



Stepan 

Fourth Quarter 2014 Results

February 18, 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.

Fourth Quarter 2014 Financial Recap

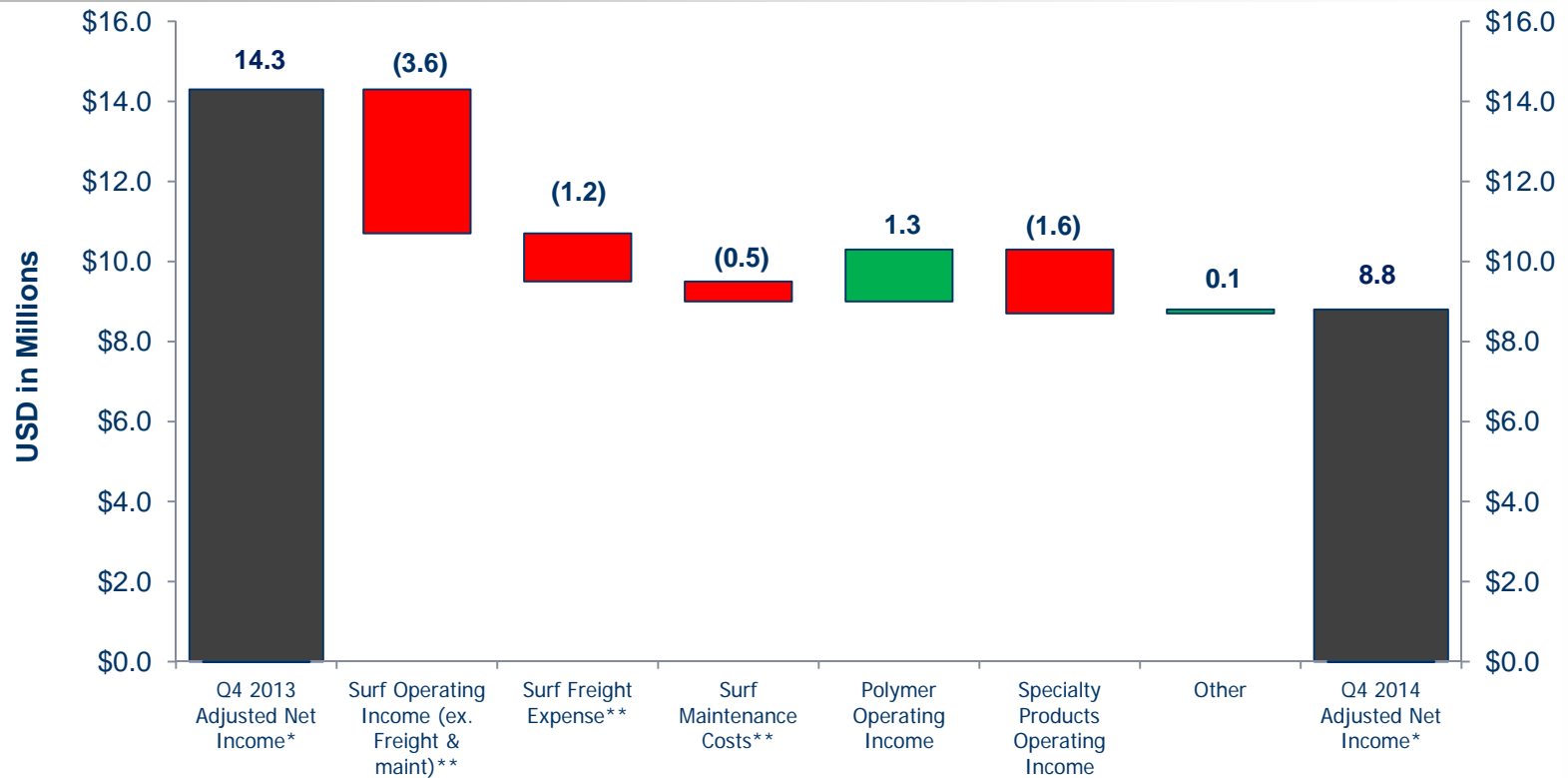
- **Q4 Reported Net Income of \$6.2 million or \$0.27 per diluted share was impacted by a few significant, non-recurring items.**
 - Deferred Compensation income (\$1.6 million or \$0.07 per diluted share)
 - Restructuring and Asset Impairment expense (\$3.0 million or \$0.13 per diluted share)
 - Change in reserve for a previously recognized environmental expense (\$1.8 million or \$0.08 per diluted share)
 - Change in reserve for a previously recognized bad debt expense related to a customer bankruptcy (\$0.6 million income or \$0.03 per diluted share)
- **Therefore Q4 2014 Adjusted Net Income was \$8.8 million or \$0.38 per diluted share.**
- **Global Surfactants Operating Income* was down \$8.4 million due to lower volumes in North American Consumer Products, as well as higher freight, maintenance costs and a product liability expense.**
- **Polymer Operating Income was up \$2.0 million partially due to growth in the US CASE** business.**

* Segment Operating Income excludes restructuring expense

**CASE = Coatings, Adhesives, Sealants and Elastomers

Q4 Adjusted Net Income Bridge *

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



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

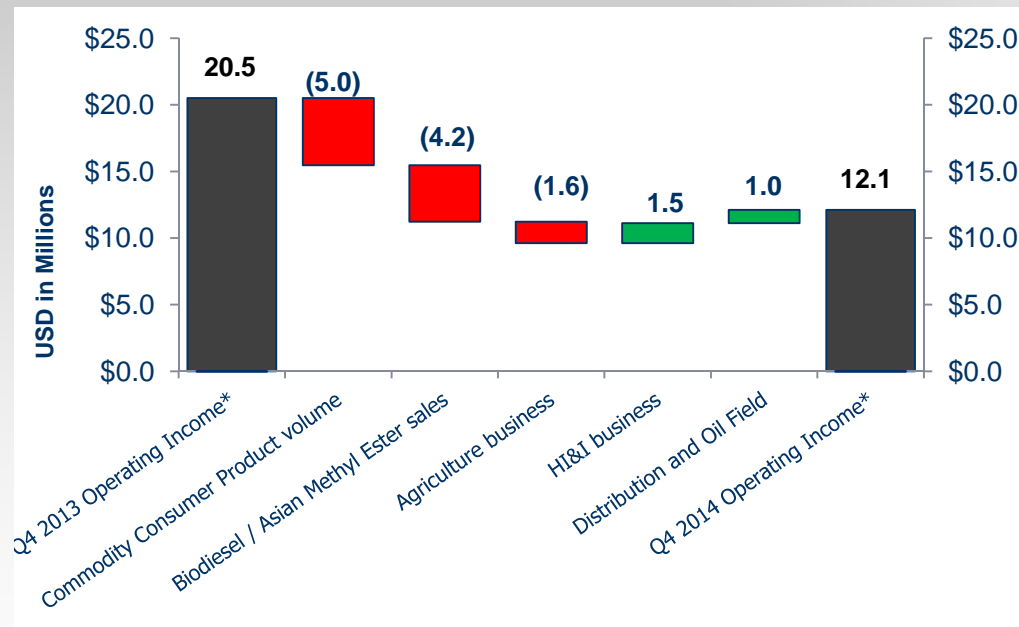
See Appendix II for reconciliation of Adjusted Net Income to Reported Net Income

** Total Surf = \$5.3 million after-tax.

Surfactants*

<i>in million \$</i>	Q4 2014	Q4 2013
Net Sales	\$308.7	\$327.8
Operating Income*	\$ 12.1	\$ 20.5

- Continued Lower Consumer Product Commodity and Biodiesel / Methyl Ester volumes
- Agriculture sales were down 20%, consistent with overall industry conditions
- Growth in higher value businesses – HI&I**, Distribution & Oilfield, including EOR***
- Higher maintenance, freight and product liability expenses were offset by lower incentive-based compensation



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

** HI&I = Household Industrial & Institutional

*** EOR = Enhanced Oil Recovery

Surfactants

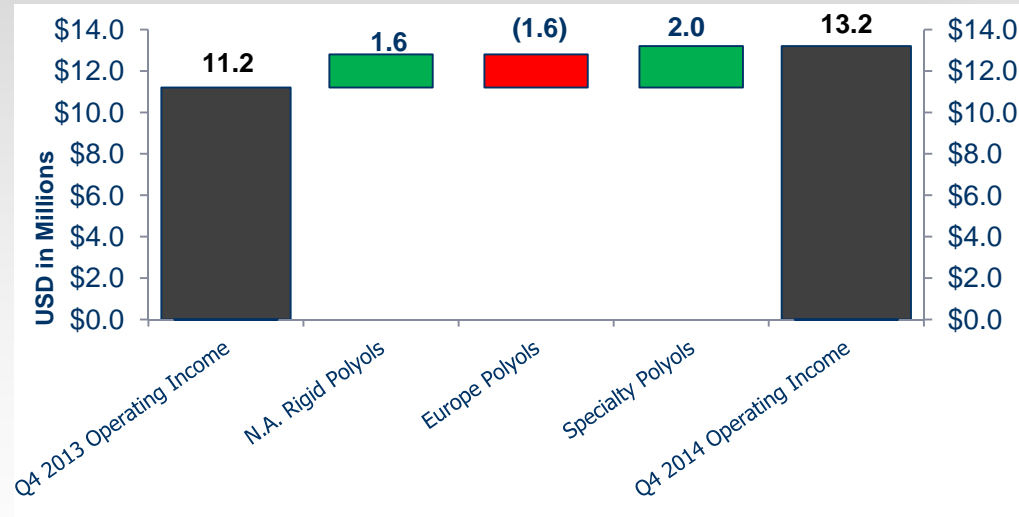
Recap of Volume / Mix Variances vs. PY

<i>Millions USD\$</i>	2013 to 2014 (Unfavorable) Impact					2014 to 2015 Estimated Impact (Unfavorable)				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Commodity Consumer Product volume	(1.0)	(1.0)	(3.0)	(3.0)	(8.0)	(3.0)	(2.0)	-	-	(5.0)
Biodiesel / Asian Methyl Ester sales	(0.3)	(1.0)	(2.5)	(2.5)	(6.3)	(0.7)	-	-	-	(0.7)
Agriculture business	(1.2)	(1.0)	-	(1.0)	(3.2)	-	-	-	-	-
Other	(1.2)	-	-	(0.6)	(1.8)	-	-	-	-	-
Global Surf (Unfavorable) Impact	(3.7)	(3.0)	(5.5)	(7.1)	(19.3)	(3.7)	(2.0)	-	-	(5.7)

Polymers

<i>in million \$</i>	Q4 2014	Q4 2013
Net Sales	\$130.6	\$128.4
Operating Income	\$ 13.2	\$ 11.2

- NA Rigid Polyols up slightly for the quarter due to a 3% increase in sales volume
- European Polyol profits down on lower margins
- Specialty Polyols, including CASE*, continue to deliver strong growth, bolstered by Columbus, GA acquisition in 2013



*CASE = Coatings Adhesives Sealants Elastomers

Full Year 2014 Financial Recap

- **Full Year Reported Net Income of \$57.1 million or \$2.49 per diluted share was impacted by a few significant, non-recurring items.**
 - Deferred Compensation income (\$8.3 million or \$0.36 per diluted share)
 - Restructuring and Asset Impairment expense (\$3.0 million or \$0.13 per diluted share)
 - Environmental Reserve expense (\$4.4 million or \$0.19 per diluted share)
 - Bad Debt expense related to a customer bankruptcy (\$1.5 million or \$0.07 per diluted share)
- **Therefore Full Year 2014 Adjusted Net Income was \$57.7 million or \$2.52 per diluted share.**
- **Polymer net sales were up 14% versus the prior year due primarily to strong volume growth in North America and Europe.**
 - The Polymer segment delivered record operating income for the full year.
 - Columbus acquisition fully integrated delivered \$9 million Operating Income in 2014
 - Sale of the Specialty Polyurethane Systems business closed in January 2015
 - Expect between \$2.5 - \$3.0 million pre-tax gain
- **Surfactant net sales declined 2% versus prior year primarily due to severe winter weather experienced in the first part of the year and sales volume challenges within North American consumer products.**
 - Enhanced Oil Recovery delivered \$5 million Operating Income improvement in 2014
 - European Surfactants had a record year with Operating Income of \$7.5 million for 2014

2014 versus 2015

	Potential Improvements		Potential Headwinds	
	Net Income	EPS *	Net Income	EPS *
Surf Vol/Mix Items			(\$6MM) **	(\$0.25)
Non-Recurring Maintenance and Shutdown costs	+\$6MM	+\$0.25		
Overall Efficiency Program	+\$8MM	+\$0.30		
Savings on 2013 Restructuring	+\$2MM	+\$0.10		
Savings on 2014 Restructuring	+\$1MM	+\$0.05		
Sale of Polyurethane Systems Business	+\$2MM	+\$0.10		
Weather	+\$2MM	+\$0.10		
Special Bad Debt Charges	+\$2MM	+\$0.10		

Additional \$17 million or \$0.75 EPS prior to growth and other initiatives

* EPS = Earnings Per Share (Diluted)

** As noted on slide #6 – Full Year impact of known Surf Vol/Mix items

Expectations for 2015

- Continued income growth in Polymers
- Higher Functional Surfactant volumes
- Improve asset utilization in North America
- Improve Operations
- Stronger US Dollar would negatively impact earnings
- Benefits from falling raw material prices

Pursuing actions to restore earnings growth

Thank you for your interest in Stepan

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Appendix I

Key Assumptions / Expectations

Item	Full Year
Capital Spending	<p>2014 = \$102MM</p> <p>Expect between \$120MM and \$140MM for 2015 as we further invest in China, Poland and Brazil</p>
Effective Tax Rate	<p>2014 = 24.4%</p> <p>Expect between 28% and 32% for 2015</p>

Appendix II

RECONCILIATIONS FOR ADJUSTED NET INCOME AND ADJUSTED DILUTED EARNINGS PER SHARE									
<i>(Amounts in Millions, Except per Share Amounts)</i>	Three Months Ended				Twelve Months Ended				
	December 31				December 31				
	2014		2013		2014		2013		
	Net Income	Diluted EPS	Net Income	Diluted EPS	Net Income	Diluted EPS	Net Income	Diluted EPS	
Net Income Attributable to Stepan Company As Reported	\$ 6.2	\$ 0.27	\$ 10.7	\$ 0.46	\$ 57.1	\$ 2.49	\$ 72.8	\$ 3.18	
Deferred Compensation (Income) Expense, Net of Investment Income	(1.6)	(0.07)	2.9	0.13	(8.3)	(0.36)	3.7	0.16	
Business Restructuring and Asset Impairment Expenses	3.0	0.13	0.7	0.03	3.0	0.13	0.7	0.03	
Environmental Remediation Expenses	1.8	0.08			4.4	0.19	-	-	
Bad Debt (Income) Expense	(0.6)	(0.03)	-	-	1.5	0.07	-	-	
Business Interruption Insurance Recovery	-	-	-	-	-	-	(2.5)	(0.11)	
Adjusted Net Income Attributable to Stepan Company	\$ 8.8	\$ 0.38	\$ 14.3	\$ 0.62	\$ 57.7	\$ 2.52	\$ 74.7	\$ 3.26	