

Stepan ®

Earnings Call Presentation

First Quarter 2019



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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

First Quarter Financial Highlights	F. Quinn Stepan, Jr., <i>Chairman, President and Chief Executive Officer</i>
First Quarter Results	Luis Rojo, <i>Vice President and Chief Financial Officer</i>
Financial and Strategic Outlook	F. Quinn Stepan, Jr., <i>Chairman, President and Chief Executive Officer</i>
Analyst / Shareholder Questions	
Closing Remarks	F. Quinn Stepan, Jr., <i>Chairman, President and Chief Executive Officer</i>

First Quarter 2019 Financial Recap

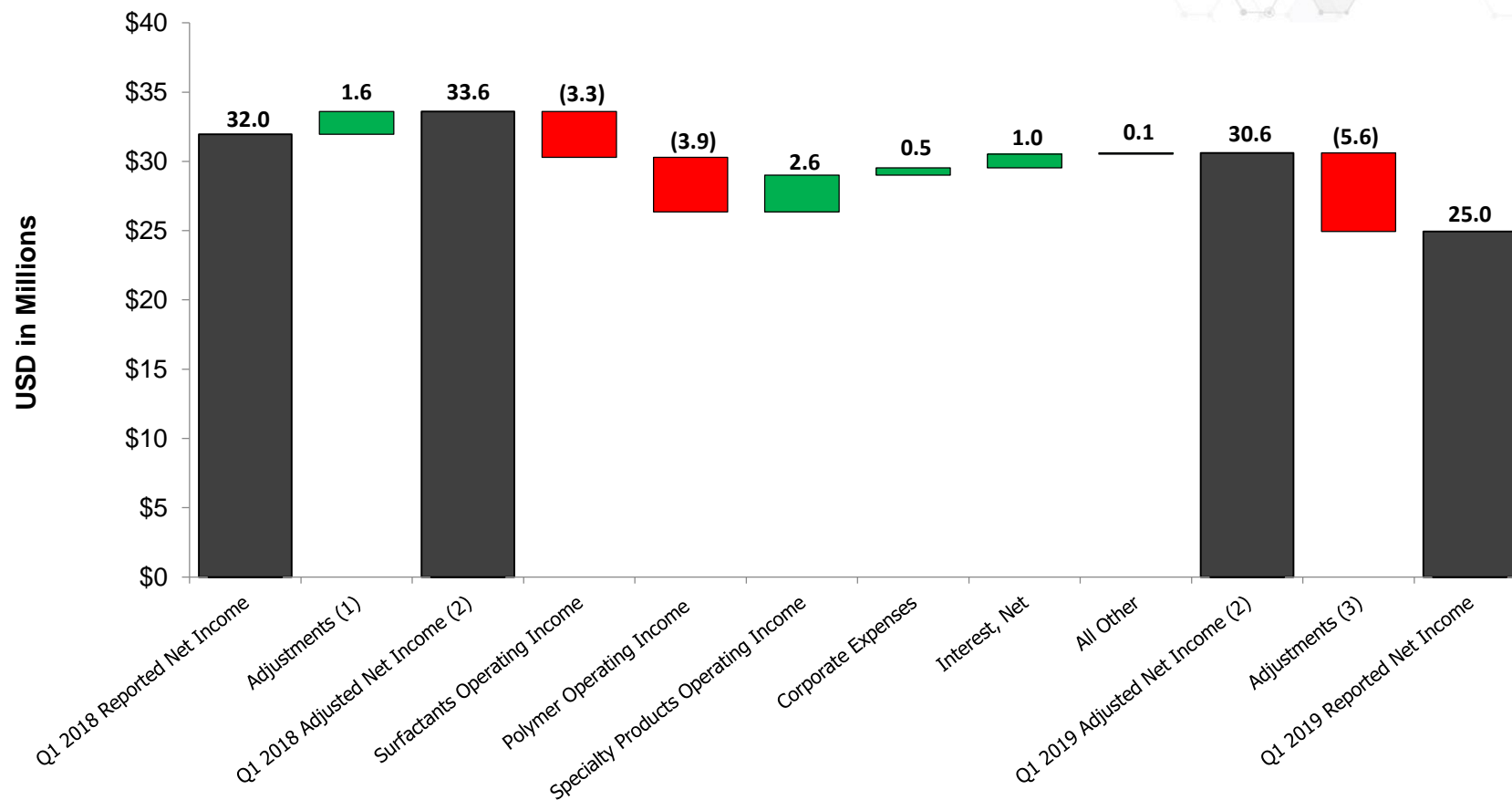
- Q1 Reported Net Income was \$25.0 million, or \$1.07 per diluted share, a 22% decrease versus \$32.0 million, or \$1.37 per diluted share, in Q1 2018.
- Q1 Adjusted Net Income⁽¹⁾ was \$30.6 million, or \$1.31 per diluted share, a 9% decrease versus \$33.6 million, or \$1.44 per diluted share, in Q1 2018. Adjusted Net Income in Q1 2019 excludes the following non-operational items:
 - Deferred compensation expense of \$3.9 million, or \$0.17 per diluted share.
 - Cash settled SARs expense of \$1.2 million, or \$0.05 per diluted share.
 - Restructuring expense of \$0.5 million, or \$0.02 per diluted share.
- Reported Surfactant Operating Income was \$37.2 million, a decrease of \$4.3 million, or 10%, versus Q1 2018. The decrease was primarily driven by a sulfonation equipment failure at the Ecatepec, Mexico facility. The Company's insurance provider has acknowledged this is a covered event and the Company is pursuing insurance recovery for damaged equipment, incremental supply chain expenses and business interruption. Global volume increased 3% due to higher demand within the Functional Product end market; partially offset by lower volume through our distribution channel.
- Reported Polymer Operating Income was \$12.1 million, a decrease of \$5.2 million, or 30%, versus Q1 2018. The decrease was primarily due to the non-recurrence of a \$2.1 million class action settlement received in 2018, lower volumes and consumption of higher priced inventories in our Phthalic Anhydride business, higher European costs associated with a planned maintenance shutdown in Germany to debottleneck capacity and lower margins within our North American business. Global Rigid Polyol volume increased 9% versus the prior year.
- Reported Specialty Product Operating Income was \$3.1 million, an increase of \$3.5 million versus Q1 2018, primarily due to the timing of orders in our flavor business. Decision has been made to reduce SG&A cost associated with the Specialty Product segment.
- During the quarter, the Company elected to change its method of accounting for U.S. inventories from the LIFO basis to the FIFO basis⁽²⁾, resulting in \$1.2 million of additional income in Q1 2018 and \$1.6 million of additional expense for full year 2018.

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

(2) See Appendix IV for the impact to 2018 historical results.

Net Income Bridge – Q1 2018 to Q1 2019

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



(1) The adjustments to Reported Net Income in Q1 2018 were related to deferred compensation expense of \$1.0 million, cash settled SARS expense of \$0.3 million and restructuring costs of \$0.3 million.

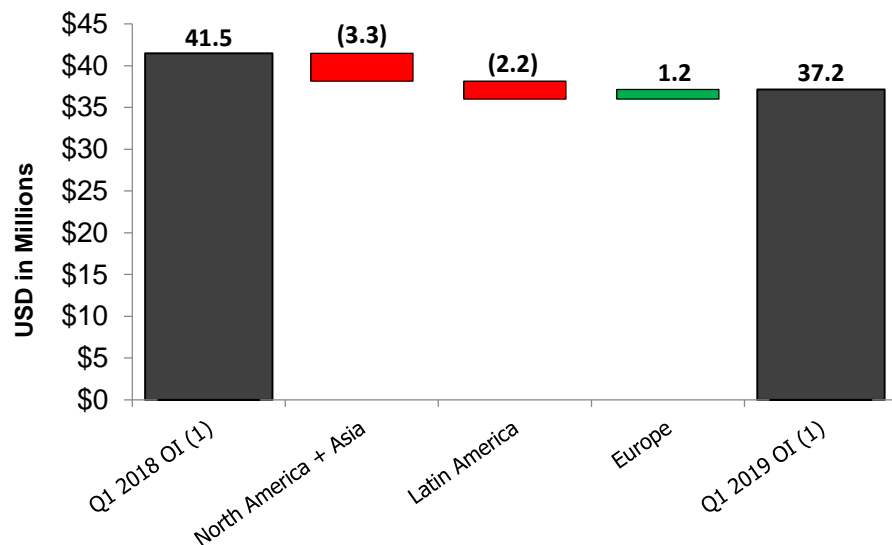
(2) Adjusted Net Income is a Non-GAAP measure which excludes certain significant, non-recurring items. See Appendix II for a reconciliation of Adjusted Net Income to Reported Net Income.

(3) The adjustments to Reported Net Income in Q1 2019 were related to deferred compensation expense of \$3.9 million, cash settled SARS expense of \$1.2 million and restructuring costs of \$0.5 million.

Surfactants

Base business in line with expectations, excluding the Ecatepec sulfonation equipment failure.

in millions \$	Q1 2019	Q1 2018
Net Sales	\$349.7	\$358.9
Operating Income	\$ 37.2	\$ 41.5



(1) OI = Operating Income

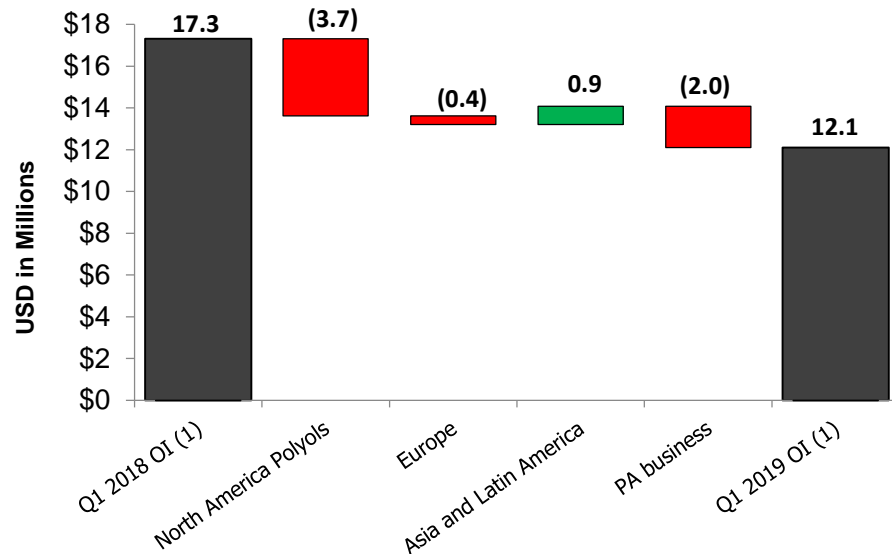
All amounts are shown on a pre-tax basis (unless noted differently)

- Reported Operating Income was \$37.2 million, a decrease of \$4.3 million, or 10%, compared to the prior year driven by the Ecatepec sulfonation equipment failure. Net sales decreased 3% driven by unfavorable foreign exchange translation. Volume increased 3% due to higher Functional Product demand, partially offset by lower volume through our distribution channel.
- North American decrease was driven by mix impacts due to lower volumes through our distribution channel partially offset by strong demand for Functional Products.
- Latin American results were down primarily due to the negative impact of a sulfonation equipment failure at the Ecatepec, Mexico facility. **The Company's insurance provider has acknowledged this incident is a covered event for insurance recovery.**
- European results improved on favorable mix on sales through our distribution channel, growth in Agricultural Chemicals and some inventory built due to Brexit.
- Foreign exchange negatively impacted Net Sales by \$10.6 million and Operating Income by \$0.8 million.

Polymers

Global Rigid Polyol volume growth was offset by one-time impacts and lower margins in North America.

<i>in millions \$</i>	Q1 2019	Q1 2018
Net Sales	\$120.2	\$121.9
Operating Income	\$ 12.1	\$ 17.3

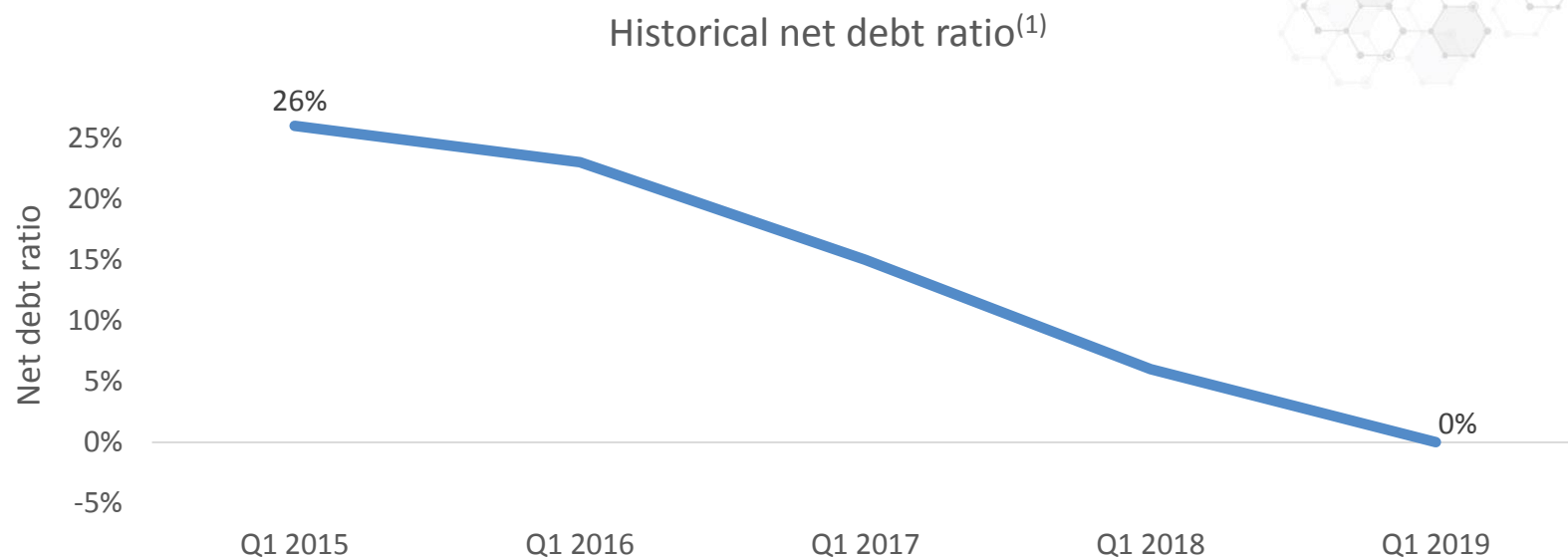


(1) OI = Operating Income

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

- Reported Operating Income was \$12.1 million, a decrease of \$5.2 million, or 30%, compared to the prior year. Net sales decreased 1% due to unfavorable foreign exchange translation (-4 points), partially offset by a 3% increase in volume.
- Global Polyol volumes increased 8% due to Rigid Polyol growth in North America, Europe and Asia. Strong market demand driven by increased insulation standards and growth in construction was partially offset by lower Specialty Polyol volumes.
- North America Polyol results decreased due to the non-recurrence of a \$2.1 million class action settlement received in 2018 and lower margins.
- European results negatively impacted by higher costs related to a planned maintenance shutdown at our site in Germany to debottleneck capacity. Volumes were up 9%.
- Phthalic Anhydride (PA) results decreased due to lower volume and unfavorable timing related to the consumption of higher priced inventories.
- China results improved on higher volume driven by growth in cold storage insulation.
- Foreign exchange negatively impacted Net Sales by \$5.3 million and Operating Income by \$0.3 million.

Net Debt Ratio / Cash Flows



For the quarter

- Cash flow from operations was \$4 million
- Capital expenditures were \$26 million
- We returned \$6 million to our shareholders via dividends and share repurchases

First quarter consumption of cash is typical

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

Stepan Strategic Priorities

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



2019 Strategic Update

Market Diversification

- Volume to the Functional Product end markets, including Agricultural Chemicals and Oilfield Chemicals, increased 10% during the quarter
- Continuing to pursue opportunities to expand presence in specialty alkoxyates

Customer Intimacy

- Volume to Tier 2 and Tier 3 customers increased 3% during the quarter
- Global Rigid Polyol volume increased 9% due to strong market demand driven by increased insulation standards, Europe PIR insulation recovery from previous MDI challenges and growth in construction

Innovation

- Continued focus on developing next generation of value-added Rigid Polyol technologies
- Developed and commercialized ten new Agricultural Chemical products over the last year, which are helping customers around the world to improve the performance and environmental profile of pesticide formulations
- Patent-pending Oilfield Chemicals technology for fracturing, including flowback modifiers and friction reducer boosters, are helping customers meet their business needs
- Product launch of STEPANQUAT® Helia in North America, a brand-new hair conditioning agent for the Personal Care Specialties end market

Operational Excellence

- Decision has been made to close the Specialty Product office in the Netherlands and absorb the site's supply chain, QA and R&D functions into other Stepan locations
- Delivering savings on the shutdown of our Surfactant operations at the Wesseling, Germany plant



Thank you for your interest in Stepan

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Appendix I

Update on Certain Expectations

	2017 Actual	2018 Actual	2019 Expected
Capital expenditures →	\$79 million	\$87 million	\$110 to \$130 million
Debt repayments ⁽¹⁾ →	\$21 million	\$21 million	\$29 million
Interest expense →	\$11 million	\$11 million	\$9 million
Effective Tax Rate →	34%	19%	21% to 24%

(1) Debt repayments are projected according to the normal repayment schedule.

Appendix II

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

(\$ in thousands, except per share amounts)	Three Months Ended March 31			
	2019	EPS	2018 As Adjusted	EPS As Adjusted
Net Income Reported	\$ 24,984	\$ 1.07	\$ 31,952	\$ 1.37
Deferred Compensation Expense	\$ 3,881	\$ 0.17	\$ 1,038	\$ 0.05
Business Restructuring	540	\$ 0.02	269	\$ 0.01
Cash Settled Stock Appreciation Rights	1,231	\$ 0.05	344	\$ 0.01
Adjusted Net Income	\$ 30,636	\$ 1.31	\$ 33,603	\$ 1.44

*Amounts are presented after-tax

Reconciliation of Pre-Tax to After-Tax Adjustments

(\$ in thousands, except per share amounts)	Three Months Ended March 31			
	2019	EPS	2018	EPS
<u>Pre-Tax Adjustments</u>				
Deferred Compensation Expense	\$ 5,106		\$ 1,365	
Business Restructuring	733		358	
Cash Settled Stock Appreciation Rights	1,620		453	
Total Pre-Tax Adjustments	\$ 7,459		\$ 2,176	
Cumulative Tax Effect on Adjustments	\$ (1,807)		\$ (525)	
After-Tax Adjustments	\$ 5,652	\$ 0.24	\$ 1,651	\$ 0.07

Appendix III



Foreign Exchange Impact – Q1 2019

	Surfactants	Polymers	Specialty Products	Consolidated
(in Millions USD)				
Net Sales	(10.6)	(5.3)	(0.3)	(16.2)
Gross Profit	(1.5)	(0.6)	(0.0)	(2.1)
Operating Expenses	(0.7)	(0.3)	(0.0)	(1.0)
Operating Income	(0.8)	(0.3)	0.0	(1.1)
Pretax Income				(1.1)

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)