Stepan

Earnings Call Presentation

Fourth Quarter 2019

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. 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," "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 ability to estimate and maintain appropriate levels of recorded liabilities, 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.

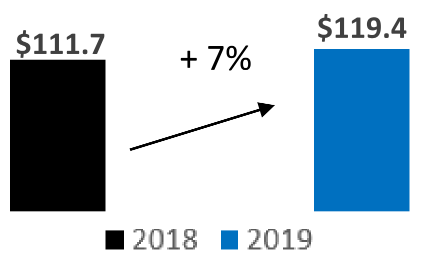
Earnings Conference Call Agenda

Full Year Financial Highlights	F. Quinn Stepan, Jr., *Chairman, President and Chief Executive Officer*
Fourth Quarter and Full Year Results	Luis Rojo, *Vice President and Chief Financial Officer*
Financial and Strategic Outlook	F. Quinn Stepan, Jr., *Chairman, President and Chief Executive Officer*
Analyst / Shareholder Questions	
Closing Remarks	F. Quinn Stepan, Jr., *Chairman, President and Chief Executive Officer*

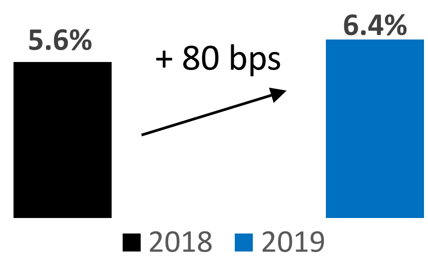
CEO Remarks – 2019 Highlights

- Record adjusted net income in 2019.
- Surfactants decline was primarily attributable to lower volumes in the U.S. Personal Care commodity market coupled with year-end inventory adjustments in the Distribution channel.
- Polymer results higher primarily due to Global Rigid Polyol volume growth.
- Specialty Product results improved due to volume growth, productivity and lower raw material cost in our medium chain triglycerides (MCTs) product line.
- Negative net debt as cash balances of $315 million exceeded total debt of $222 million.

Adjusted Net Income[1]



Adjusted Net Income as a % of Sales



Operating Income (OI) Margin[2]	2018	2019	bps	
Surfactants	9.6%	9.6%	1	
Polymers	12.6%	13.6%	100	
Specialty Products	14.5%	22.3%	780	

(1) Adjusted Net Income is a non-GAAP measure that excludes certain significant, non-recurring items. See Appendix II for a GAAP reconciliation.
(2) Operating Income Margin is calculated as operating income divided by net sales.

Fourth Quarter 2019 Financial Recap

- Q4 Reported Net Income was $22.0 million, or $0.95 per diluted share, an 8% decrease versus $24.0 million, or $1.03 per diluted share, in Q4 2018.

- Q4 Adjusted Net Income(1) was $25.7 million, or $1.10 per diluted share, a 31% increase versus $19.5 million, or $0.84 per diluted share, in Q4 2018. Adjusted Net Income in Q4 2019 excludes the following non-operational items:
  - Deferred compensation and cash-settled SARs expense of $1.8 million, or $0.07 per diluted share.
  - Restructuring expense of $0.8 million, or $0.04 per diluted share.
  - Environmental remediation expense of $1.1 million, or $0.04 per diluted share.

- Reported Surfactant Operating Income was $33.9 million, an increase of $4.8 million, or 16%, versus Q4 2018. This increase was primarily attributable to an insurance recovery related to the Q1 2019 equipment failure in Ecatepec, Mexico and margin improvement in Latin America and Europe. These items were partially offset by lower sales volume due to lower demand and year-end inventory reductions in our distribution channel and higher unit overhead costs in Singapore due to unfavorable production timing differences. Global Surfactant sales volume was flat versus the prior year.

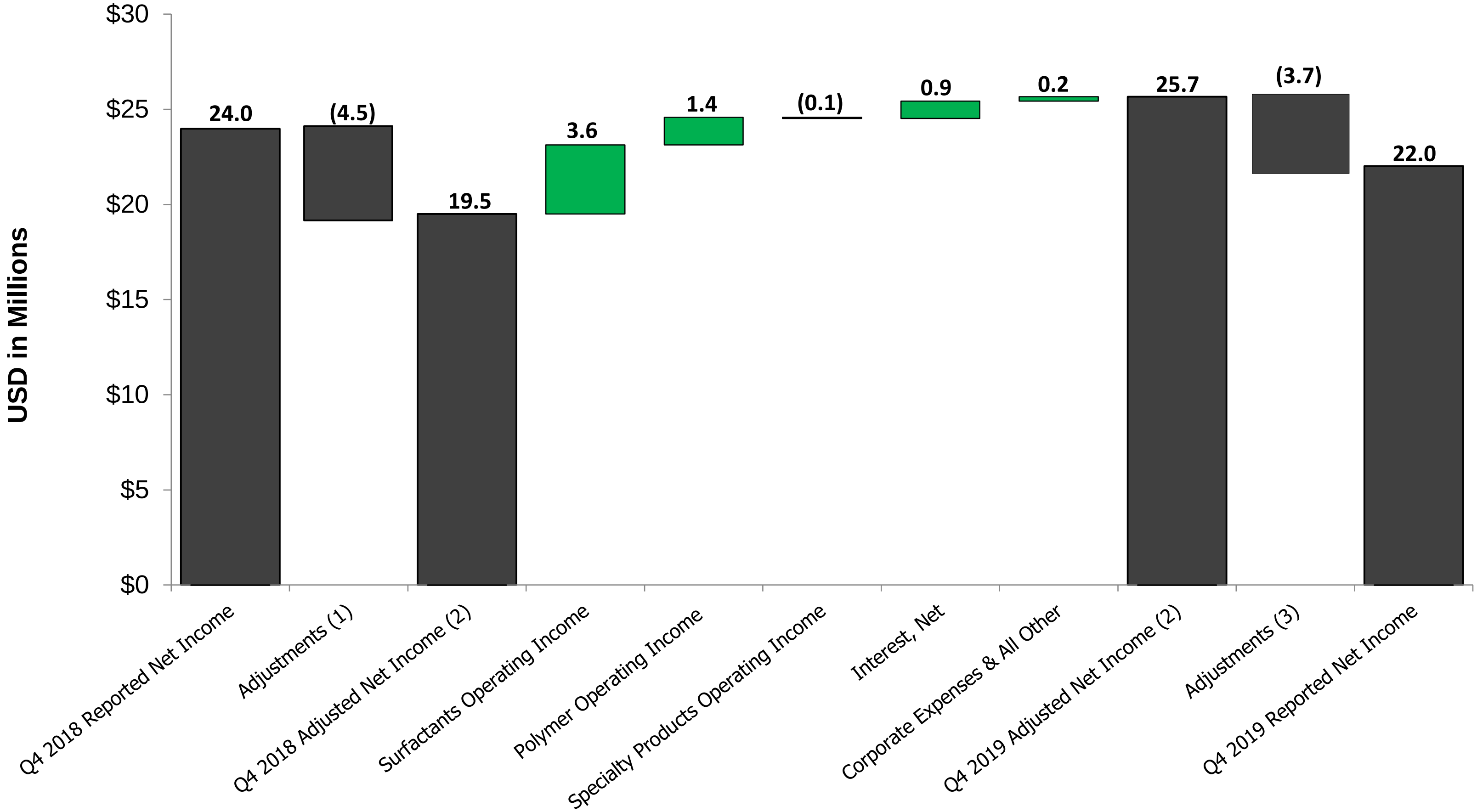
- Reported Polymer Operating Income was $11.1 million, an increase of $1.9 million, or 20%, versus Q4 2018. This increase was mostly attributable to higher volume and improved margins.

- Reported Specialty Product Operating Income was $5.0 million, a decrease of $0.1 million versus Q4 2018, primarily due to unfavorable order timing differences within our flavor business largely offset by improved margins within our MCTs product line.

(1) Adjusted Net Income is a non-GAAP measure that excludes certain significant, non-recurring items. See Appendix II for a GAAP reconciliation.

Net Income Bridge – Q4 2018 to Q4 2019

*Note: All amounts are in millions of U.S. dollars and are reported **after-tax**.*

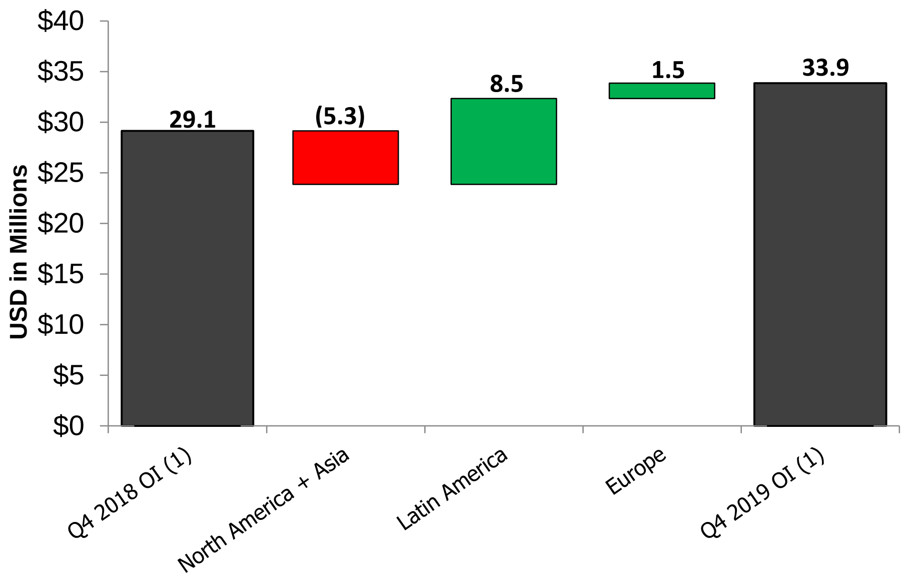


(1) The adjustments to Reported Net Income in Q4 2018 consisted of deferred compensation income and cash settled SARs income of $4.7 million and restructuring costs of $0.2 million.
(2) Adjusted Net Income is a Non-GAAP measure that excludes certain significant, non-recurring items. See Appendix II for a GAAP reconciliation.
(3) The adjustments to Reported Net Income in Q4 2019 consisted of deferred compensation expense and cash-settled SARs expense of $1.8 million, environmental remediation expense of $1.1 million and restructuring costs of $0.8 million.

Surfactants

Higher results primarily due to an insurance recovery related to the Ecatepec, Mexico incident and Functional growth in Europe/NA.

in millions $	Q4 2019	Q4 2018
Net Sales	**$310.0**	**$323.2**
Operating Income	**$ 33.9**	**$ 29.1**



(1) OI = Operating Income

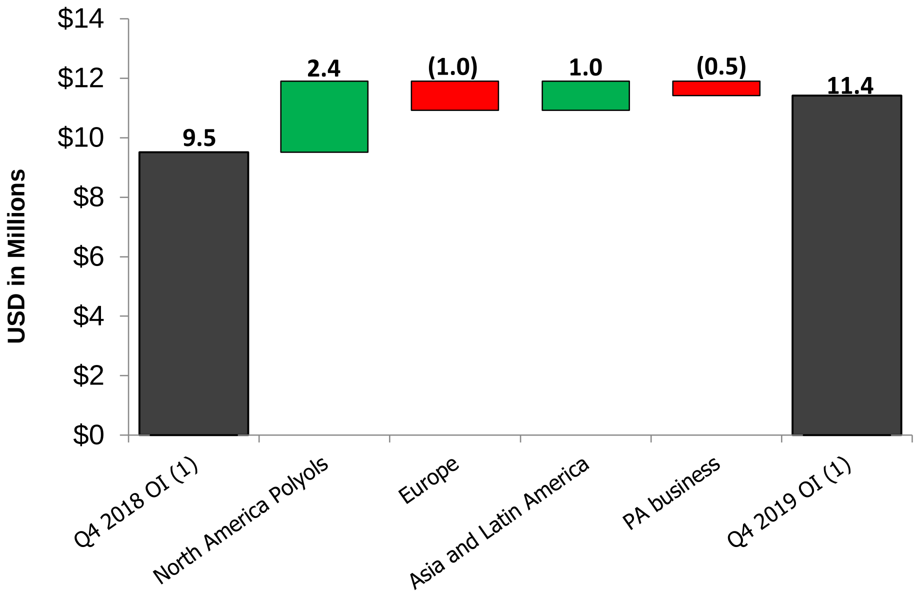
All amounts are shown on a pre-tax basis (unless noted differently)

- Reported Operating Income was $33.9 million, an increase of $4.8 million, or +16%, compared to the prior year. Net sales decreased 4% driven by lower selling prices due to the pass-through of lower raw material cost. Foreign exchange negatively impacted Net Sales by -1%.
- North America results decreased primarily driven by lower demand and year-end inventory correction in the Distribution channel, Singapore overhead impacts and product mix. NA Volume was up +5% driven by strong double digit growth in Functional Products.
- Latin America results were up due to an insurance recovery related to the Ecatepec, Mexico incident.
- Europe results increased, driven by higher demand in Agricultural and Oilfield end markets.

Polymers

Higher results primarily due to Global Rigid Polyol volume growth.

in millions $	Q4 2019	Q4 2018
Net Sales	**$116.4**	**$123.0**
Operating Income	**$ 11.4**	**$ 9.5**



(1) OI = Operating Income

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

- Reported Operating Income was $11.4 million, an increase of $1.9 million, or 20%, compared to the prior year. Net sales decreased 5% due to lower selling prices and unfavorable foreign exchange translation of 1%, partially offset by a 3% increase in sales volume.
- Global Polyol volumes increased 7% due to Rigid Polyol growth in North America and Asia. Strong market demand driven by energy conservation efforts and growth in construction was partially offset by lower Specialty Polyol volumes.
- North America Polyol results increased due to strong volume growth in Rigid Polyol.
- Europe results decreased due to lower volumes.
- China results improved on 70% volume growth driven by strong demand in the growing cold storage market.
- Phthalic Anhydride (PA) results decreased due to lower volume.

Full Year 2019 Financial Recap

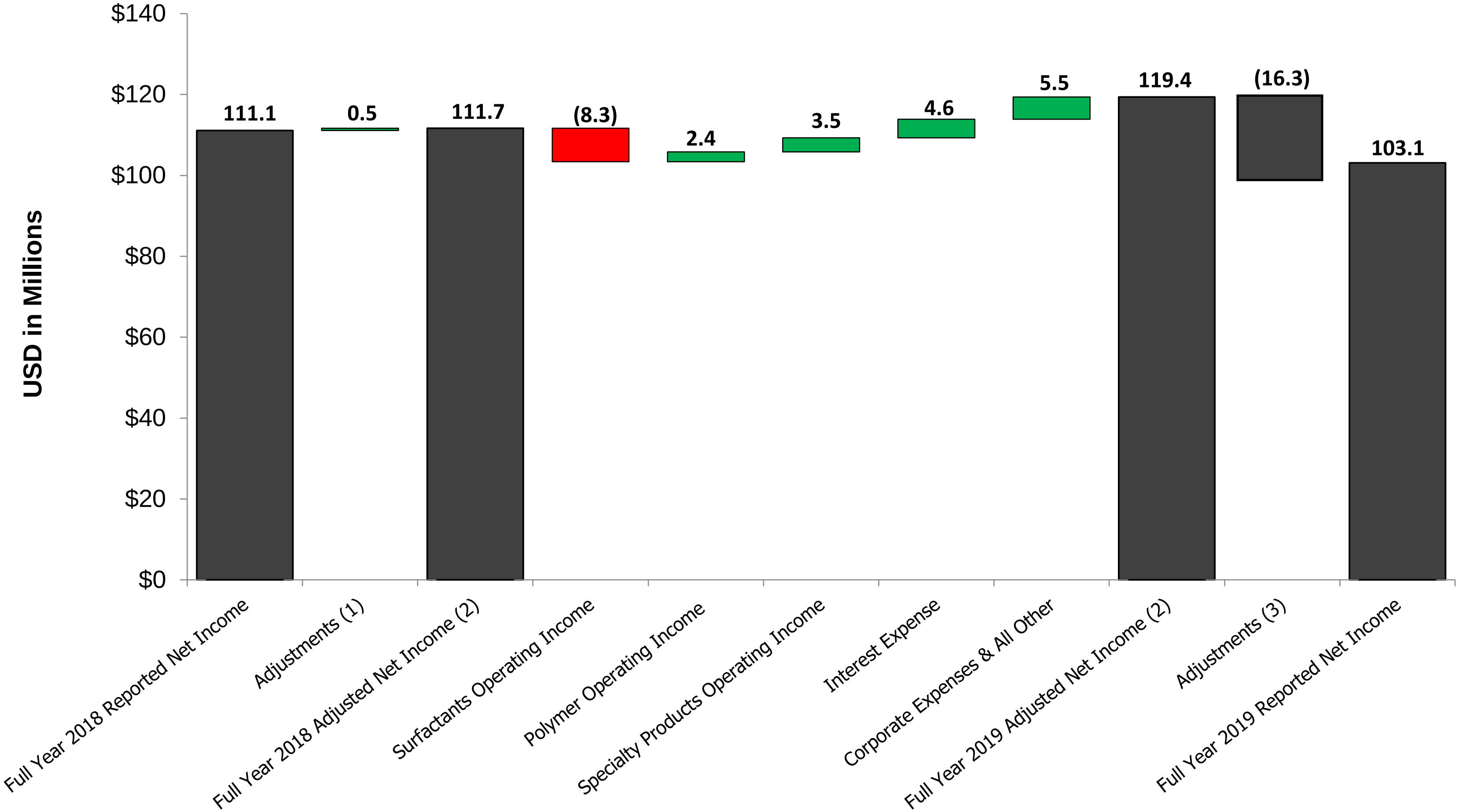
- 2019 Reported Net Income was $103.1 million, or $4.42 per diluted share, a 7% decrease versus $111.1 million, or $4.76 per diluted share, in 2018. Reported Net Income for 2019 included the following non-operational and/or non-recurring items:
  - Deferred compensation and cash-settled SARS expense of $10.0 million, or $0.43 per diluted share.
  - Restructuring expense of $2.0 million, or $0.09 per diluted share.
  - Environmental remediation expense of $3.3 million, or $0.14 per diluted share.
  - Voluntary debt prepayment of $0.9 million, or $0.04 per diluted share.

- Adjusted Net Income[1] was a record $119.4 million, or $5.12 per diluted share, a 7% increase versus $111.7 million, or $4.79 per diluted share, in 2018.
- Reported Surfactant Operating Income was $122.8 million, down from a record $133.5 million in 2018 due to lower volumes in the U.S. The key drivers in the U.S. were lower Personal Care commodity volume due to one key customer losing an important business and lower demand and year-end inventory adjustments in the Distribution channel.
- Reported Polymer Operating Income was $69.6 million, up from $66.4 million in 2018 due to volume growth of 4% driven by double digit growth in Rigid Polyols, partially offset by lower PA volumes.
- Reported Specialty Product Operating Income was $16.4 million, up $4.8 million versus $11.7 million reported in 2018 due to strong volume, productivity and raw material price reductions in our Lipid Nutrition business.

(1) Adjusted Net Income is a non-GAAP measure that excludes certain significant, non-recurring items. See Appendix II for a GAAP reconciliation.

Net Income Bridge – Full Year 2018 to 2019

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

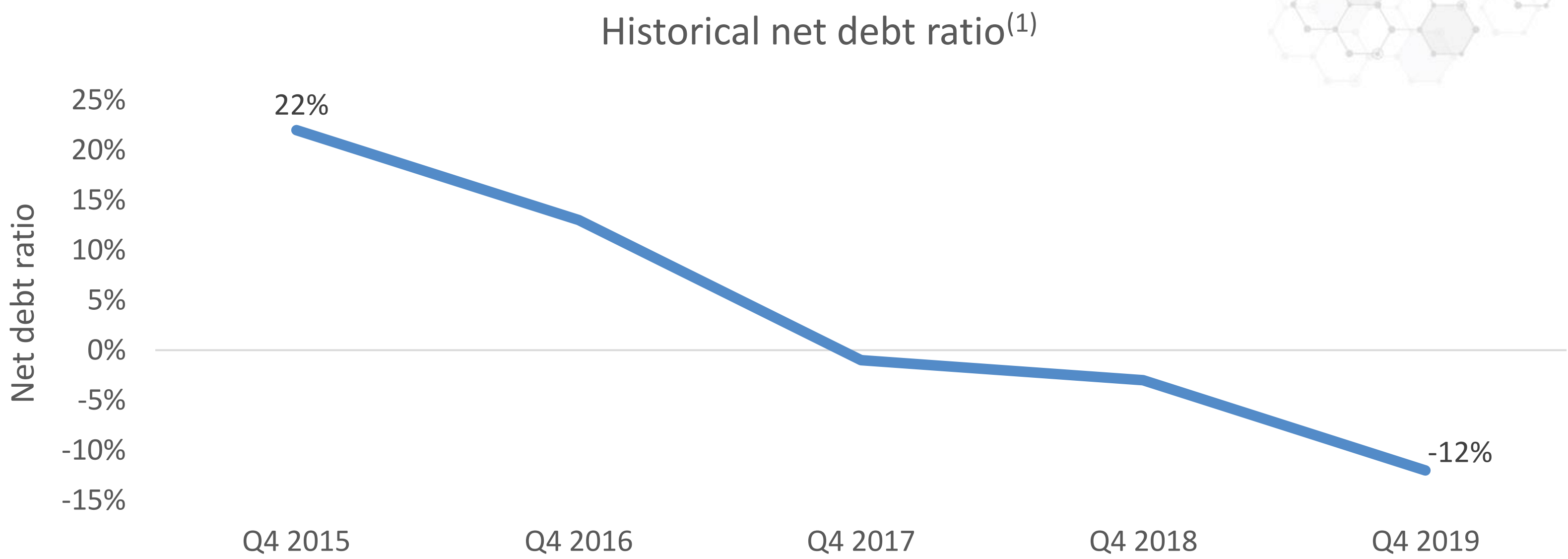


(1) The adjustments to Reported Net Income in 2018 were related to deferred compensation income and cash-settled SARS income of $1.3 million and restructuring costs of $1.8 million.

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

(3) The adjustments to Reported Net Income in 2019 were related to deferred compensation expense and cash-settled SARS expense of $10.0 million, environmental remediation expense of $3.3 million, restructuring costs of $2.0 million and early debt retirement costs of $0.9 million.

Net Debt Ratio / Cash Flows



- For 2019
  - Record cash flow from operations at $218 million vs. $171 million in 2018, an increase of 27%.
  - Capital expenditures were $106 million.
  - We returned $36 million to our shareholders via dividends and share repurchases.

Financial strength to enable growth

(1) *The net debt to total capitalization ratio is defined as total debt minus cash (i.e., net debt) divided by net debt plus equity. The net debt to total capitalization ratio is a non-GAAP measure. See Appendix V for a GAAP reconciliation.*

Stepan Strategic Priorities

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

2019 Strategic Update

Market Diversification & M&A

- Volume to the Functional Product end markets increased 9% during the quarter, primarily due to higher demand in Agricultural and Oilfield end markets.
- Continuing to pursue opportunities to expand our presence in Specialty Alkoxylates.
- Purchased the Demulsifier product line from KMCO, LLC. Acquired the product line, process technology know-how, and customer list.

Customer Intimacy

- Volume to Tier 2 and Tier 3 customers was flat during the quarter primarily due to higher demand in Latin America offset by lower U.S. volumes.
- Global Rigid Polyol volume increased 7% due to strong market demand driven by energy conservation efforts and growth in construction.

Innovation

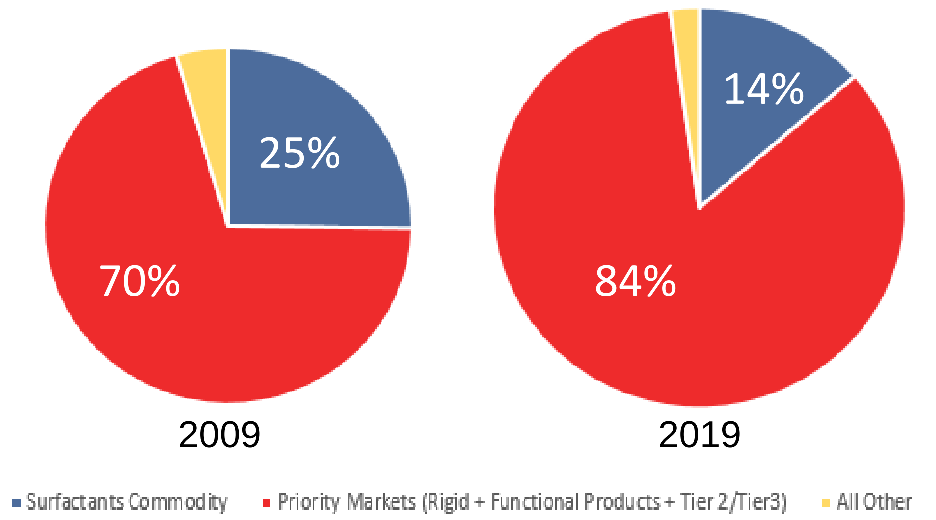
- Continued focus on developing next generation of value-added Rigid Polyol technologies.
- Developed and commercialized 17 new Agricultural chemical products over the last two years, which are helping customers around the world to improve the performance and environmental profile of pesticide formulations. New product introductions are gaining traction as farmers start adopting improved technology to improve pest resistance and yields.
- Broke ground on new Agriculture R&D lab and Greenhouse in Winder, GA in December 2019.
- Patent-pending Oilfield chemicals technology for fracturing products, including flowback modifiers and friction reducer boosters, are helping customers meet their business needs.
- Product launch of STEPANQUAT® Helia, a brand-new hair conditioning agent for the global Personal Care Specialties end market. Customers are responding positively to this conditioner ingredient that is mild and safer for the environment.
- Global launch of NINOL® CAA, a product that: i) is naturally-derived and mild, ii) is high concentration for reduced transportation cost and iii) delivers multi-functionality so our customers can reduce the number of products in their formulation.

Operational Excellence

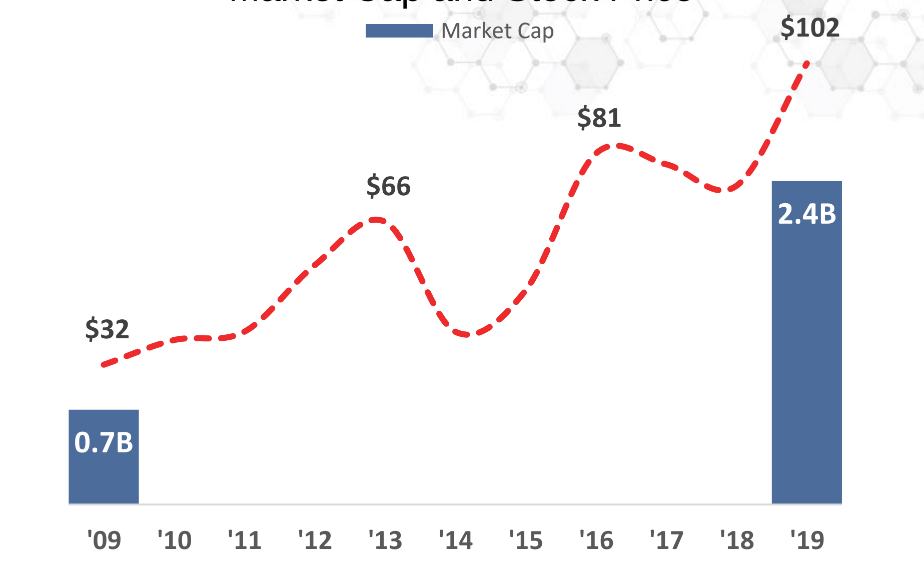
- Restructuring of the Specialty Product office in the Netherlands is complete. Cost savings from this project exceeded expectations in 2019 and should bring small additional savings in 2020.
- Delivering savings on the shutdown of our Surfactant operations at the Wesseling, Germany plant.

A Very Strong Decade

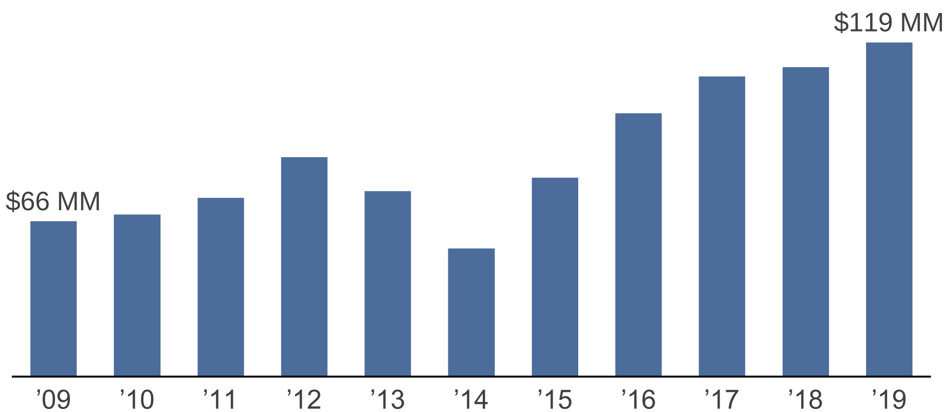
Diversification - Segment Operating Income



Market Cap and Stock Price

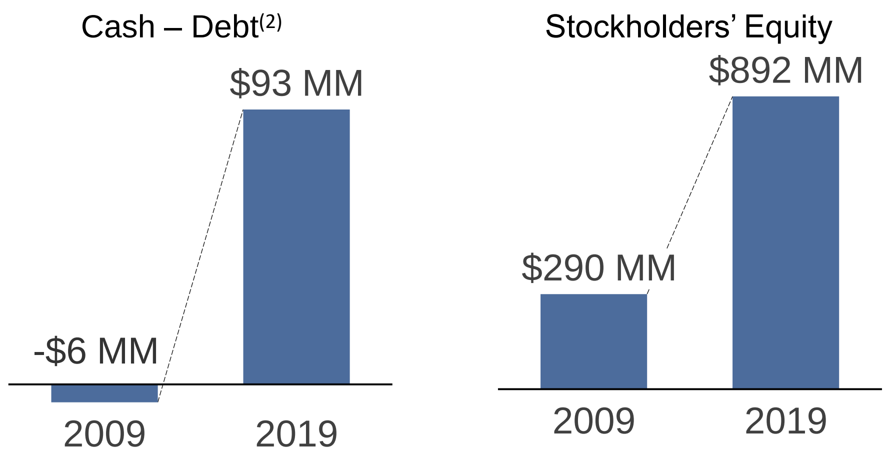


Adjusted Net Income (1)



(1) Adjusted Net Income is a non-GAAP measure that excludes certain significant, non-recurring items. See Appendix II and Appendix VI for GAAP reconciliations.

Strong Balance Sheet



(2) Cash minus debt is a non-GAAP measure. See Appendix V for a GAAP reconciliation.

Thank you for your interest in Stepan

Contact Information:

Luis Rojo – VP, CFO

847-446-7500

Appendix I

Update on Certain Expectations

	2018 Actual	2019 Actual	2020 Expected
Capital expenditures	**$87 million**	**$106 million**	**$110-130 million**
Debt repayments	**$21 million**	**$54 million**	**$24 million**
Interest expense	**$11 million**	**$6 million**	**$6 million**
Effective Tax Rate	**19%**	**18%**	**22-25%**

Appendix II

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

($ in thousands, except per share amounts)	Three Months Ended December 31 2019	EPS	2018 As Adjusted	EPS As Adjusted	Twelve Months Ended December 31 2019	EPS	2018 As Adjusted	EPS As Adjusted
Net Income Reported	$ 22,038	$ 0.95	$ 23,957	$ 1.03	$ 103,129	$ 4.42	$ 111,117	$ 4.76
Deferred Compensation (Income) Expense	$ 1,465	$ 0.06	$ (3,420)	$ (0.15)	$ 7,947	$ 0.34	$ (787)	$ (0.03)
Business Restructuring	$ 806	$ 0.04	$ 182	$ 0.01	$ 2,005	$ 0.09	$ 1,842	$ 0.08
Cash-Settled SARs (Income) Expense	$ 325	$ 0.01	$ (1,237)	$ (0.05)	$ 2,090	$ 0.09	$ (520)	$ (0.02)
Environmental Remediation	$ 1,058	$ 0.04	$ -	$ -	$ 3,268	$ 0.14	$ -	$ -
Voluntary Debt Prepayment	$ -	$ -	$ -	$ -	$ 948	$ 0.04	$ -	$ -
Adjusted Net Income	$ 25,692	$ 1.10	$ 19,482	$ 0.84	$ 119,387	$ 5.12	$ 111,652	$ 4.79

**Amounts are presented after-tax*

Reconciliation of Pre-Tax to After-Tax Adjustments

($ in thousands, except per share amounts)	Three Months Ended December 31 2019	EPS	2018	EPS	Twelve Months Ended December 31 2019	EPS	2018	EPS
Pre-Tax Adjustments								
Deferred Compensation (Income) Expense	$ 1,927		$ (4,500)		$ 10,456		$ (1,035)	
Business Restructuring	$ 1,102		$ 242		$ 2,744		$ 2,588	
Cash-Settled SARs (Income) Expense	$ 427		$ (1,628)		$ 2,749		$ (685)	
Environmental Remediation	$ 1,392		$ -		$ 4,300		$ -	
Voluntary Debt Prepayment	$ -		$ -		$ 1,247		$ -	
Total Pre-Tax Adjustments	$ 4,848		$ (5,886)		$ 21,496		$ 868	
Cumulative Tax Effect on Adjustments	$ (1,194)		$ 1,411		$ (5,238)		$ (333)	
US Tax Reform Impact								
After-Tax Adjustments	$ 3,654	$ 0.15	$ (4,475)	$ (0.19)	$ 16,258	$ 0.70	$ 535	$ 0.03

Appendix III

Foreign Exchange Impact – Q4 2019

(millions USD)	Surfactants	Polymers	Specialty Products	Consolidated
Net Sales	(2.8)	(1.2)	(0.1)	(4.1)
Gross Profit	(0.2)	(0.2)	0.0	(0.4)
Operating Expenses	(0.2)	(0.1)	0.0	(0.3)
Operating Income	0.1	(0.1)	0.0	0.0

Appendix IV

2018 LIFO Adjustment

Amounts are shown on an after-tax basis

(millions USD)	Q1 2018	Q2 2018	Q3 2108	Q4 2018	FY 2018
LIFO expense (income)	1.2	0.5	(0.4)	(2.9)	(1.6)
Restated Adj. EPS	1.44	1.38	1.13	0.84	4.79

Appendix V

Net Debt to Total Capitalization Ratio

(millions USD)	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Total Debt	222.1	276.1	290.8	317.0	331.4
Cash	315.4	300.2	298.9	225.7	176.1
Net Debt	(93.3)	(24.1)	(8.1)	91.3	155.3
Equity	891.8	807.4	740.1	634.6	557.0
Net Debt + Equity	798.5	783.3	732.0	725.9	712.3
Net Debt / (Net Debt + Equity)	-12%	-3%	-1%	13%	22%

Cash Minus Debt

(millions USD)	December 31, 2009	December 31, 2019
Cash	98.5	315.4
Debt	104.1	222.1
Cash Minus Debt	(5.6)	93.3

Appendix VI

Historical Adjusted Net Income[1]

(thousands USD)	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Income	63,049	65,427	71,976	79,396	72,828	57,101	75,968	86,191	91,578
Deferred Compensation Expense (Income)	3,084	2,195	924	5,438	3,720	(8,288)	3,453	9,977	(40)
Business Restructuring					723	3,049		4,824	2,216
Business Interruption Insurance Recovery					(2,514)				
Bad Debt Expense (Income)						1,481			
Environmental Remediation						4,403	341		
Contract Termination Settlement								(2,805)	
Gain on Divestiture of Product Line							(1,774)		
Joint Venture Dissolution							1,461		
US Tax Reform Impact									14,937
Adjusted Net Income	66,133	67,622	72,900	84,834	74,757	57,746	79,449	98,187	108,691

(1) As previously disclosed, in the first quarter of 2019, the Company elected to change its method of accounting for U.S. inventories from the last in, first out (LIFO) basis to the first in, first out (FIFO) basis. This chart has not been adjusted for this change.