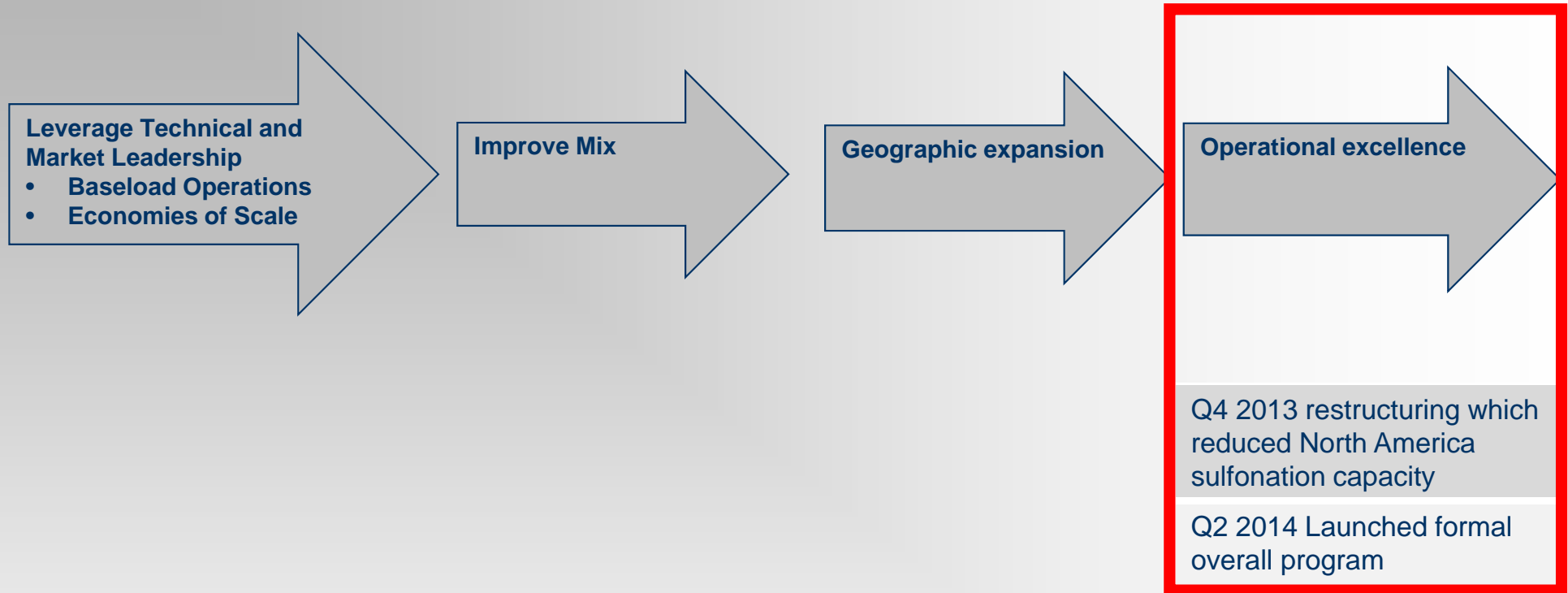


**MDI Producers are making big investments in China with \$6B invested in capacity**

Source: Tecnon Orbichem report - October 2013

Stepan is not an MDI producer

# Core Components of Stepan's strategy



# Operational Excellence

## Q4 2013 Booked Restructuring Reserve

- Reduces capacity in North America sulfonation
- Relatively small but “indicative”
- On target to save \$2.5MM / year

## Q2 2014

- Launched formal program, utilizing internal and external resources to Improve efficiency and profitability
- Plan to communicate more information later in 2014

# Strong Balance Sheet

Key Covenant Metrics	Most restrictive	Calculations per 2013 10-K
Interest Coverage	2	10
Net Worth	\$325MM	\$552MM
Total Debt / Total Capital	Max is 55%	33%

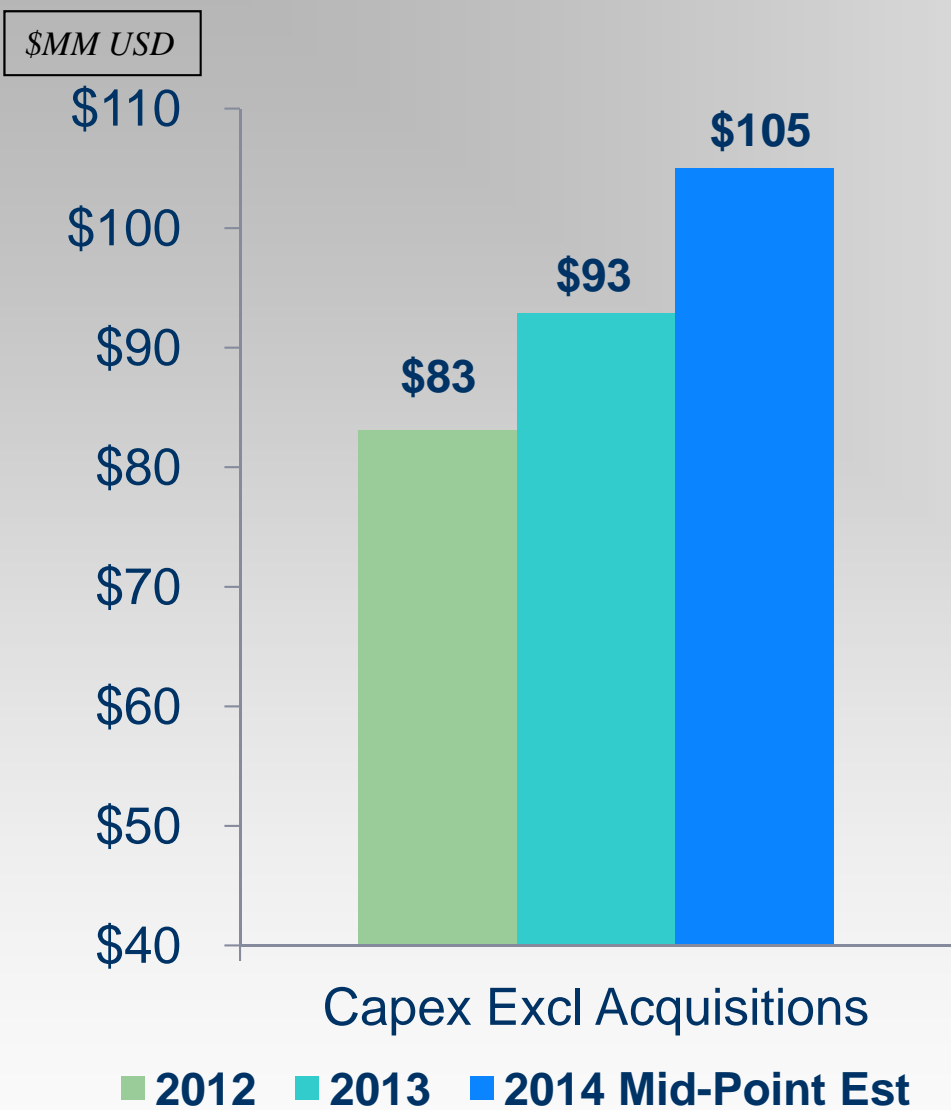
**A lot of room to use balance sheet to drive growth**

## Cash Priorities

- Drive earnings growth and geographic expansion through measured use of capital spending
- Spend to improve efficiencies
- Pursue further innovation through differentiated products
- Continue increasing the dividend



# Leveraging the Balance Sheet to drive future earnings growth



Recent key investments

**R&D facilities in Brazil, China, and France**

**Surfactants**

**US - Specialty surfactants**

**Brazil - Neutralization capacity**

**Asia - Singapore Methyl Ester plant**

**Polymers**

**Europe - Polyol for roof / metal panel**

**US - Specialty CASE Polyol**

In progress investments

**Surfactants**

**Brazil - 2<sup>nd</sup> neutralizer**

**Brazil (Bahia state) acquisition**

**Polymers**

**China - New plant for roof / CASE**

**Investment priorities aligned with strategy**

# Dividend legacy

Symbol	Company Name	Increased Since
DBD	Diebold, Inc.	1954
AWR	American States Water	1955
DOV	Dover Corp.	1956
NWN	Northwest Natural Gas	1956
EMR	Emerson Electric	1957
GPC	Genuine Parts	1957
PG	Procter & Gamble	1957
MMM	3M	1959
PH	Parker Hannifin Corp.	1960
VVC	Vectren Corporation	1960
CINF	Cincinnati Financial	1961
JNJ	Johnson & Johnson	1963
KO	Coca-Cola Co.	1963
LANC	Lancaster Colony Corp.	1963
LOW	Lowe's	1963
CL	Colgate-Palmolive	1964
ITW	Illinois Tool Works	1964
NDSN	Nordson Corp	1964
CLC	Clarcor Inc.	1965
CB	Chubb Corp	1966
HRL	Hormel Foods	1967
ABM	ABM Industries	1968
CWT	California Water Services Group	1968
FRT	Federal Realty Investment Trust	1968
SJW	SJW Corp	1968
TGT	Target	1968
SWK	Stanley Black & Decker, Inc.	1968
SCL	Stepan Co.	1968

Source: [www.dividend.com](http://www.dividend.com) – “25-Year Dividend Increasing Stocks”

*The total group was sorted by the longest history of paying increased dividends and the companies with the longest histories are shown here.*

**Stepan is one of 28 companies which have paid increasing dividends for at least 46 consecutive years**

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

## Contact information:

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# Appendices

- **Reg G reconciliation**
- **Regional results – as of Dec 2013**

# Reg G reconciliation: Net Income Excluding Deferred Compensation expense/income to Reported Net Income

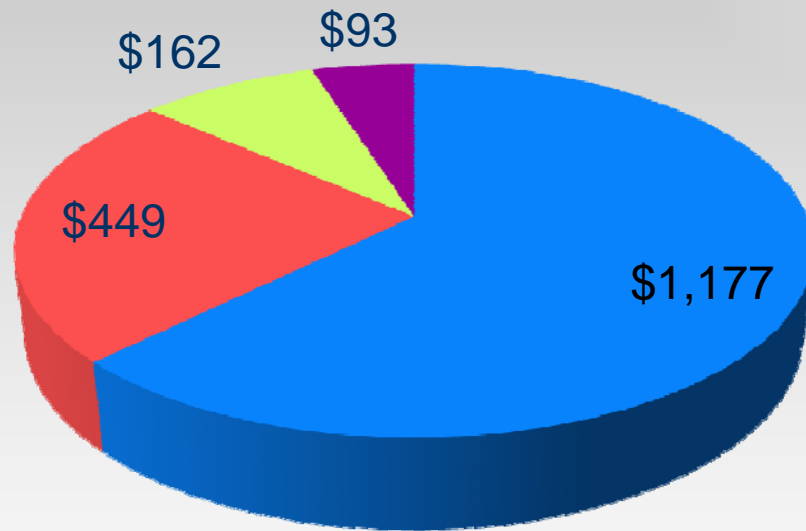
Net Income Excluding Deferred Compensation Reconciliation							
<i>(Amounts in Millions)</i>							
	Years Ended December 31						
	2007	2008	2009	2010	2011	2012	2013
<b>Net Income Attributable to Stepan Company As Reported</b>	<b>\$ 15.1</b>	<b>\$ 37.2</b>	<b>\$ 63.0</b>	<b>\$ 65.4</b>	<b>\$ 72.0</b>	<b>\$ 79.4</b>	<b>\$ 72.8</b>
Deferred Compensation (Income)Expense, Net of Investment Income	0.6	3.0	3.1	2.2	0.9	5.4	3.7
<b>Net Income Excluding Deferred Compensation</b>	<b>\$ 15.7</b>	<b>\$ 40.2</b>	<b>\$ 66.1</b>	<b>\$ 67.6</b>	<b>\$ 72.9</b>	<b>\$ 84.8</b>	<b>\$ 76.5</b>

**Reference: Slide #3 Stepan Company Profile**

# Stepan Company Regional Results (\$MM) - As of End of 2013

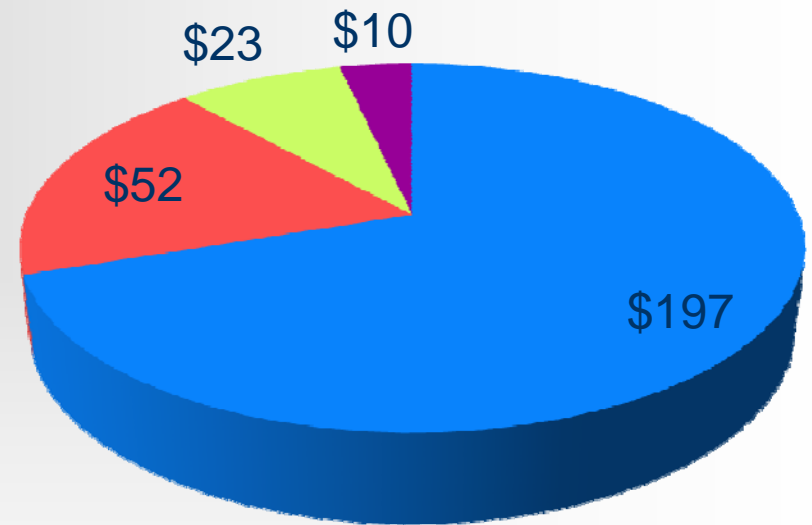
Gross Profit Percent of Sales	
NA	17%
EU	12%
LA	14%
AP	11%

**2013  
Net Sales  
\$1,881 million**



■ North America ■ Europe ■ Latin America ■ Asia

**2013  
Gross Profit  
\$282 million**



■ North America ■ Europe ■ Latin America ■ Asia

**Well positioned in North America with highest profitability**  
**Scale generally provides higher returns**  
**Continued growth opportunities overseas, volume leverage**