

Stepan 

THE SCIENCE WE SHARE

2018 ANNUAL REPORT



Angeeta

FINANCIAL HIGHLIGHTS

(In thousands, except per share and stockholder amount)	2018	2017	% Change (2018 vs. 2017)	2016	% Change (2017 vs. 2016)
Net Sales	\$1,993,857	\$1,925,007	+ 4	\$1,766,166	+ 9
Net Income Attributable to Stepan Company	112,762	91,578	+ 23	86,191	+ 6
Per Diluted Share	4.83	3.92	+ 23	3.73	+ 5
Percent of Net Sales	5.7%	4.8%	+ 19	4.9%	- 2
Percent Return on Average Equity	14.8%	13.3%	+ 11	14.5%	- 8
Depreciation and Amortization	81,115	79,022	+ 3	74,967	+ 5
Capital Expenditures	86,647	78,613	+ 10	103,076	- 24
Dividends Per Common Share	\$ 0.93	\$ 0.86	+ 8	\$ 0.78	+ 10
Working Capital	463,948	468,483	- 1	388,276	+ 21
Current Ratio	2.4	2.5	- 4	2.3	+ 9
Long-Term Debt, Less Current Maturities	239,022	268,299	- 11	288,859	- 7
Total Stepan Company Stockholders' Equity	783,766	740,096	+ 6	634,604	+ 17
Total Stepan Company Stockholders' Equity Per Share	34.82	32.88	+ 6	28.30	+ 16
Average Common Shares Outstanding (Diluted)	23,325	23,377	0	23,094	+ 1
Number of Stockholders	1,705	1,691	+ 1	1,662	+ 2

STOCK INFORMATION

New York Stock Exchange, symbol SCL	2018	2017
Stock Price Range	\$68.09-\$90.96	\$68.51-\$92.97
Dividend (Common)	\$ 0.93	\$ 0.86
Earnings Per Diluted Share	\$ 4.83	\$ 3.92
Return on Equity	14.8%	13.3%
Book Value	\$34.82	\$32.88
Shares Outstanding	22,505,625	22,509,278

Information in this annual report consists of forward-looking statements which are not historical facts. These statements are subject to risks and uncertainties that could cause actual results to differ materially from the forward-looking statements, including without limitation, those described in the Company's Form 10-K, Form 8-K and Form 10-Q reports filed with the Securities and Exchange Commission, which risks and uncertainties related to disruptions in production or accidents at manufacturing facilities, global competition, volatility of raw material and energy costs, disruptions in transportation or significant changes in transportation costs, reduced demand due to customer product reformulations or new technologies, the probability of future acquisitions and the uncertainties related to the integration of acquired businesses, maintaining and protecting intellectual property rights, international business risks, including currency exchange rate fluctuations, legal restrictions and taxes, our debt covenants, our ability to access capital markets, downturns in certain industries and general economic downturns, global political, military, security or other instability, costs related to expansion or other capital projects, interruption or breaches of information technology systems, the costs and other effects of governmental regulation and legal and administrative proceedings and our ability to retain executive management and key personnel.

THE SCIENCE WE SHARE, TODAY AND TOMORROW

At Stepan Company, we take pride in the collaboration that takes place across our business and with our valued customers. As we expand our global presence and enhance our capabilities, we will work with our customers to innovate best-in-class chemical solutions in our markets and technologies. These solutions not only drive business, they enhance the current and future sustainability goals we share.

With our core values—customer focus, people first, continuous improvement, integrity, growth & innovation and sustainability—we are well positioned to capture opportunities and maximize value for our customers, employees and our shareholders.



STEPAN
MANUFACTURING
LOCATIONS

DEAR FELLOW SHAREHOLDERS

2018 was another good year for Stepan Company. We delivered record reported net income of \$112.8 million and record adjusted net income¹ of \$113.8 million. Surfactants, our largest business, grew its operating income by 14 percent through the acquisition of new customers and expanded product sales to existing customers globally. Polymer results were down due to lower sales volume and margins. Company results benefited from the lower U.S. federal tax rate. We believe collaboration with our customers and the science we share will drive growth in 2019 and beyond.

Net income increased 23 percent, and adjusted net income rose 5 percent to \$113.8 million, or \$4.88 per diluted share. Sales volume was up 3 percent, primarily due to increased Surfactant sales volume. Net sales were up 4 percent to \$2.0 billion, primarily attributable to global volume growth.

income reflected greater market share in North America within the consumer and functional end markets and increased volume growth, enabled by strong supply chain performance. Profitability also benefited from our diversification efforts in alkoxyates and new products for the agricultural and oilfield markets.

“We believe collaboration with our customers and the science we share will drive growth in 2019 and beyond.”

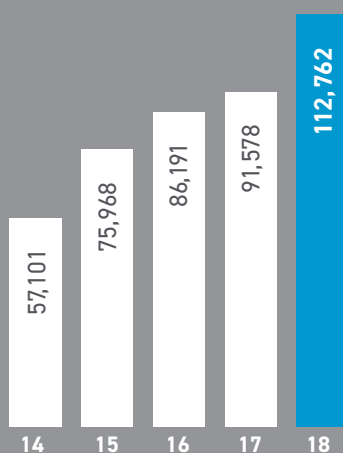
On March 26, 2018, we closed our acquisition of a facility in Ecatepec, Mexico, in order to enhance our market position and growth strategy in Latin America. This acquisition will improve Stepan's supply capabilities for surfactants and position us to grow in both the consumer and functional markets.

Surfactants delivered \$137.5 million in operating income in 2018, up 14 percent from 2017. The increase in operating

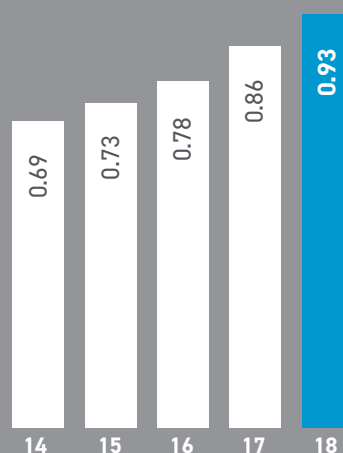
In 2019 and beyond, we expect to strengthen our position in nonionic surfactants by expanding our alkoxylation capabilities. We are committed to supplying more regional consumer product customers around the world.

1. Adjusted net income is a non-GAAP measure. A reconciliation of adjusted net income to reported net income is set forth in the table on page 10 of this Annual Report. All amounts are presented after tax.

NET INCOME ATTRIBUTABLE TO STEPAN COMPANY
(dollars in thousands)



DIVIDENDS PER COMMON SHARE
(dollars)



In 2018, Polymer operating income decreased to \$64.5 million, down 22 percent from 2017, driven by reduced margins and lower sales volume.

We plan to continue our investment in the development of next-generation polyol technology providing improved insulation and flammability performance.

As global rigid polyol demand is projected to grow at a compound rate of 5 percent in each of the next five years, driven by the continued global focus on energy efficiency, we also plan to expand capacity to support this anticipated market growth with investments at our Wesseling, Germany, and Millsdale, Illinois, facilities.

Specialty Products comprised \$11.7 million of operating income in 2018, up \$1.7 million, or 17 percent, from the previous year, benefiting from improved margins and higher NEOBEE® sales volume.

Capital spending was \$86.6 million, up 10 percent from \$78.6 million in 2017.

By making safety a priority and watching out for each other, we had our safest year in Company history as measured by our global injury recordable rate. We have raised our public commitment to sustainability by becoming a signatory to the United Nations Global Compact and implementing projects to reduce air emissions and water consumption.

Our balance sheet is strong, and we finished the year with no net debt. We generated \$64 million free cash flow² and plan to use this to fuel the expansion of our product lines and innovation portfolios.

2. Free cash flow is a non-GAAP measure that is defined as cash flow from operating activities (\$171.1 million), less expenditures (\$86.6 million), less cash dividends paid (\$20.9 million). All amounts are presented after tax.

In 2018, Stepan increased its quarterly cash dividend 11 percent, marking the 51st consecutive year the company has increased its cash dividend to shareholders.

During 2018, we welcomed Luis Rojo, Vice President and Chief Financial Officer, and Janet Catlett, Vice President and Chief Human Resources Officer, to the executive team.

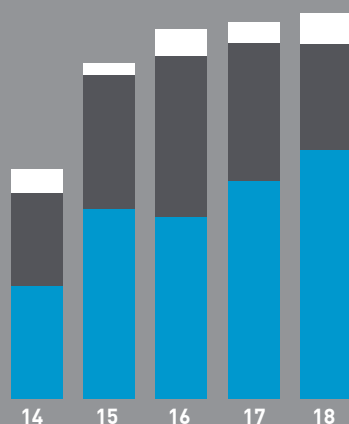
We are confident that the science we share with our customers, large and small, will enable them to be successful in their markets and drive value for Stepan Company. We will help our polyol customers deliver greater energy conservation solutions with improved flammability to their market. New technologies that offer sustainable solutions to the consumer product, crop protection and oilfield markets will reduce customer costs and enhance their product performance.

As always, we are committed to deliver value to you, our shareholders, and we appreciate your support.



F. Quinn Stepan, Jr.
Chairman, President and CEO

OPERATING INCOME BY SEGMENT
(dollars in thousands)



	● SURFACTANTS	● POLYMERS	● SPECIALTY PRODUCTS
2014	60,989	60,714	10,489
2015	105,746	81,367	4,434
2016	101,092	97,102	10,725
2017	120,861	82,951	9,965
2018	137,506	64,539	11,661

SUSTAINABILITY



DELIVERING SUSTAINABLE VALUE

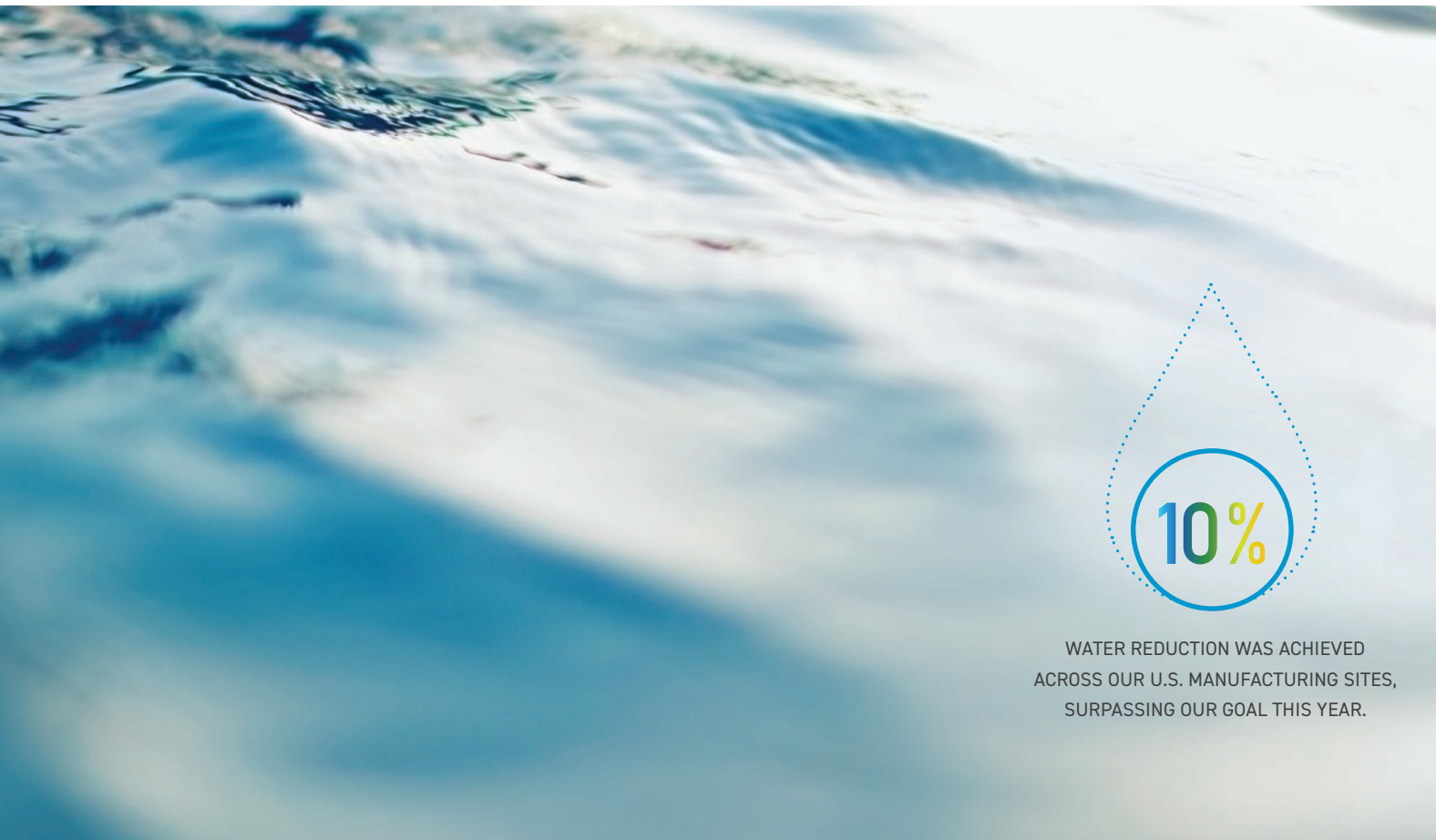
Being a responsible partner to our employees, customers, suppliers, shareholders and the communities we work in is one of our core values. We are committed to using energy and resources efficiently across our global operations and partnering across the value chain to reduce our collective environmental impact.

Stepan Company embraces a broad view of sustainability, and we are committed to delivering outstanding, sustainable value to all our stakeholders, to increasing our efficient use of resources, minimizing our footprint and working as innovative partners with our customers in pursuit of their sustainability goals.

Stepan's products and practices reflect our dedication to sustainability across our businesses and locations. From sourcing raw materials responsibly to optimizing operations, we deliver chemical solutions



NEW CATALYST TECHNOLOGY REDUCED PHTHALIC ANHYDRIDE COMBUSTOR EMISSIONS BY 66% AT OUR MILLSDALE, IL, FACILITY.



that provide economic value while promoting a cleaner, healthier, more energy efficient world.

In 2017 and 2018, we gathered baseline data in the areas of water and energy usage and CO₂ emissions across our sites. In 2019 and beyond, we will set mid and long-term reduction targets company-wide in these areas.

WATER REDUCTION AT OUR MAYWOOD, NJ, PLANT

An expansion project at our Maywood, New Jersey, plant demonstrates Stepan's responsibility and focus to reduce our impact across our value chain. In 2018, Maywood experienced volume growth of 8 percent for our NEOBEE® products and invested in capital to meet this increased demand. A new neutralizer was installed using an innovative process that reduced the plant's city water usage by 9 million gallons, or 20 percent, in its first year. Additional water savings at this site and other sites will be achieved going forward as we optimize our processes.

INVESTMENT IN SUSTAINABLE PRODUCTS

Seventy-five percent of Stepan's product portfolio offers sustainability advantages related to biorenewability, energy efficiency or reduced environmental impact. We have introduced

new naturally derived surfactants for the personal care market that deliver performance and sustainability advantages for our customers. In addition, we continue to create high-active surfactants that require less energy and fewer resources to transport. The polyols we manufacture for roofing and industrial applications also contribute to energy conservation.

CONTINUED RESPONSIBLE ACTION

Audits, assessments and third-party verification ensure our accountability and inform best practices to enable energy conservation, promote human well-being and use resources responsibly. In 2018, we adopted a new Third Party Code of Conduct for all our business partners and Responsible Sourcing Guidelines for Stepan's palm-based material suppliers. In addition, we became a signatory to the United Nations Global Compact. For the third year, Stepan was ranked at the Silver level by the EcoVadis Corporate Social Responsibility Assessment, a third-party tool that evaluates company performance in business ethics, human and labor rights, sustainable procurement and environmental performance.

*Top photo L-R: Linden Canterbury • Joe Rongione • Tony Cangialosi
Bottom photo L-R / top row: Marc Cieslak • Dennis Maskel • Scott Capwell
Bottom row: Mike Deluga • Evan Hagedorn • Mike Schmidt • Bob Schroeder*

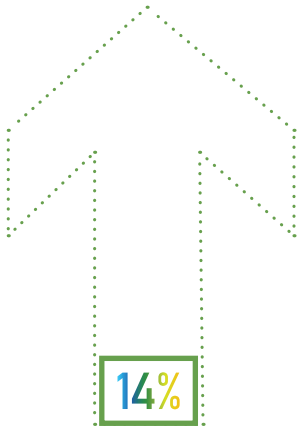
DRIVING PROFITABLE GROWTH

As Stepan continues to grow, we are diversifying our products and markets, innovating next-generation technology and collaborating with our customers to deliver new and cost-effective solutions.

ENHANCING OUR MARKET LEADERSHIP

Surfactants had record earnings in 2018, driven primarily by increased consumer product sales. Overall Surfactant volumes increased 5 percent, including a 4 percent contribution from our newly acquired facility in Ecatepec, Mexico. As Stepan continues to grow, we believe this acquisition will support our market position and supply capabilities in Latin America in both the consumer and functional markets.

Stepan's new and innovative surfactants for the oilfield market also contributed to strong growth in 2018, which we expect will continue in 2019. Our antimicrobial solutions for fracking



IN 2018, STEPAN'S GLOBAL SURFACTANT BUSINESS EXPERIENCED EARNINGS GROWTH OF 14%.



applications helped customers meet their business needs, while also working toward their sustainability goals by decreasing the amount of fresh water needed for hydraulic fracturing.

In 2019 and beyond, we plan to grow our nonionic surfactants business by expanding our alkoxylation capabilities. This will enable Stepan to produce more formulations for markets such as agricultural, personal care and household, industrial and institutional cleaning.

Polymer operating income decreased in 2018, driven by reduced margins and lower sales volume. To help drive future growth, we will continue to innovate next-generation technology and offer exceptional technical service to our customers.

DIVERSIFICATION OF CUSTOMERS AND PRODUCTS

As we broaden our global reach, Stepan is acquiring new customers while deepening partnerships with existing ones, including diverse regional customers—our local heroes.

We continue to invest and optimize manufacturing capabilities at our 19 sites to drive growth, operational excellence and innovation.

Using an enhanced digital platform, we accelerate collaboration with both internal and external stakeholders and, thereby, serve more products to more customers worldwide. As a long-term and trusted partner, we leverage our new digital capabilities to more readily deliver the exceptional technical and sales support our customers rely on, including real-time assistance.

“As we broaden our global reach and acquire new customers, Stepan is also expanding our partnerships with existing customers, including our Tier 2 and 3 local heroes.”

*Left photo L-R: Didier Ray • Eduardo Couto • Scott Behrens
Adriano Galimberti • Rafael Monroy • David Ho
Right photo: Sarah Wolek*





INNOVATING SAFE & EFFECTIVE SOLUTIONS

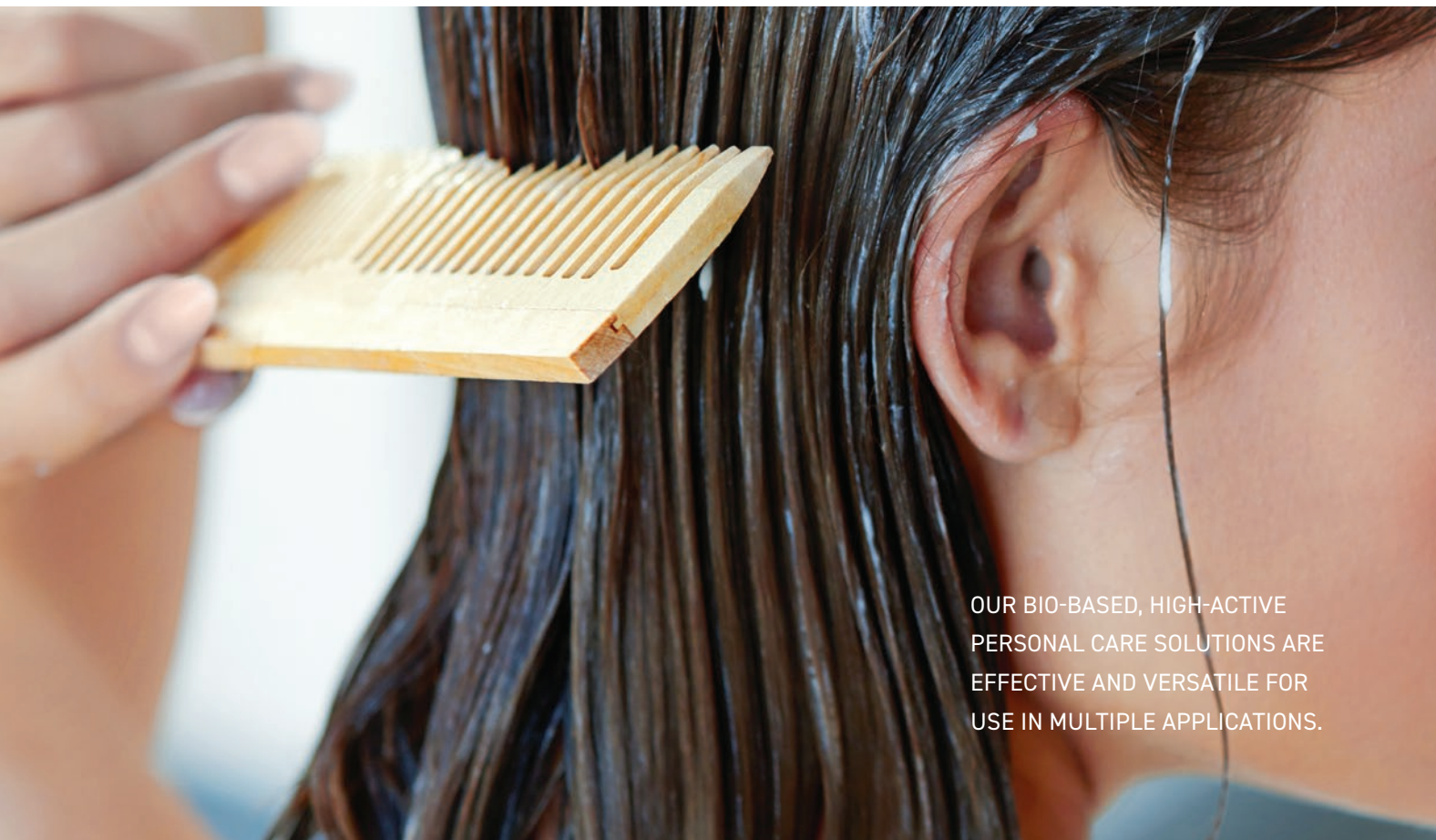
As we expand our global product portfolio, Stepan employs the latest science and leverages changing market trends to innovate chemical solutions that meet specific needs of our customers, while also reflecting our values. In collaboration with our customers, we create new products that provide cleaner, healthier, more energy efficient benefits for end consumers.

NEW, BIO-BASED PERSONAL CARE SOLVENTS

Investing in R&D while tracking category insights enables us to anticipate market trends and develop effective solutions. For example, in response to today's demand for naturally derived consumer products with fewer ingredients, Stepan recently introduced technology for two bio-based, highly concentrated

40%

APPROXIMATELY 40% OF STEPAN'S R&D
RESOURCES SUPPORT STRATEGIC INNOVATION
PROGRAMS AND PARTNERSHIPS.



OUR BIO-BASED, HIGH-ACTIVE
PERSONAL CARE SOLUTIONS ARE
EFFECTIVE AND VERSATILE FOR
USE IN MULTIPLE APPLICATIONS.

surfactants in the personal care market—NINOL® CAA and STEPANQUAT® Helia.

NINOL® CAA was launched globally to fill an emerging need for our customers. This novel aesthetics enhancer and fragrance solubilizer contains 86 percent of its carbon from coconut oil and offers superior viscosity-building performance. Additionally, it is 100 percent active, so less product is needed in cleansing applications and fewer resources are required to transport it—offering two key sustainability benefits to customers.

STEPANQUAT® Helia, a brand-new hair conditioning agent in the North American and Latin American markets, is made from regionally sourced sunflower oil, a renewable and sustainable feedstock. An 88 percent bio-based product that is 95 percent active, it offers mildness with excellent conditioning performance. It also has the advantage of having no harsh solvents and no waste streams from the production process—additional ways we work to reduce impact.

These new products demonstrate Stepan's high-quality surfactant advancements and flexible technology.

By applying novel formulations, trusted expertise and thoughtful research, we help customers bring inventive new products that consumers want in the market.

“At Stepan, we work closely with customers to meet the demand for naturally derived solutions.”

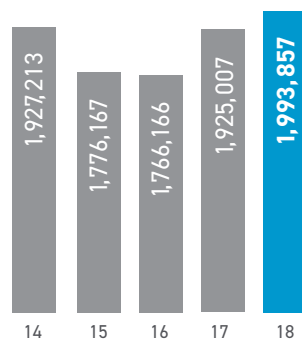
INVESTMENT IN NEXT-GENERATION TECHNOLOGY

Our global rigid polyol business is investing in next-generation technology with improved insulation and flammability properties to meet customer needs and industry standards. Additionally, dedicated resources in our Polymers R&D Innovation Team are creating differentiated products to advance our market leadership in rigid polyols.

Left photo, L-R: Sarah Kovach • Terri Germain • Renata Butikas

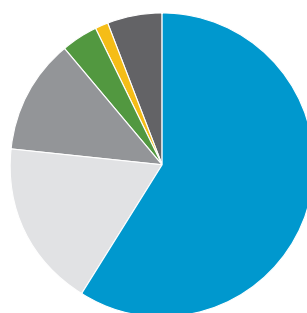
NET SALES

(dollars in thousands)



2018 SALES DOLLAR DISTRIBUTION

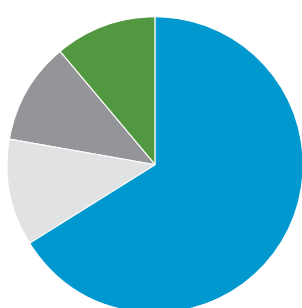
(dollars in thousands)



Category	Dollars (in thousands)	Percentage
Material	1,175,062	58.93%
Other Expense	358,025	17.96%
Payroll & Fringes	239,720	12.02%
Depreciation & Amortization	81,115	4.07%
Income Taxes	27,173	1.36%
Net Income	112,762	5.66%

2018 LONG LIVED ASSETS

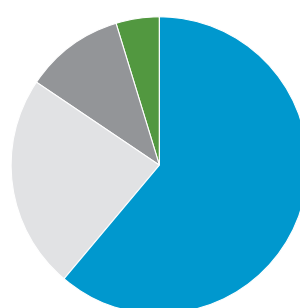
(dollars in thousands)



Region	Dollars (in thousands)
North America	427,779
Europe	75,939
Latin America	71,816
Asia Pacific	70,556

2018 GLOBAL SALES

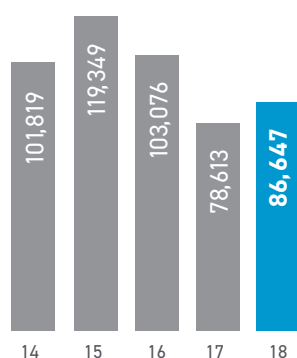
(dollars in thousands)



Region	Dollars (in thousands)
North America	1,223,153
Europe	461,678
Latin America	216,287
Asia Pacific	92,739

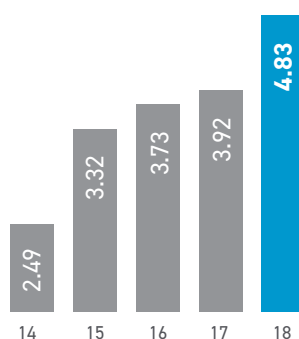
CAPITAL EXPENDITURES

(dollars in thousands)



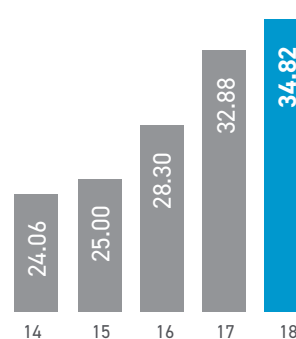
NET INCOME ATTRIBUTABLE TO STEPAN COMPANY PER COMMON SHARE (DILUTED)

(dollars)



TOTAL STEPAN COMPANY EQUITY PER SHARE

(dollars)



RECONCILIATION OF NON-GAAP ADJUSTED NET INCOME*

(dollars in thousands, except per share amounts)

	2018	EPS	2017	EPS
Net Income Reported	\$112,762	\$4.83	\$91,578	\$3.92
Deferred Compensation (Income)	(787)	(0.03)	(40)	(0.00)
Business Restructuring	1,842	0.08	2,216	0.09
U.S. Tax Reform Impact	—	—	14,937	0.64
Adjusted Net Income	\$113,817	\$4.88	\$108,691	\$4.65

*Adjusted net income is a non-GAAP measure. A reconciliation of adjusted net income to reported net income is set forth in the table above. All amounts are presented after tax.

FIVE-YEAR SUMMARY 2014–2018

(in thousands, except per share)

For the Year	2018	2017	2016	2015	2014
Net Sales	\$1,993,857	\$1,925,007	\$1,766,166	\$1,776,167	\$1,927,213
Operating Income ^(a)	151,419	147,195	127,830	124,918	90,931
Percent of Net Sales	7.6%	7.6%	7.2%	7.0%	4.7%
Income Before Provision for Income Taxes	139,923	139,237	113,816	102,856	75,535
Percent of Net Sales	7.0%	7.2%	6.4%	5.8%	3.9%
Provision for Income Taxes	27,173	47,690	27,618	26,819	18,454
Net Income Attributable to Stepan Company	112,762	91,578	86,191	75,968	57,101
Per Diluted Share ^(b)	4.83	3.92	3.73	3.32	2.49
Percent of Net Sales	5.7%	4.8%	4.9%	4.3%	3.0%
Percent to Total Stepan Company Stockholders' Equity ^(c)	14.8%	13.3%	14.5%	13.9%	10.5%
Cash Dividends Paid	20,857	18,907	17,329	16,300	15,387
Per Common Share	0.93	0.86	0.78	0.73	0.69
Depreciation and Amortization	81,115	79,022	74,967	66,985	63,804
Capital Expenditures	86,647	78,613	103,076	119,349	101,819
Weighted-average Common Shares Outstanding (Diluted)	23,325	23,377	23,094	22,858	22,917
As of Year End					
Working Capital	\$ 463,948	\$ 468,483	\$ 388,276	\$ 376,329	\$ 326,043
Current Ratio	2.4	2.5	2.3	2.5	2.3
Property, Plant and Equipment, Net	608,892	598,443	582,714	555,463	524,195
Total Assets	1,484,666	1,470,861	1,353,890	1,239,661	1,162,014
Long-Term Debt Obligations, Less Current Maturities	239,022	268,299	288,859	313,817	246,897
Total Stepan Company Stockholders' Equity	783,766	740,096	634,604	556,984	535,546

a. The 2017, 2016, 2015 and 2014 amounts for the noted line item have been immaterially changed from the amounts originally reported as a result of the Company's first quarter 2018 adoption of Accounting Standards Update (ASU) No. 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*.

b. Based on weighted-average number of common shares outstanding during the year.

c. Based on average equity.

The selected financial data included herein has not been audited. The information was derived from the Company's audited financial statements for the respective years, which were presented in accordance with accounting principles generally accepted in the United States of America and which were audited in accordance with the standards of the United States Public Company Accounting Oversight Board. Copies of the full consolidated financial statements and of the independent registered public accountants' report that expressed an unqualified opinion (dated February 27, 2019) are included in the Company's 2018 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission, which is available on request or via our website at www.stepan.com

CORPORATE DIRECTORS & OFFICERS

BOARD OF DIRECTORS



F. Quinn Stepan, Jr.
Chairman, President and
Chief Executive Officer



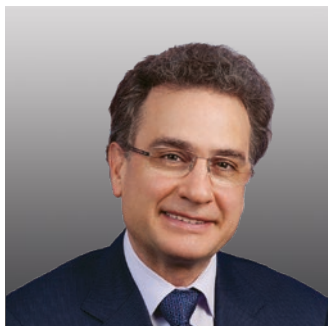
F. Quinn Stepan
Former Chairman



Michael R. Boyce
Former Chairman, PQ Corporation,
a global specialty chemical
and catalyst company, Malvern,
Pennsylvania



Randall S. Dearth
President and Chief Operating Officer,
GCP Applied Technologies, Inc., a
leading global provider of construction
product technologies, Cambridge,
Massachusetts



Joaquin Delgado, Ph.D.
Executive Vice President,
Consumer Business Group,
3M Company, a global
diversified technology
company, St. Paul, Minnesota



Gregory E. Lawton
Former President and Chief
Executive Officer, Johnson Diversey,
Inc., a leading global provider of
cleaning and hygiene solutions to
the institutional and industrial
marketplace, Sturtevant, Wisconsin



Jan Stern Reed
Former Senior Vice President,
General Counsel and Corporate
Secretary, Walgreens Boots
Alliance, Inc., a global pharmacy-led,
health and wellbeing enterprise,
Deerfield, Illinois



Edward J. Wehmer
President and Chief Executive
Officer, Wintrust Financial
Corporation, a financial services
company, Rosemont, Illinois

OFFICERS

F. Quinn Stepan, Jr.
Chairman, President and Chief Executive Officer

Scott R. Behrens
Vice President and General Manager,
Surfactants

Janet A. Catlett
Vice President and
Chief Human Resources Officer

Arthur W. Mergner
Vice President, Supply Chain

Sean T. Moriarty
Vice President and General Manager,
Polymers

Frank Pacholec, Ph.D.
Vice President, Strategy and Corporate
Development and Interim Chief Technology
and Sustainability Officer

Luis E. Rojo
Vice President and Chief Financial Officer

Debra A. Stefaniak
Vice President, Business Enablement

CORPORATE INFORMATION

DEPARTMENTAL VICE PRESIDENTS

Ethics & Compliance

David B. Mattingly

Vice President, Chief Compliance Officer

Finance

Matthew J. Eaken

Vice President and Corporate Controller

Legal

Brian Bichkoff

Interim General Counsel and Secretary

Polymers

Michael A. McCurrie

Vice President, Americas

Roger Stubbs

Vice President, Europe

Procurement

Kyle Montgomery

Vice President, Procurement

Richard H. Wehman, Jr.

Vice President, Strategic Purchasing

Research and Development

Matthew I. Levinson, Ph.D.

Vice President, Global Process Development

Specialty Products

Robert J. Peacock

Vice President and General Manager

Supply Chain

Thomas G. Meyer

Vice President, North America Supply Chain

Gary M. Traverso

Vice President, Asia Supply Chain and
Interim Millsdale Plant Manager

Surfactants

Cassandra Banno

Vice President, Global Channel Management

Daniel Bertholf

Vice President, Platform Management

Adriano Galimberti

Vice President and General Manager, North America

Mark F. Mydlach

Vice President, Sales

Didier Ray

Vice President, Europe

Richard F. Stepan

Vice President, Consumer Products

Independent Registered Public Accounting Firm

Deloitte & Touche LLP, Chicago, Illinois

Transfer Agent and Registrar

Computershare

P.O. Box 30170

College Station, TX 77842-3170

800.446.2617

Contact the Registrar and Transfer Agent concerning stock certificates, dividend checks, transfer of ownership or other matters pertaining to your stock.

Stock Listing

New York Stock Exchange: SCL

Investor Relations

Luis E. Rojo

847.446.7500

Form 10-K

Copies of the Company's annual report on Form 10-K, filed with the Securities and Exchange Commission, will be available without charge to stockholders and interested parties upon written request to the Secretary of the Company or may be obtained on our website at www.stepan.com

Annual Meeting

The 2019 Annual Meeting of the Stockholders of the Company will be held at 9:00 a.m., Tuesday, April 30, 2019, at the Company's headquarters in Northfield, Illinois.

Corporate Governance

The Company's Corporate Governance Guidelines and Code of Conduct are provided on our website at www.stepan.com within the Investor Relations section of the site. Our website also provides contact information for the Company's Ethics Hotline, which allows employees, stockholders and other interested parties to communicate with the Company's management or Audit Committee (on an anonymous basis, if desired) through an independent third-party hotline by telephone or online.

Design: Edelman Chicago





Stepan 

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www.stepan.com