



Stepan 

First Quarter 2016 Results

April 26, 2016

Cautionary Statement

Except for historical information, all other information in this news release consists 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.

First Quarter 2016 Financial Recap

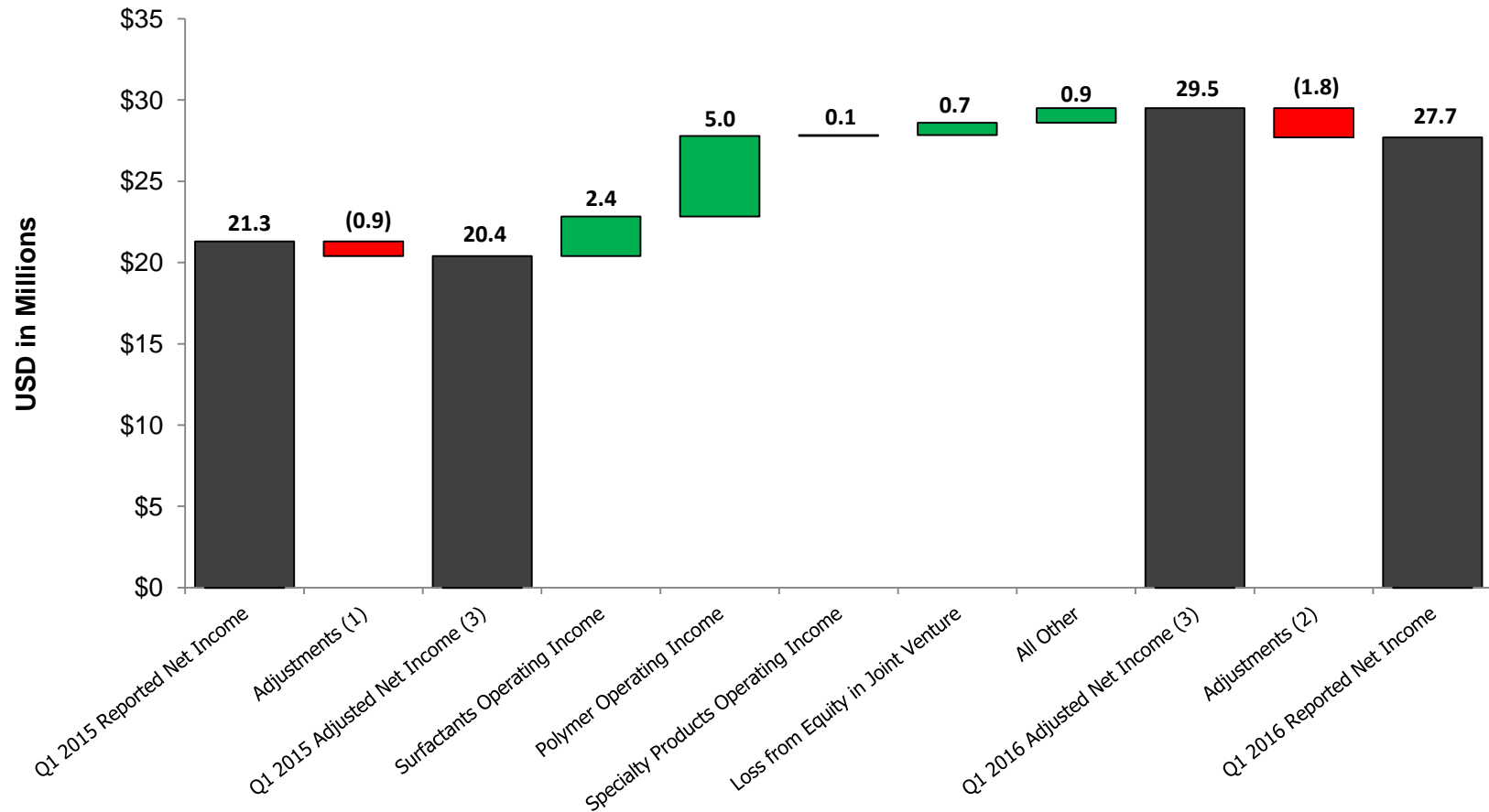
- **Q1 Reported Net Income was \$27.7 million or \$1.21 per diluted share, a 30% increase versus \$21.3 million or \$0.93 per diluted share in Q1 2015.**
 - **Q1 2016 Reported Net Income included non-operational deferred compensation expense (\$1.8 million or \$0.08 per diluted share).**
- **Q1 Adjusted Net Income* was a record \$29.5 million or \$1.29 per diluted share, a 44% increase versus \$20.4 million or \$0.90 per diluted share in Q1 2015.**
- **Surfactant Operating Income was \$37.2 million, up \$3.4 million or 10% versus Q1 2015 due to improved performance in North America.**
- **Polymer Operating Income was \$22.2 million, up \$7.4 million or 50% versus Q1 2015. The increase over prior year was due to volume growth within the Global Rigid Polyol business and improved Phthalic Anhydride results.**
- **Specialty Product Operating Income was \$2.3 million, up \$0.1 million versus Q1 2015 on improved Lipid Nutrition results, slightly offset by timing of orders in our pharmaceutical and flavor businesses.**
- **Key strategic action:**
 - **Announced the closure of ethoxylation production in Canada (discussed on Feb. 24, 2016 conference call)**

** Adjusted Net Income is a Non-GAAP measure which excludes certain significant, non-recurring items. See appendix for Non-GAAP reconciliation.*

***Adjusted Operating Income is a non-GAAP measure which excludes certain significant, non-recurring items. See appendix for Non-GAAP reconciliation.*

Net Income Bridge – Q1 2015 to Q1 2016

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



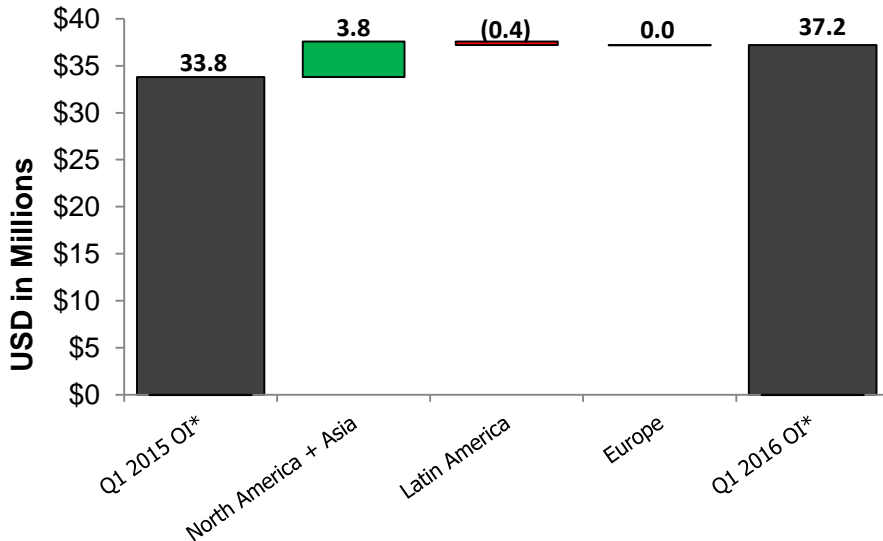
(1) The adjustments to Reported Net Income in Q1 2015 were related to the gain on divestiture of a product line (\$1.8), deferred compensation expense (\$0.6), and environmental remediation liability expense (\$0.3).

(2) The adjustments to Reported Net Income in Q1 2016 were related to deferred compensation expense (\$1.8).

(3) 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

Surfactants

<i>in million \$</i>	Q1 2016	Q1 2015
Net Sales	\$310.0	\$330.6
Operating Income	\$ 37.2	\$ 33.8



*OI = Operating Income.

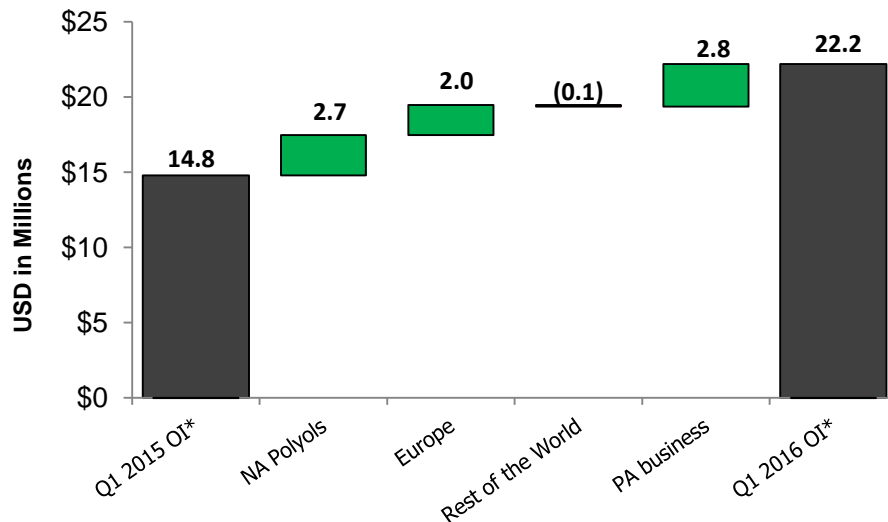
All amounts are shown on a pre-tax basis (unless noted differently)

- Operating Income was a record \$37.2 million, an increase of \$3.4 million over prior year.
- North America growth was driven by favorable market mix (Ag and Distribution), lower raw material costs, DRIVE contributions and a new Laundry supply contract. Excluding the new Laundry contract, volumes were up slightly.
- Latin America decreased slightly despite continued volume growth in Brazil and Colombia primarily due to negative foreign exchange.
- After a record year in 2015, Europe is on track to benefit from its diversification efforts in 2016.
- Oil Field and EOR profitability down due to continued lower crude oil prices and reduced industry activity.
- Accelerated depreciation related to the previously mentioned Canadian ethoxylation shutdown negatively impacted results and is now fully depreciated.
- Foreign exchange negatively impacted Net Sales by \$15.2 million and Operating Income by \$2.0 million.

Polymers

<i>in million \$</i>	Q1 2016	Q1 2015
Net Sales	\$113.9	\$109.4
Reported Operating Income	\$ 22.2	\$ 14.8
Operating Income, excl. sale of System business	\$ 22.2	\$ 11.9

- Operating Income increased \$7.4 million over prior year; \$10.3 excluding last year's System business sale.
- North America Rigid Polyol volumes up 33% over prior year due to strong market demand from increased insulation standards. Margins benefited from falling raw material costs.
- Specialty Polyols improved due to higher volume and lower raw material costs.
- European results increased on higher Rigid Polyol volume due to increased insulation standards and increased volume to metal panel applications.
- China start-up costs negatively impacted results. Chinese construction-related demand for insulation materials continues to be weak.
- Phthalic Anhydride (PA) results were up due to an unfavorable orthoxylene inventory position in the 1st quarter of 2015.
- Foreign exchange negatively impacted Net Sales by \$2.6 million and Operating Income by \$0.3 million.

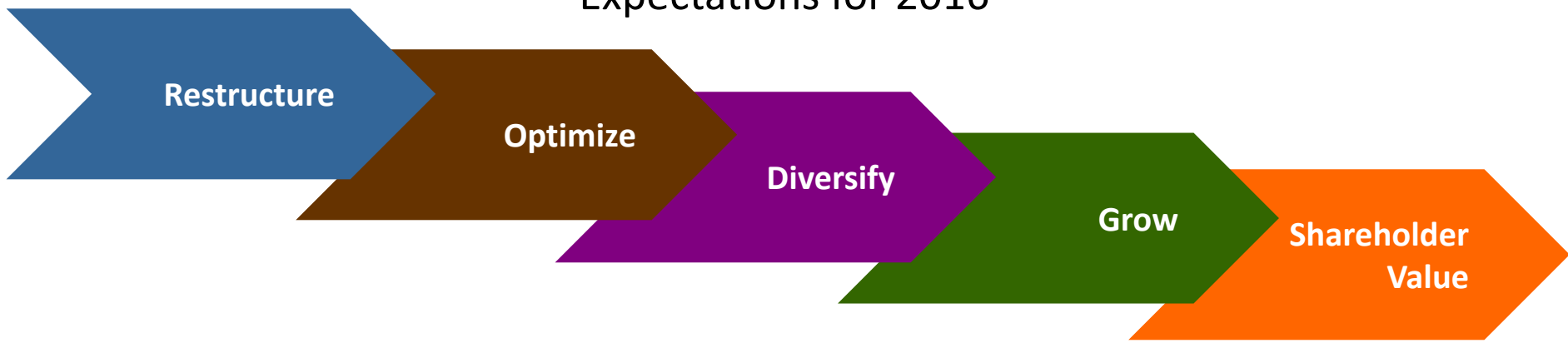


*OI = Operating Income.

PA = Phthalic Anhydride

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

Expectations for 2016



- Deliver benefits from TIORCO dissolution
- Restore LIPID Nutrition profitability
- Transitioning ethoxylation volumes from Canada to other sites in Stepan network. Utilizing outside toller as necessary

- Deliver income growth from efficiency program. Use of external resource discontinued Q4 2015
- Full year of new commodity sulfonation volume will positively impact utilization of assets
- Government mandated maintenance shutdown in Germany (30 days)

- Start-up expenses and slower economic growth in China will negatively impact earnings
- Start-up of new CASE capacity in Poland should contribute in second half

- Increased volumes for Rigid Polyol due to global energy conservation efforts
- New products / new customers in Latin America

- EPS should grow
- Balance sheet should remain strong
- Increased dividend in 2015 which was the 48th consecutive year of increase

Thank you for your interest in Stepan

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Appendix I

Update on Certain Expectations

Item	Full Year
Capital Spending	Expect between \$115MM and \$135MM for 2016 as we further invest in China, Poland and Brazil
Debt	In 2015 we completed a \$100 million offering of 3.95% Senior Notes due in 2027 Intend to use the net proceeds primarily to fund capital expenditures and to pay off existing higher cost debt when due Expect 2016 interest expense to be in line with 2015
Effective Tax Rate	Expect between 30% and 32% in 2016

Consistent with the previous communication

Appendix II

Reconciliation of Non-GAAP Net Income and Earnings Per Diluted Share

(\$ in thousands, except per share amounts)	Three Months Ended March 31			
	2016	EPS	2015	EPS
Net Income Reported	\$ 27,654	\$ 1.21	\$ 21,270	\$ 0.93
Deferred Compensation Expense	1,821	\$ 0.08	595	\$ 0.03
Environmental Remediation Expense	—	—	341	\$ 0.02
Gain on Divestiture of Product Line	—	—	(1,774)	\$ (0.08)
Adjusted Net Income	<u>\$ 29,475</u>	<u>\$ 1.29</u>	<u>\$ 20,432</u>	<u>\$ 0.90</u>

* All amounts in this Table are presented after-tax

Appendix III

Foreign Exchange Impact – Q1 2016

	Surfactants	Polymers	Specialty	Consolidated
(in Millions USD)				
Net sales	(15.2)	(2.6)	(0.2)	(18.0)
Gross Profit	(3.0)	(0.4)	(0.0)	(3.5)
Operating Expenses	(1.0)	(0.2)	(0.0)	(1.1)
Operating Income	(2.1)	(0.3)	(0.0)	(2.3)
Pretax Income				(2.2)