



# Investor Presentation

May 2019

Innovative chemical solutions for a cleaner, healthier, more energy efficient world

# Cautionary Statement



Certain information in this presentation consists of forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements include statements about Stepan Company's plans, objectives, strategies, financial performance and outlook, trends, the amount and timing of future cash distributions, prospects or future events and involve known and unknown risks that are difficult to predict. As a result, Stepan Company's actual financial results, performance, achievements or prospects may differ materially from those expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as "may," "could," "expect," "intend," "plan," "seek," "aim," "anticipate," "believe," "estimate," "guidance," "predict," "potential," "continue," "likely," "will," "would," "should," "illustrative" and variations of these terms and similar expressions, or the negative of these terms or similar expressions. Such forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by Stepan Company and its management based on their knowledge and understanding of the business and industry, are inherently uncertain. These statements are not guarantees of future performance, and stockholders should not place undue reliance on forward-looking statements.

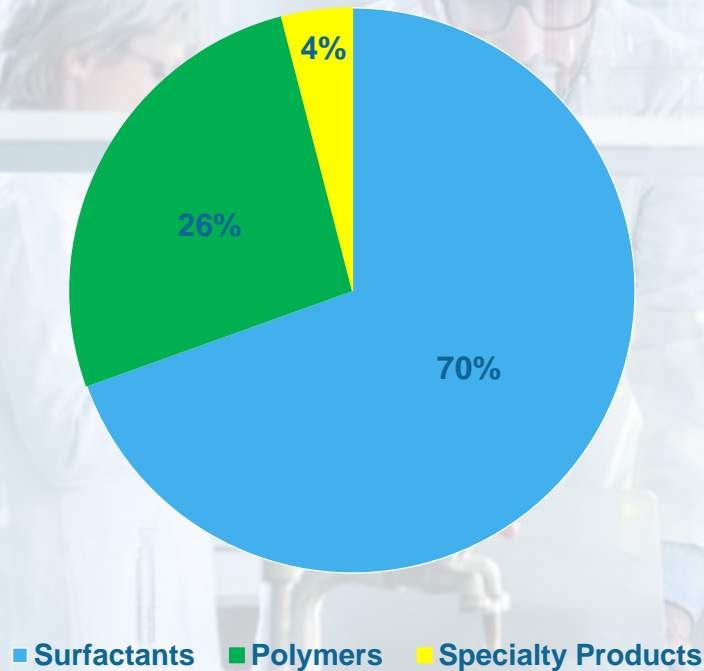
There are a number of risks, uncertainties and other important factors, many of which are beyond Stepan Company's control, that could cause actual results to differ materially from the forward-looking statements contained in this presentation. Such risks, uncertainties and other important factors include, among other factors, the risks, uncertainties and factors described in Stepan Company's Form 10-K, Form 10-Q and Form 8-K reports and exhibits to those reports, and include (but are not limited to) 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.

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.

# Stepan Company Overview

NYSE: SCL

2018 Net Sales by Segment



**\$2B**

MARKET CAP

**+11%**

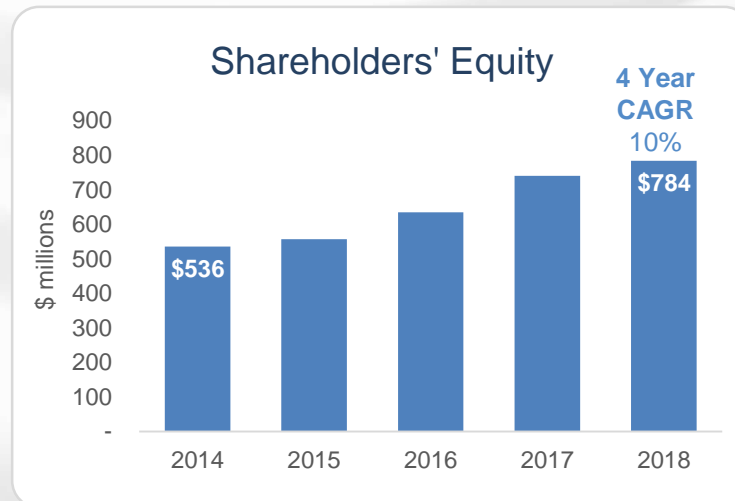
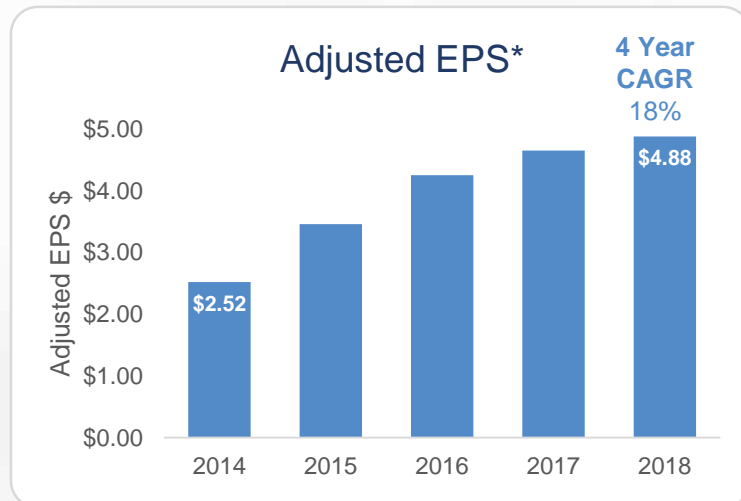
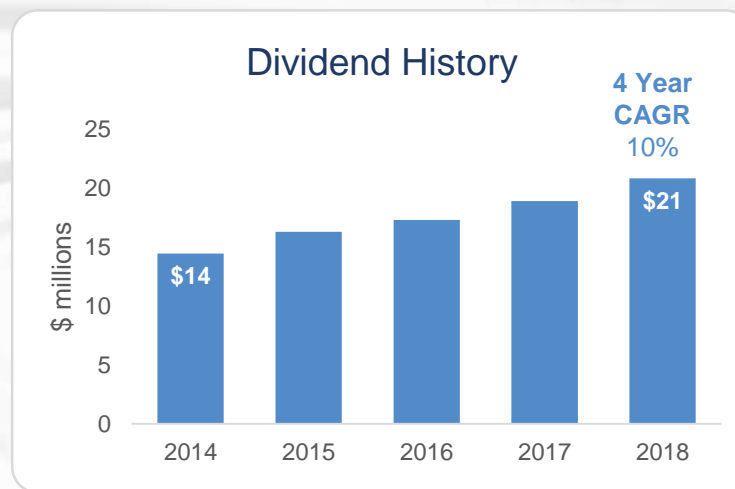
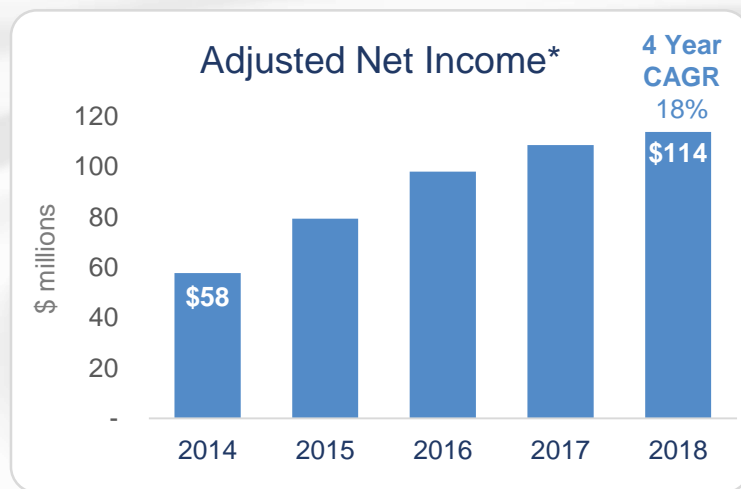
10yr Adj. Net  
Income CAGR

## Stepan Highlights:

- \$2 billion in net sales
- Three reportable segments
- 60% of annual net sales tied to non-cyclical markets
- 19 manufacturing sites with operations in 11 countries
- Strong balance sheet – no net debt
- 51 consecutive years of dividend increases

# Delivering Shareholder Value

We delivered 18% average annual EPS growth over the last 4 years

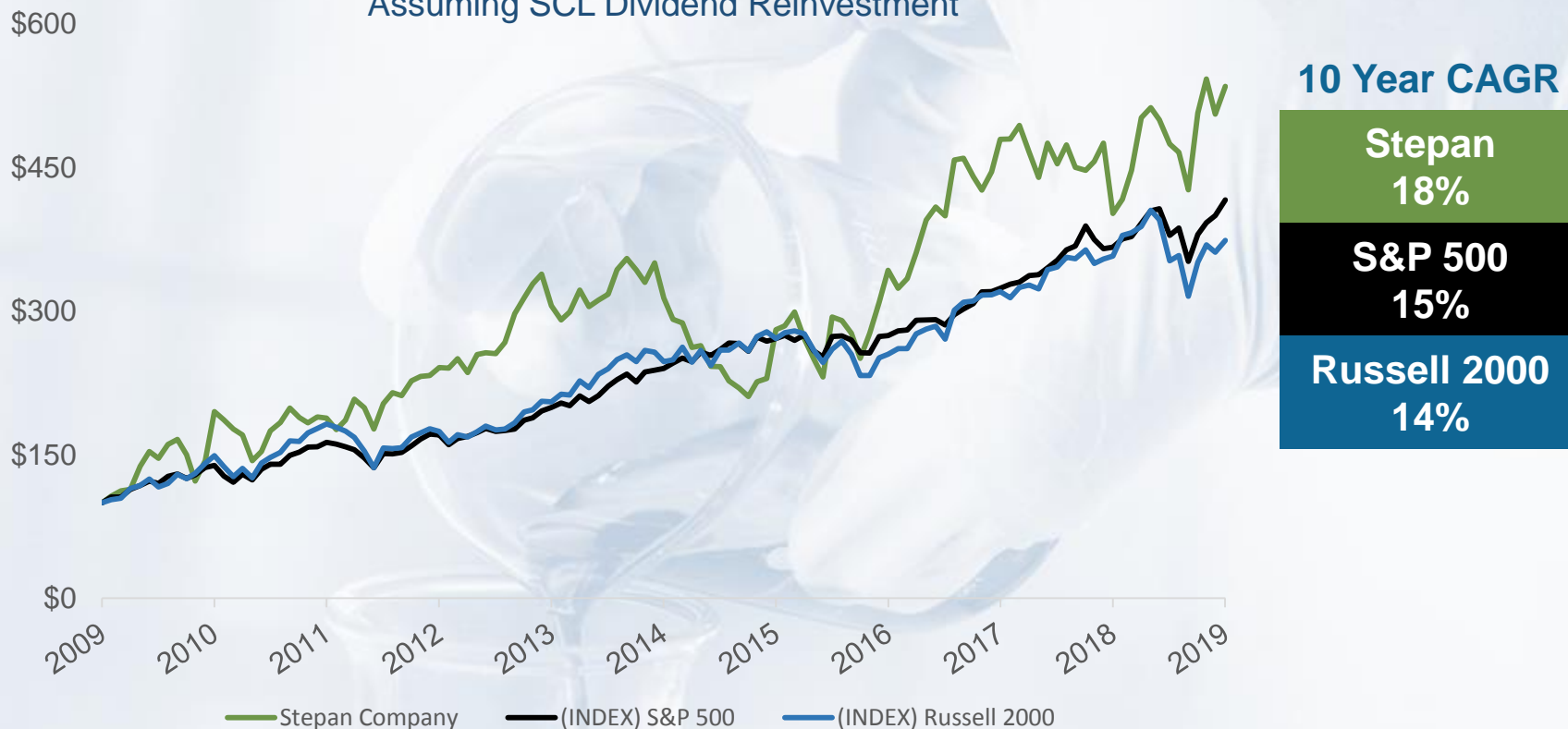


\*Adjusted net income is a non-GAAP measure that excludes deferred compensation income/expense as well as other significant and infrequent/nonrecurring items. See the Appendix for reconciliations of non-GAAP adjusted net income and adjusted EPS. Results presented have not been adjusted for the change in accounting principles converting from LIFO to FIFO inventory method that was adopted in Q1 2019.

# Delivering Shareholder Value

We outperformed the market over the last 10 years

Value of \$100 Investment on 4/30/2009 (10 Year)  
Assuming SCL Dividend Reinvestment



# Surfactants

One of the world's largest merchant producers of surfactants

**\$1.4B** **10%**  
NET SALES OI MARGIN %



## Strategic Priorities



**Market Diversification:** Increase share in Agricultural Chemicals, Oilfield and Personal Care Specialties



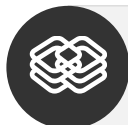
**Customer Intimacy:** Focus on developing relationships with Tier 2 and Tier 3 customers



**Innovation:** Collaborate with customers to provide new technologies that meet market needs

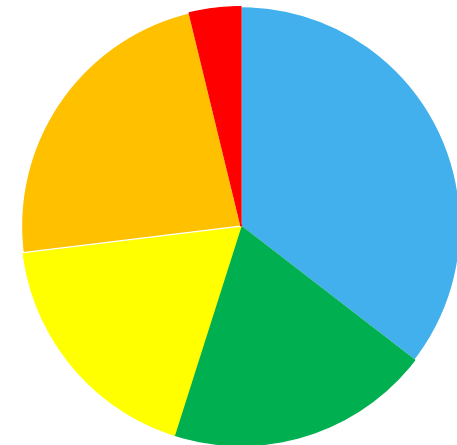


**Operational Excellence:** Focus on fixed cost reduction, asset utilization and plant optimization



**M&A:** Enter into new end markets and expand product portfolio through strategic acquisitions

## Sales by Market



■ Laundry  
■ HI&I\*  
■ Other

■ Personal Care  
■ Functional

\*Household Institutional & Industrial

# Polymers

A leading manufacturer of polyester polyols used in rigid foam insulation

**\$0.5B**

NET SALES

**12%**

OI MARGIN %



## Strategic Priorities



**Market Diversification:** Increase share of Specialty Polyol market



**Customer Intimacy:** Offer collaborative technical service to meet the needs of our global customers



**Innovation:** Offer superior technologies and performance through NextGen Polyols

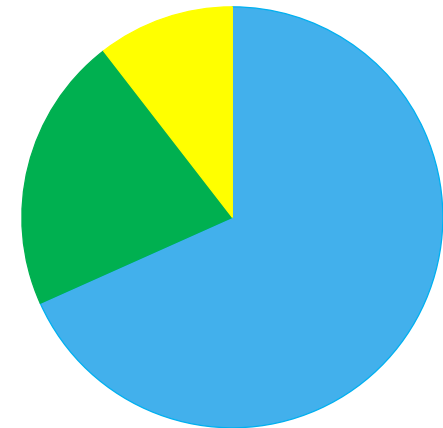


**Operational Excellence:** Complete strategic projects to increase capacity and manufacture at a lower cost



**M&A:** Exploring options within the building envelope

## Sales by Market



■ Rigid ■ Specialty ■ Phthalic Anhydride

# Specialty Products

Producer of naturally derived ingredients used in the food, nutrition and pharmaceutical industries

**\$80M**

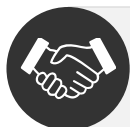
NET SALES

**15%**

OI MARGIN %



## Strategic Priorities



**Customer Intimacy:** Maintain service to existing business and expand customer base in food

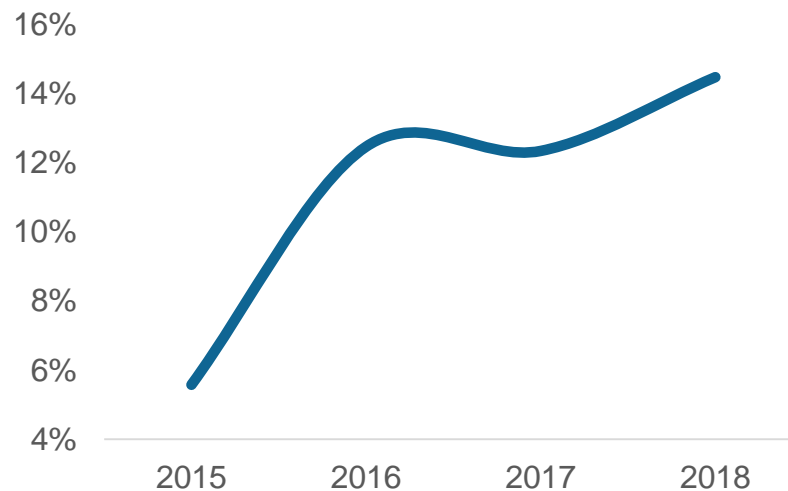


**Innovation:** Leverage patented technology to continue growth of NEOBEE® product line



**Operational Excellence:** Expand margin while optimizing supply chain

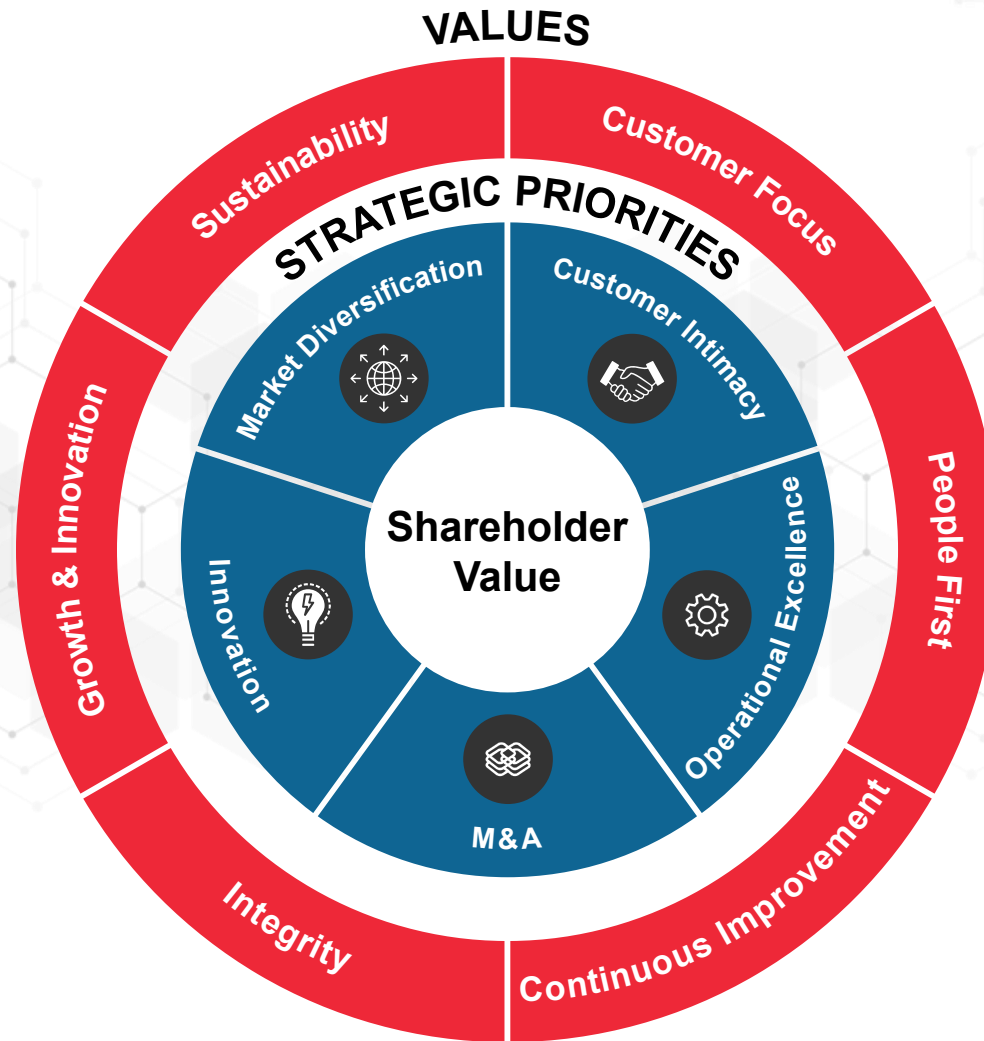
## Operating Income Margin %





# Stepan Strategic Priorities

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



# Stepan Values

How we execute on our strategic priorities



## Customer Focus

Become a preferred global partner  
Build relationships on trust and transparency



## People First

Respect and empower an inclusive workforce  
Cultivate a preferred place to work



## Integrity

Lead the industry in safe operations  
Meet highest ethical and legal standards



## Growth & Innovation

Anticipate market trends  
Deliver value through creativity, expertise, diversity and discipline



## Continuous Improvement

Relentlessly increase effectiveness and productivity  
Simplify and standardize



## Sustainability

Reduce our environmental footprint  
Partner with customers in pursuit of their sustainability goals



# MARKET DIVERSIFICATION

# Market Diversification

Diversify into adjacent, highly profitable end-markets



**Agricultural Chemicals**



**Oilfield Chemicals**



**Personal Care Specialties**

MARKET  
CAGR, %

3-5%

8-12%

4-7%

MARKET  
SIZE, \$B

\$60

\$11

\$15

STEPAN  
PROFITABILITY, %



STEPAN MARKET  
SHARE, %

Low Single Digits

Low Single Digits

Low Single Digits

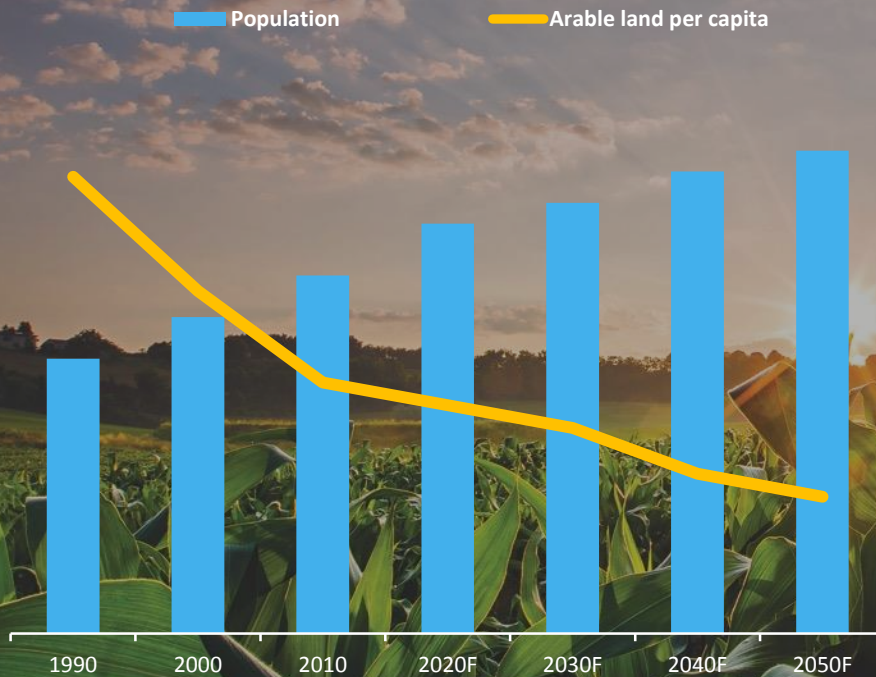


MARKET DIVERSIFICATION

# Agricultural Chemicals

Provide environmentally-advantaged products to enable cost-effective solutions for our customers

## Market Trend



**\$60B**

MARKET SIZE

**3-5%**

MARKET CAGR

### Stepan Strategy:

- Provide value-added formulations and improved label claims for our customers
- Innovation driven expansion of our product portfolio to meet market needs
- Develop environmentally sustainable and advantaged products (i.e., green solvents)
- Commercialized ten new Agricultural Chemical products over the last year, which are helping customers around the world to improve the performance, safety, and environmental profile of pesticide formulations

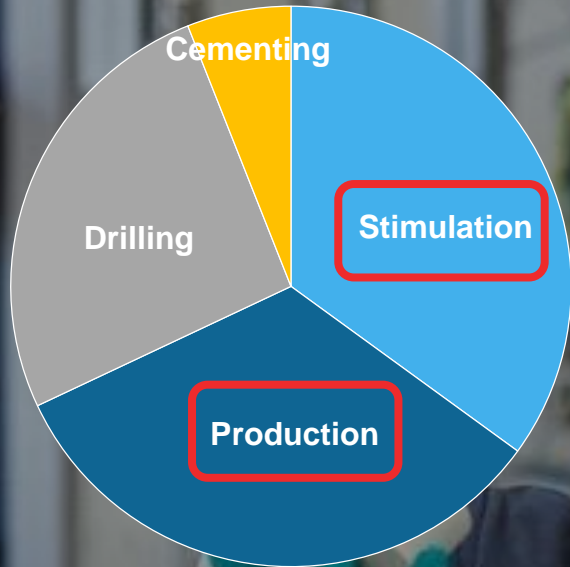


MARKET DIVERSIFICATION

# Oilfield Chemicals

Our portfolio is well-suited for use in production by providing cost-effective solutions to customers

## Global Oilfield Market



**Oilfield Solutions Center of Excellence** in Houston, TX houses a dedicated team of industry experts who work with customers in designing optimal and economical surfactant solutions for their needs

# \$11B 8-12%

MARKET SIZE

MARKET CAGR

### Stepan Strategy:

- Continue to penetrate the oil & gas production market
- Increase our market share in stimulation, including fracturing, with new innovative technology
- Serve our customers through local, application focused resources and testing capabilities
- Expand our portfolio to offer antimicrobial solutions for fracking applications that meet market demands for reduced use of fresh water



MARKET DIVERSIFICATION

# Personal Care Specialties

Focused on delivering higher-performing, environmentally-friendly solutions



**\$15B**

MARKET SIZE

**4-7%**

MARKET CAGR

## Stepan Strategy:

- Expand specialty portfolio
- Emphasize naturally-derived ingredients and sulfate free chemistries
- Cross-sell to same customers that buy our other personal care products
- Product launch of STEPANQUAT® Helia, a modern hair conditioning agent
- Global launch of NINOL® CAA to fill an emerging need for our customers



MARKET DIVERSIFICATION









# CUSTOMER INTIMACY



# Tier 1 and Tier 2 / Tier 3 Customers

Collaborate with all of our customers to drive global growth across all end markets

## Surfactant Customer Mix:

	# Active Global Customers	Average # Products Sold
Tier 1		
Tier 2		
Tier 3 – Distributors		



CUSTOMER INTIMACY

# Tier 1 Customers

Strong global network to provide exceptional technical and sales support for our customers



\* There is currently no production at the site in Pasadena, TX



CUSTOMER INTIMACY

# Surfactant Tier 2 / Tier 3 Customers

Deepening partnerships with our diverse regional customers – our local heroes

## Growth within Tier 2 and Tier 3 customer base continues to be a priority for our Surfactant group

Our objective is to reach and delight more new customers around the world

Volume to these customers grew

**5%**  
in 2018

We added

**400+**  
new global surfactant customers in 2018

Looking to cross sell our products to

**20,000+**  
new and existing customers



CUSTOMER INTIMACY



# INNOVATION

# Customer Intimacy and Polymer Innovation

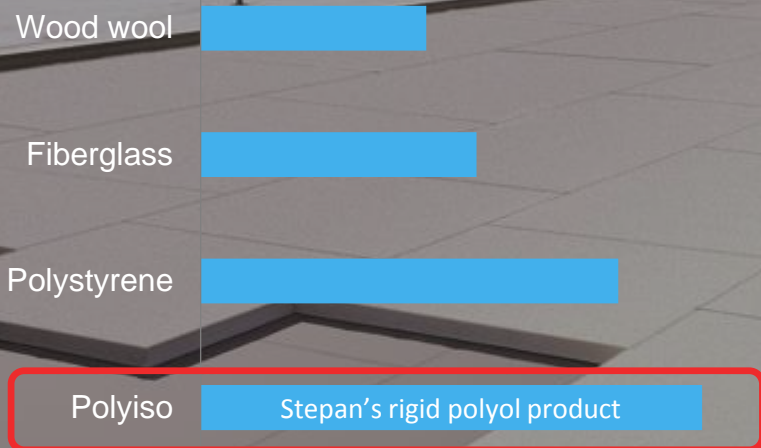
Developing next generation polyols to meet increasing energy conservation efforts and regulatory requirements

**\$29B**

MARKET SIZE

**5%+**

MARKET CAGR



■ Average R-Value per inch\*\*

## Opportunity:

- Relative to cost, our polyiso (PIR) polyols impart superior insulation performance and durability versus alternative foam insulations
- Government mandated or recommended higher insulation levels in buildings
- Global energy conservation efforts and growth in construction
- Continued focus on technical support and developing next generation of value-added Rigid Polyol technologies

\*\*R-Value = measures the effectiveness of insulating materials; a higher R-value represents greater insulation performance



INNOVATION



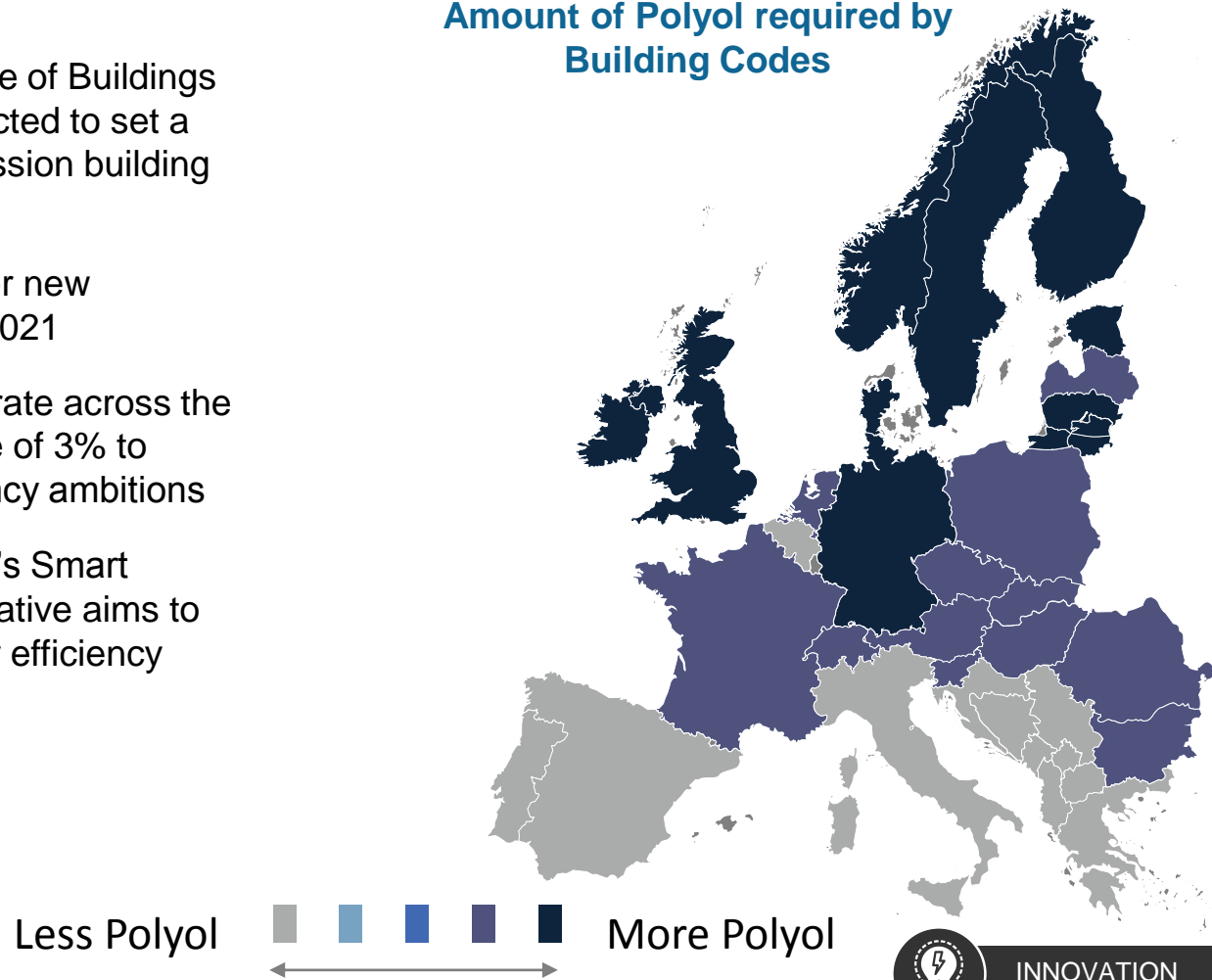
# Rigid Polyol European Market Trend

Strong market growth in the past several years and in the next 5+ years (>5%)

## EU Market Growth Highlights

- The revised Energy Performance of Buildings Directive means the EU is expected to set a path to achieve nearly zero emission building stock by 2050
- This will include requirements for new buildings to be zero energy by 2021
- The annual building renovation rate across the EU must increase to an average of 3% to achieve the EU's energy efficiency ambitions
- The European Investment Bank's Smart Finance for Smart Buildings initiative aims to unlock money to support energy efficiency renovations

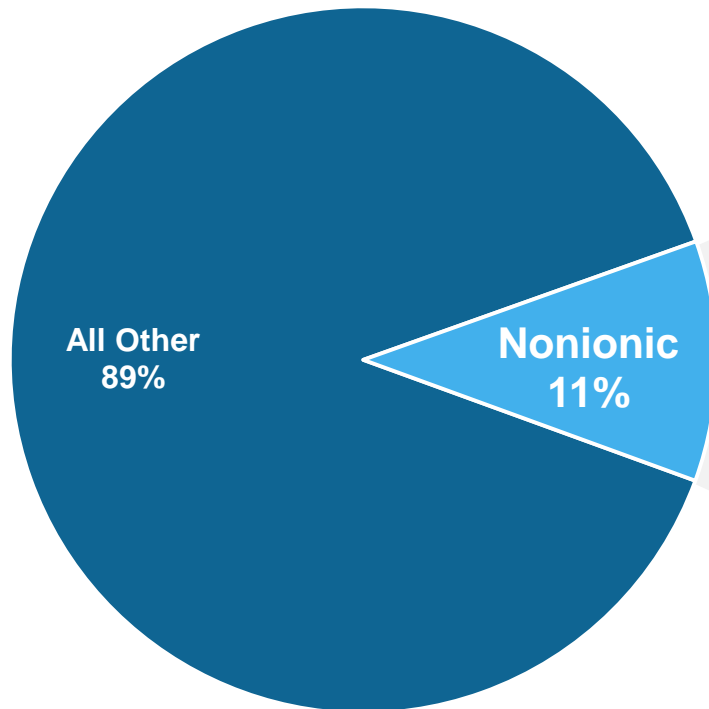
## Amount of Polyol required by Building Codes



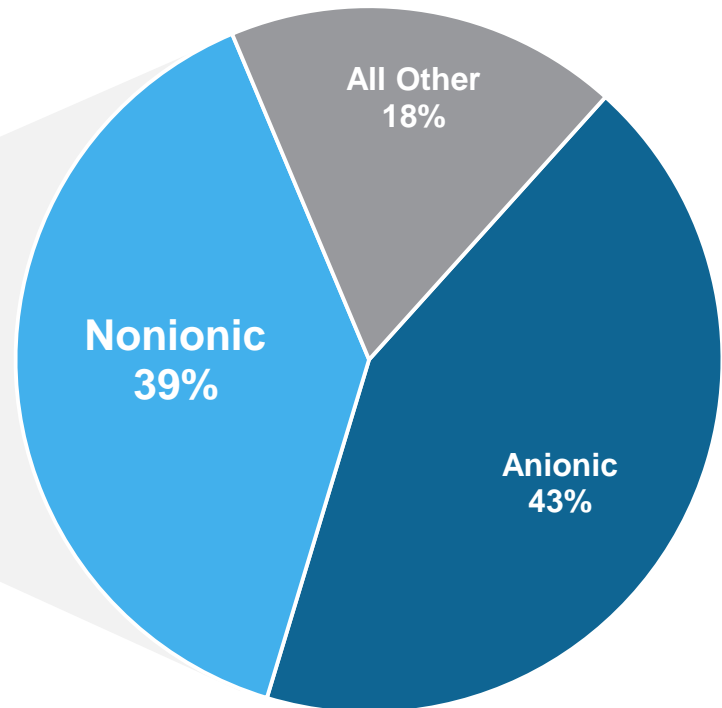
# Surfactant Innovation: Room for Growth

Nonionics (alkoxylates) under-represented in Stepan's portfolio

## 2018 Stepan Global Surfactants



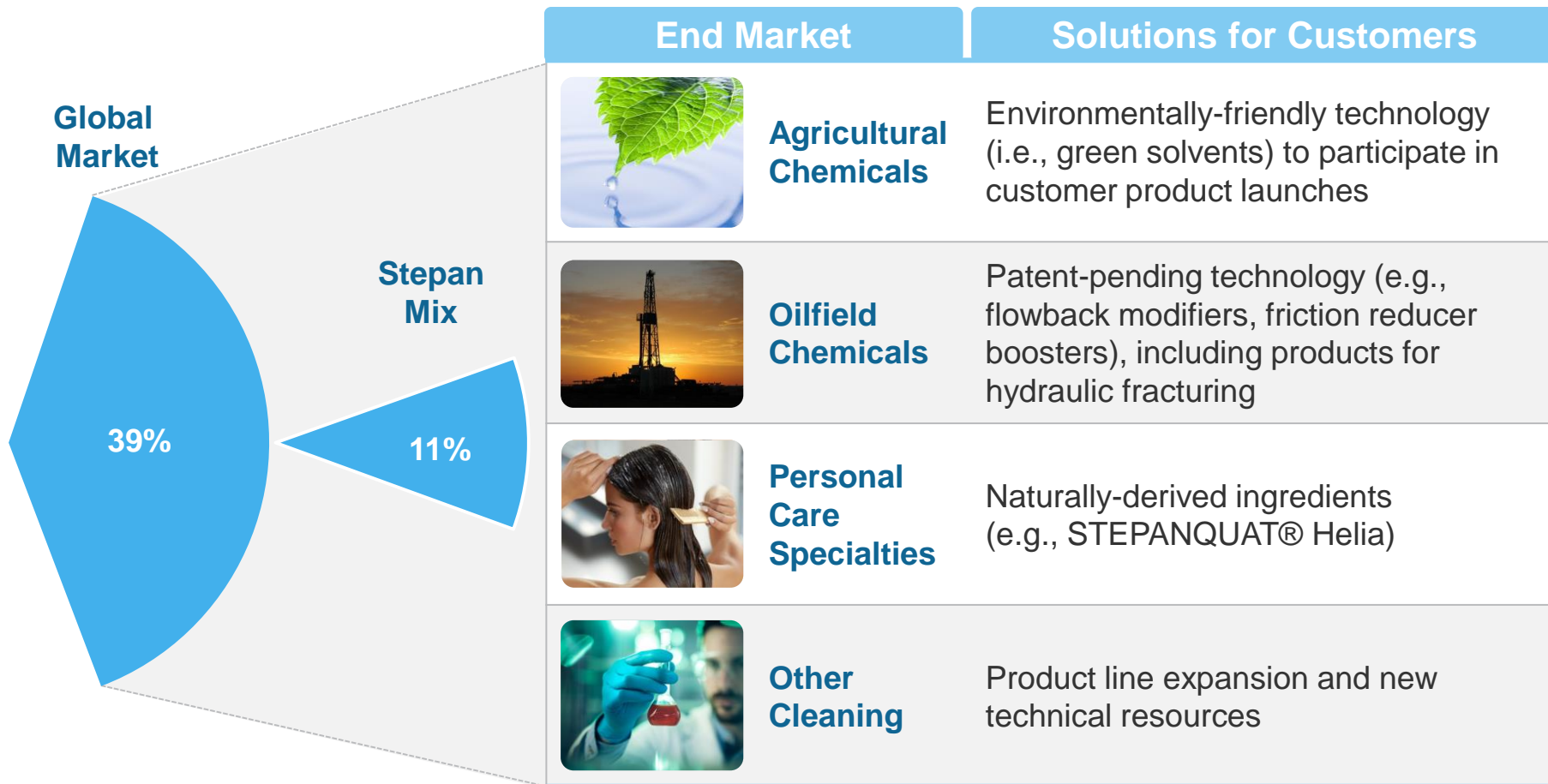
## 2018 Global Surfactant Market





# Nonionic Surfactant Opportunity

Pursuing specialty alkoxyate expansion across all end markets with new technical resources





# OPERATIONAL EXCELLENCE

# DRIVE Operational Efficiencies

Optimize manufacturing capabilities at our 19 sites to improve our network capacity and productivity

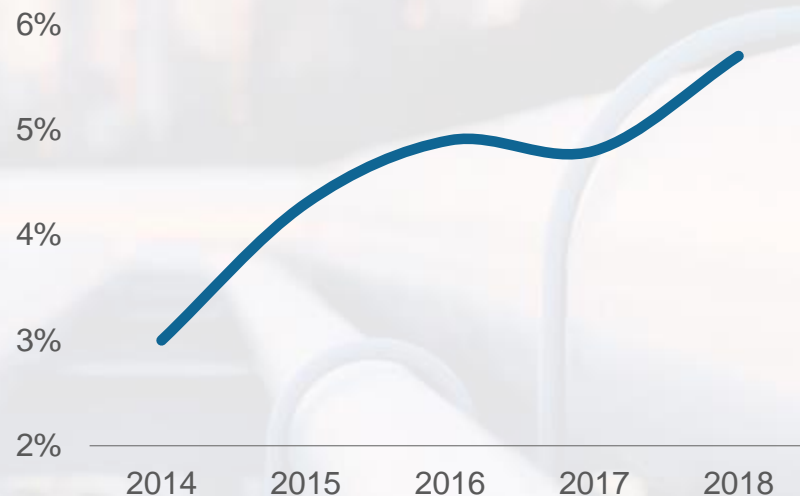
## Past Projects

- Consolidated production in Brazil
- Closed Longford Mills, Canada plant
- Cost reduction at Singapore plant
- Restructured Fieldsboro, NJ plant
- Closed Surfactant operations in Germany
- Expansion project at Maywood, NJ plant reduced water consumption by 20%
- Reduced emissions in Millsdale, IL Polymer plant by 66%

## Future Projects

- Integrate Ecatepec, Mexico acquisition and deliver synergies
- Debottleneck Millsdale and Germany polyol production
- Continue to deliver savings from DRIVE operational efficiency program
- Complete restructuring plan to reduce SG&A cost in the Specialty Product segment

## Net Income Margin %

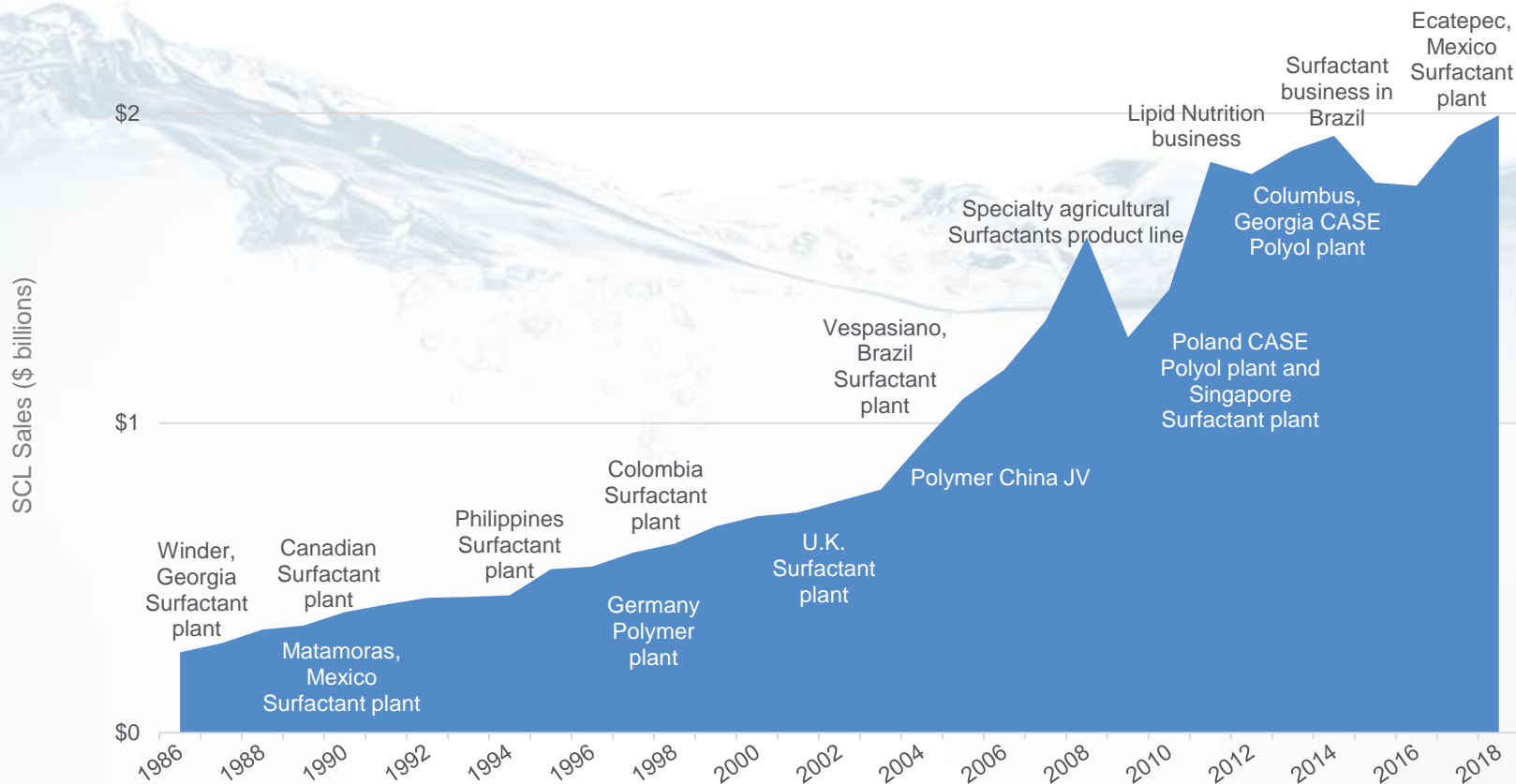




## M&A

# Utilize M&A to fill gaps in our portfolio

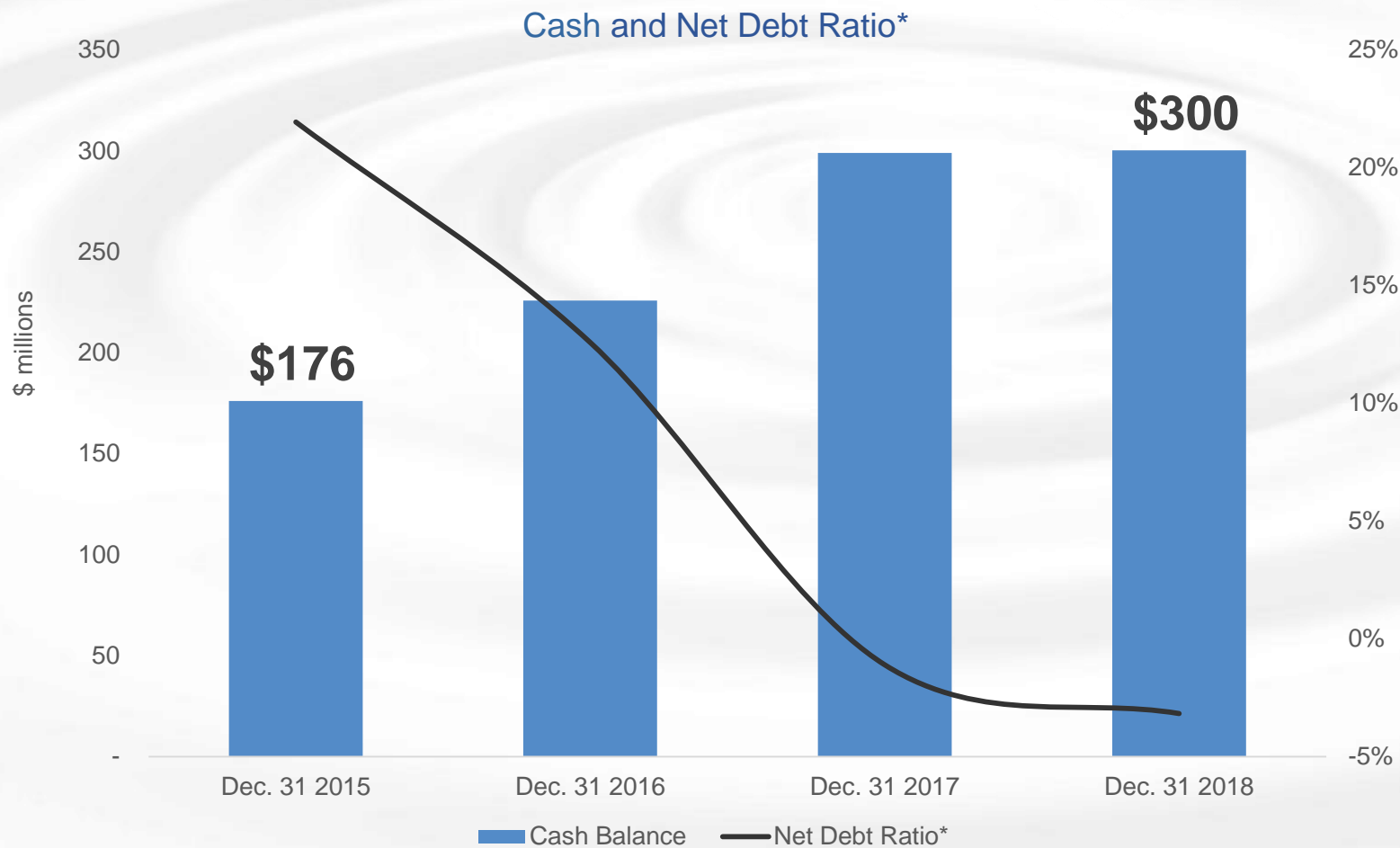
Strong history of M&A to drive growth



M&A

# Utilize M&A to fill gaps in our portfolio

Financial strength to enable growth



\*The net debt ratio is defined as total debt minus cash (i.e., net debt) divided by net debt plus equity



M&A



# SHAREHOLDER VALUE

# Why Invest in Stepan

Proven track record with an opportunity to diversify into attractive markets



Focus on profitable markets that are growing at rates higher than GDP



Longstanding business led by experienced management team



One of the world's largest merchant producers of surfactants and the leader in the rigid polyol end market



A strong balance sheet with no net debt provides financial flexibility



Proven track record of delivering EPS growth and strong cash flow generation

SHAREHOLDER VALUE





**NYSE: SCL**

**Thank You**

**Luis Rojo**  
VP and CFO  
847-446-7500

Innovative chemical solutions for a cleaner, healthier, more energy efficient world



# APPENDIX

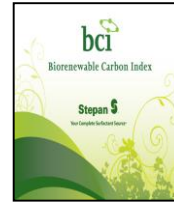
# Conducting Business Responsibly

Working to minimize impact, build communities and promote sustainable practices

## Focus on Safety and Security



## Focus on Responsible Supply Chains



RSPO-1106255



## Other Third-Party Participation



# Financials

## Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016

<i>(In thousands, except per share amounts)</i>	2018	2017	2016
<b>Net Sales</b>	<b>\$ 1,993,857</b>	<b>\$ 1,925,007</b>	<b>\$ 1,766,166</b>
Cost of Sales <sup>(a)</sup>	<b>1,652,354</b>	<b>1,586,485</b>	<b>1,426,897</b>
Gross Profit <sup>(a)</sup>	<b>341,503</b>	<b>338,522</b>	<b>339,269</b>
Operating Expenses:			
Selling <sup>(a)</sup>	<b>56,319</b>	54,090	56,922
Administrative <sup>(a)</sup>	<b>79,243</b>	75,615	74,872
Research, development and technical services <sup>(a)</sup>	<b>54,263</b>	53,696	55,776
Deferred compensation expense (income)	<b>(2,329)</b>	4,857	16,805
	<b>187,496</b>	188,258	204,375
Business restructuring and asset impairments	<b>(2,588)</b>	(3,069)	(7,064)
Operating Income <sup>(a)</sup>	<b>151,419</b>	147,195	127,830
Other Income (Expense):			
Interest, net	<b>(10,771)</b>	(11,444)	(13,205)
Other, net <sup>(a)</sup>	<b>(725)</b>	3,486	(809)
	<b>(11,496)</b>	(7,958)	(14,014)
Income Before Provision for Income Taxes	<b>139,923</b>	139,237	113,816
Provision for Income Taxes	<b>27,173</b>	47,690	27,618
Net Income	<b>112,750</b>	91,547	86,198
Net (Income) Loss Attributable to Noncontrolling Interests	<b>12</b>	31	(7)
<b>Net Income Attributable to Stepan Company</b>	<b>\$ 112,762</b>	<b>\$ 91,578</b>	<b>\$ 86,191</b>
Net Income Per Common Share Attributable to Stepan Company:			
Basic	<b>\$ 4.90</b>	\$ 3.99	\$ 3.78
Diluted	<b>\$ 4.83</b>	\$ 3.92	\$ 3.73
Shares Used to Compute Net Income Per Common Share Attributable to Stepan Company:			
Basic	<b>23,022</b>	22,946	22,793
Diluted	<b>23,325</b>	23,377	23,094

(a) The 2017 and 2016 amounts for the noted line items have been immaterially changed from the amounts originally reported as a result of the Company's first quarter 2018 adoption of ASU No. 2017-7, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.

# Financials

Consolidated Balance Sheets, December 31, 2018 and 2017

	December 31 2018	December 31 2017
<b><u>ASSETS</u></b>		
Current Assets	\$ 802,530	\$ 788,736
Property, Plant & Equipment, Net	608,892	598,443
Other Assets	73,244	83,682
Total Assets	<u>\$ 1,484,666</u>	<u>\$ 1,470,861</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current Liabilities	\$ 338,582	\$ 320,253
Deferred Income Taxes	18,672	10,962
Long-term Debt	239,022	268,299
Other Non-current Liabilities	103,864	130,433
Total Stepan Company Stockholders' Equity	783,766	740,096
Noncontrolling Interest	760	818
Total Liabilities and Stockholders' Equity	<u>\$ 1,484,666</u>	<u>\$ 1,470,861</u>

# Financials

## Reconciliations of Non-GAAP Adjusted Net Income and Adjusted Diluted Earnings per Share

<i>(In millions, except per share amounts)</i>	Twelve Months Ended December 31					
	2018		2017		2016	
	Net Income	Diluted EPS	Net Income	Diluted EPS	Net Income	Diluted EPS
<b>Net Income Attributable to the Company as Reported</b>	<b>\$ 112.8</b>	<b>\$ 4.83</b>	<b>\$ 91.6</b>	<b>\$ 3.92</b>	<b>\$ 86.2</b>	<b>\$ 3.73</b>
Deferred Compensation (Income) Expense	(1.1)	(0.04)	(0.1)	—	16.1	0.70
Business Restructuring and Asset Impairments	2.6	0.11	3.1	0.13	7.1	0.30
Contract Termination Settlement	—	—	—	—	(4.3)	(0.18)
Cumulative Tax Effect on Above Adjustment Items	(0.5)	(0.02)	(0.8)	(0.04)	(6.9)	(0.30)
Tax Reform Impact	—	—	14.9	0.64	—	—
Adjusted Net Income	<u>113.8</u>	<u>\$ 4.88</u>	<u>\$ 108.7</u>	<u>\$ 4.65</u>	<u>\$ 98.2</u>	<u>\$ 4.25</u>

The Company believes that certain non-GAAP measures, when presented in conjunction with comparable GAAP measures, are useful for evaluating the Company's operating performance and provide better clarity on the impact of non-operational items. Internally, the Company uses this non-GAAP information as an indicator of business performance and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not a substitute for or superior to, measures of financial performance prepared in accordance with GAAP. The cumulative tax effect was calculated using the statutory tax rates for the jurisdictions in which the transactions occurred. Results presented have not been adjusted for the change in accounting principles converting from LIFO to FIFO inventory method that was adopted in Q1 2019.

# Sources of Information and Definitions

## **Slide 12 and 13 – Agricultural Chemical market CAGR and size**

- AgbioInvestor, Informa Agribusiness Intelligence

## **Slide 12 and 14 – Oilfield Chemical market CAGR and size**

- Spears & Associates

## **Slide 12 and 15 – Personal Care Specialties market CAGR and size**

- Kline & Company, MarketsandMarkets Research, Grand View Research

## **Slide 21 – Global building insulation market CAGR and size**

- The Freedonia Group, Global Insulation, 2018

## **Slide 22 – U.S. Commercial Energy Code Adoption maps**

- Building Codes Assistance Project

## **Slide 23 – Rigid Polyol European Market Trend**

- Document 2018/844/EU: Energy Performance of Buildings Directive as published by the European Commission

## **Slide 24 – Global surfactant market mix**

- IHS Markit, Specialty Chemicals Update Program, Surfactants, 2018