



**Stepan** 

Third Quarter 2015 Results

October 21, 2015

# 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.*

# Third Quarter 2015 Financial Recap

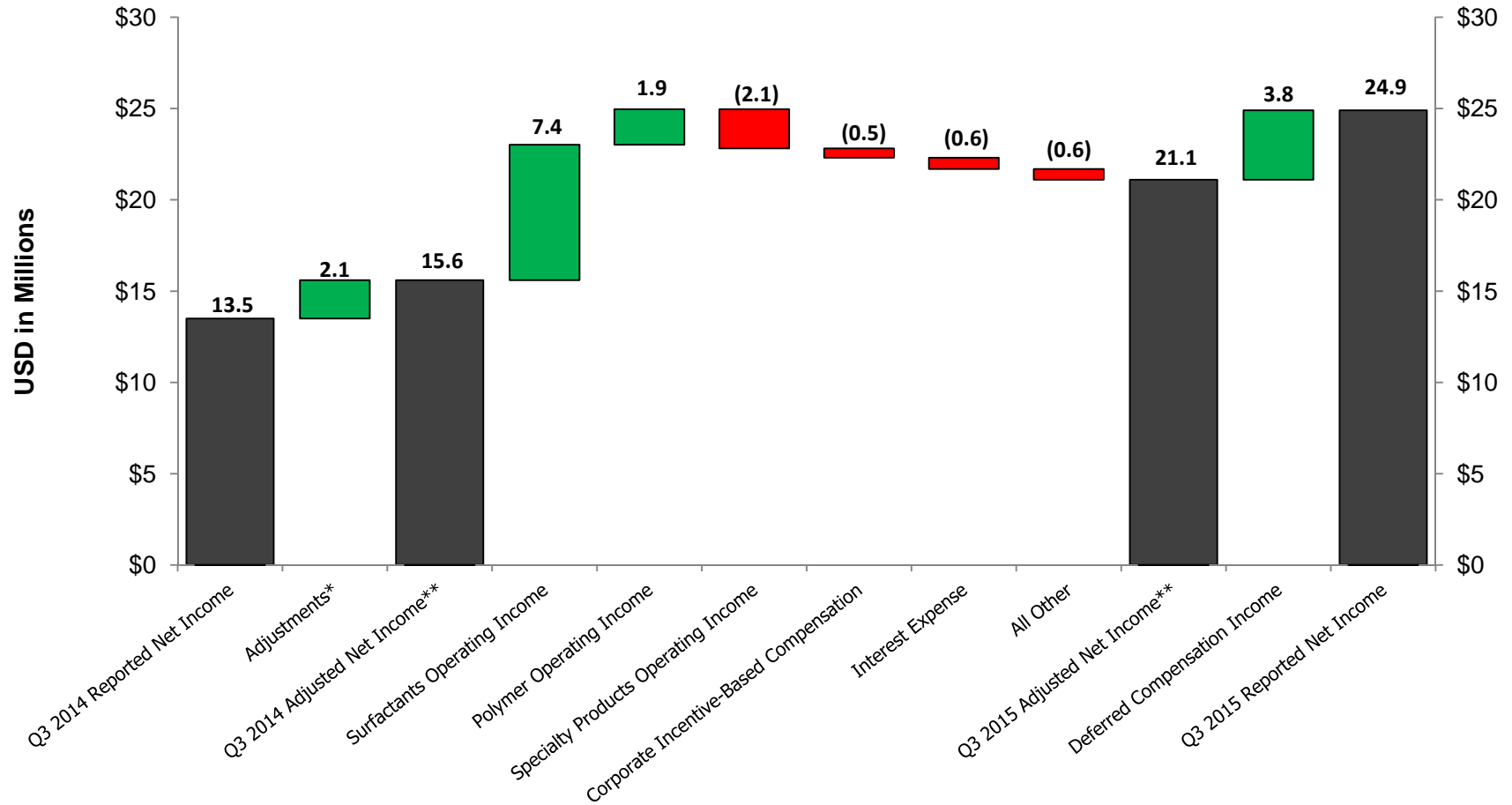
- **Q3 Reported Net Income was \$24.9 million or \$1.09 per diluted share, an 85% increase versus \$13.5 million or \$0.59 per diluted share in Q3 2014.**
  - Q3 2015 Reported Net Income included non-operational deferred compensation income (\$3.8 million or \$0.17 per diluted share).
- **Q3 Adjusted Net Income\* was \$21.1 million or \$0.92 per diluted share, a 35% increase versus \$15.6 million or \$0.68 per diluted share in Q3 2014.**
- **Surfactant Operating Income was \$21.8 million, up \$10.7 million or 96% versus Q3 2014 due to improved performance in North America, Latin America and Europe.**
- **Polymer Operating Income was \$24.6 million, up \$6.3 million or 35% versus Q3 2014. Adjusted Polymer Operating Income\*\* was \$24.6 million, up \$2.9 million or 13% versus Q3 2014. The increase over prior year was primarily due to volume growth within the Global Rigid Polyol business.**
- **Key strategic actions – successful transition of new long-term supply agreement with SUN.**

\* 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 – Q3 2014 to Q3 2015

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



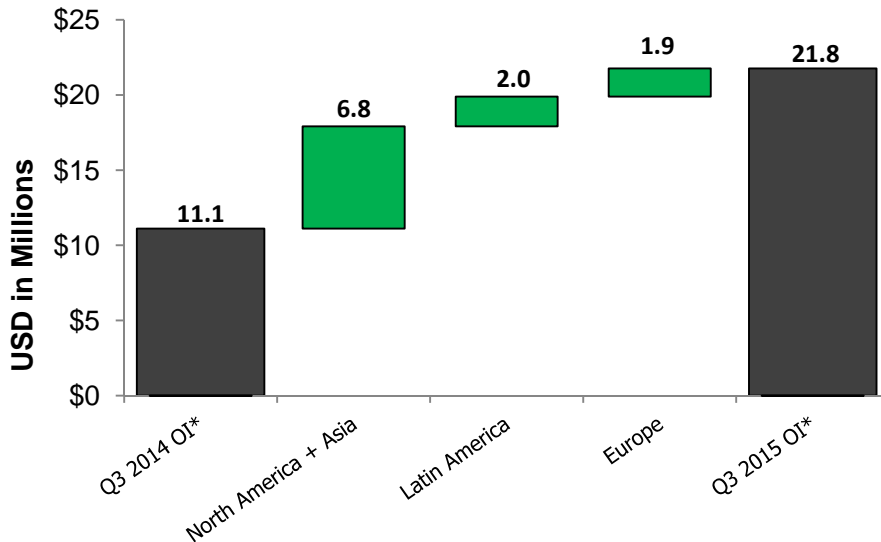
\*The adjustments to Reported Net Income in Q3 2014 were related to deferred compensation income (\$2.7), environmental remediation liability expense (\$2.7) and bad debt expense for a customer bankruptcy (\$2.1).

\*\*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>	<b>Q3 2015</b>	<b>Q3 2014</b>
<b>Net Sales</b>	<b>\$290.8</b>	<b>\$318.5</b>
<b>Operating Income</b>	<b>\$ 21.8</b>	<b>\$ 11.1</b>

- Operating Income increased \$10.7 million over prior year.
- North America growth was driven by improved operations, favorable product mix (Ag and Distribution) and the new supply contract with The Sun Products Corporation (SUN).
- Latin America delivered meaningful growth in both Brazil and Colombia, despite inflation and currency devaluation.
- Europe results were up \$1.9 million driven by higher volumes in the Consumer and Functional Surfactant markets. Europe results were up 67% through three quarters.
- Foreign exchange negatively impacted Net Sales by \$29.3 million and Operating Income by \$3.2 million.



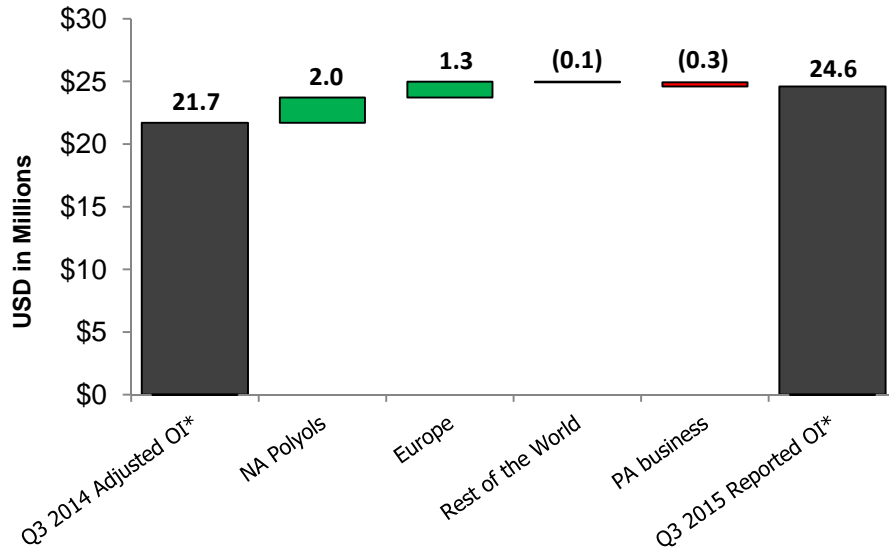
\*OI = Operating Income.

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

# Polymers

<i>in million \$</i>	Q3 2015	Q3 2014
<b>Net Sales</b>	<b>\$134.7</b>	<b>\$153.0</b>
<b>Reported Operating Income</b>	<b>\$ 24.6</b>	<b>\$ 18.3</b>
<b>Adjusted Operating Income*</b>	<b>\$ 24.6</b>	<b>\$ 21.7</b>

- Adjusted Operating Income\* increased \$2.9 million over prior year.
- Global Rigid Polyol volumes up 3% over prior year due to increased insulation standards and conversion to metal panels in Europe.
- Specialty Polyols up on an improved product mix due to higher CASE volume and lower Flexible Foam volume.
- Overall European results increased on higher Rigid Polyol volume despite negative foreign exchange impact.
- Phthalic Anhydride (PA) results, excluding the 2014 customer bankruptcy, were down slightly despite higher PA demand. Q4 will be negatively impacted by planned maintenance activity.
- Foreign exchange negatively impacted Net Sales by \$8.8 million and Reported Operating Income by \$1.0 million.



\*Adjusted Operating Income is a non-GAAP measure which excludes certain significant, non-recurring items. See appendix for Non-GAAP reconciliation. All amounts are shown on a pre-tax basis (unless noted differently)

# 2015 Progress Update

- **Continued income growth in Polymers**
- **Higher Functional Surfactant volumes**
- **Improved asset utilization in North America**
- **Improved operational cost savings from 2014 investments**
- **Stronger US Dollar should negatively impact near-term earnings**
- **Continued benefits from favorable year-over-year raw material costs**



# Thank you for your interest in Stepan

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# Appendix I

## Key Assumptions / Expectations

Item	Full Year
Capital Spending	Now expect spending between \$110MM and \$120MM for 2015 as we further invest in China, Poland and Brazil.
Debt	<p>Completed a \$100 million offering of 3.95% Senior Notes due in 2027.</p> <p>Intend to use the net proceeds to fund capital expenditures and to pay off existing higher cost debt when due.</p> <p>Expect \$3MM additional interest expense on an annual basis which started in July 2015.</p>
Effective Tax Rate	YTD 2015 = 28% Expect between 26% and 29% for full year 2015

## Appendix II

Reconciliations for Net Income Excluding Deferred Compensation and Adjusted Net Income and Diluted Earnings Per Share									
<i>(Amounts in USD Millions, Except per Share Amounts)</i>						Three Months Ended			
<i>(Amounts are reported after the effect of taxes)</i>						September 30			
						2015		2014	
						Net Income	Diluted EPS	Net Income	Diluted EPS
<b>Net Income Attributable to Stepan Company As Reported</b>						\$ 24.9	\$ 1.09	\$ 13.5	\$ 0.59
Deferred Compensation (Income) Expense, Net of Investment Income						(3.8)	(0.17)	(2.7)	(0.12)
<b>Net Income Excluding Deferred Compensation</b>						\$ 21.1	\$ 0.92	\$ 10.8	\$ 0.47
Environmental Remediation Liability Adjustment						-	-	2.7	0.12
Bad Debt Expense - Customer Bankruptcy						-	-	2.1	0.09
<b>Adjusted Net Income Attributable to Stepan Company</b>						\$ 21.1	0.92	\$ 15.6	\$ 0.68

# Appendix III

ADJUSTED SEGMENT OPERATING INCOME RECONCILIATION								
<i>(Amounts in USD Millions)</i>						Three Months Ended		
<i>(Amounts are reported before the effect of taxes)</i>						September 30		
						<u>2015</u>		<u>2014</u>
<b>Segment Operating Income As Reported</b>						<b>\$ 46.1</b>		<b>\$ 32.4</b>
Bad Debt Expense - Customer Bankruptcy						-		3.4
<b>Adjusted Segment Operating Income</b>						<b>\$ 46.1</b>		<b>\$ 35.8</b>

## Appendix IV

POLYMERS ADJUSTED OPERATING INCOME RECONCILIATION								
<i>(Amounts in Millions)</i>						Three Months Ended		
<i>(Amounts are reported before the effect of taxes)</i>						September 30		
						<u>2015</u>		<u>2014</u>
<b>Polymers Operating Income As Reported</b>						<b>\$ 24.6</b>		<b>\$ 18.3</b>
Bad Debt Expense - Customer Bankruptcy						-		3.4
<b>Polymers Adjusted Operating Income</b>						<b>\$ 24.6</b>		<b>\$ 21.7</b>

# Appendix V

## Foreign Exchange Impact – Q3 2015

	<b>Surfactants</b>	<b>Polymers</b>	<b>Specialty</b>	<b>Consolidated</b>
(in Millions USD)				
Net sales	(29.2)	(8.8)	(0.7)	(38.7)
Gross Profit	(5.1)	(1.4)	(0.0)	(6.5)
Operating Expenses	(1.9)	(0.4)	(0.1)	(2.4)
Operating Income	(3.2)	(1.0)	0.1	(4.1)
<b>Pretax Income</b>				<b>(3.7)</b>