



Stepan 

Fourth Quarter 2017 Results

February 22, 2018

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.

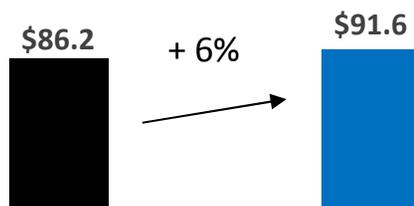
There are a number of risks, uncertainties and other important factors, many of which are beyond Stepan Company's control, that could cause actual results to differ materially from the forward-looking statements contained in this news release. Such risks, uncertainties and other important factors include, among other factors, the risks, uncertainties and factors described in Stepan Company's Form 10-K, Form 8-K and Form 10-Q 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, the impact of changes in the tax code as a result of recent federal tax legislation and uncertainty as to how some of those changes may be applied, 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.

Full-Year Financial Highlights	F. Quinn Stepan Jr., <i>Chairman, President and Chief Executive Officer</i>
Fourth Quarter and Full Year Results	Matt Eaken <i>Vice President, Corporate Controller and Interim 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>

CEO Remarks – 2017 Highlights

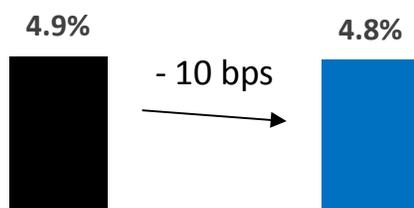
Reported Net Income



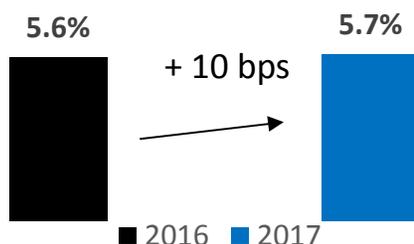
Adjusted Net Income*



Reported Net Income as a % of Sales



Adjusted Net Income as a % of Sales



Operating Income Drivers in 2017

- Record net income in 2017; seventh record annual net income over the last ten years.
- Surfactants delivered record operating income due to improved product mix, growth in key global markets and improved internal efficiencies.
- Polymer results were negatively impacted by higher raw material costs and lost Rigid Polyol market share in North America, despite higher Rigid Polyol volume in Europe and Specialty Polyol volumes globally.
- Specialty Product results down due to timing of orders in our pharmaceutical business and lower results in our food business.
- No net debt at year-end.

Operating Income Margins

Surfactants **	↑	70 bps	→	9.2%
Polymers	↓	(430 bps)	→	15.1%
Specialty Products	↓	(20 bps)	→	12.3%

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

** Includes all non-recurring costs

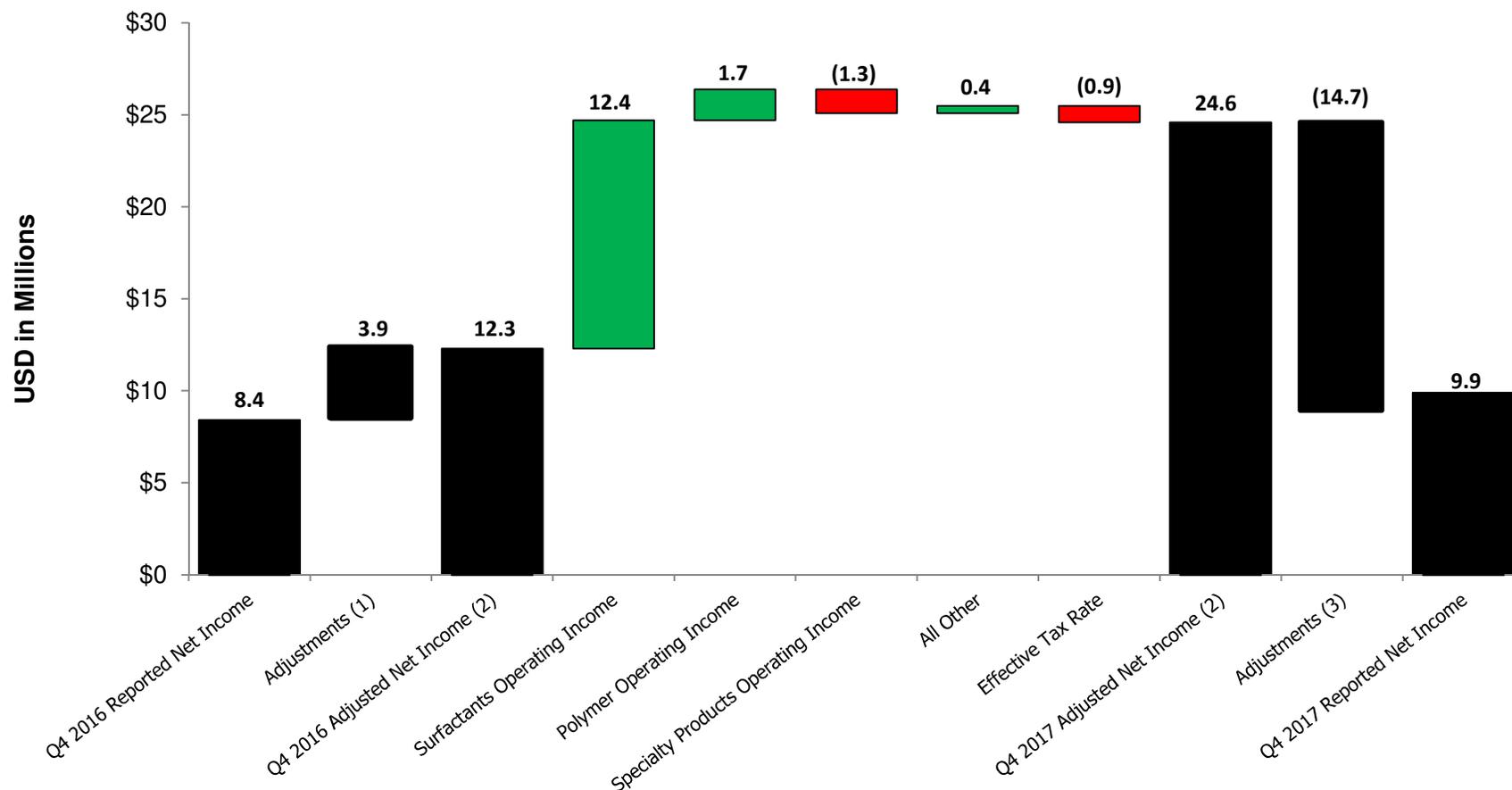


Fourth Quarter 2017 Financial Recap

- **Q4 Reported Net Income was \$9.9 million, or \$0.42 per diluted share, a 17% increase versus \$8.4 million, or \$0.36 per diluted share, in Q4 2016.**
- **Q4 Adjusted Net Income* was a record \$24.6 million, or \$1.06 per diluted share, a 100% increase versus \$12.3 million, or \$0.52 per diluted share, in Q4 2016. Adjusted net income in Q4 2017 excludes the following non-operational items:**
 - **One-time expense related to the U.S. Tax Cuts and Jobs Acts legislation of \$14.9 million, or \$0.64 per diluted share.**
 - **Restructuring expense of \$0.8 million, or \$0.04 per diluted share.**
 - **Deferred compensation income of \$1.0 million, or \$0.04 per diluted share.**
- **Q4 2016 results were negatively impacted by \$8.9 million of pre-tax non-recurring costs, of which \$8.3 million impacted Surfactants and \$0.6 million impacted Polymers. In addition, Q4 2017 results were positively impacted by \$4.7 million of pre-tax income related to the favorable resolution of a Surfactant product claim in Europe.**
- **Reported Surfactant Operating Income was \$28.3 million, an increase of \$13.7 million, or 94%, versus Q4 2016. The increase was primarily due to \$8.3 million of non-recurring expenses in the prior year, favorable resolution of a European product claim, growth in key markets and improved internal efficiencies. In addition, we implemented a plan to restructure our plant in Fieldsboro, New Jersey.**
- **Reported Polymer Operating Income was \$19.0 million, an increase of \$2.5 million, or 15%, versus Q4 2016. The increase over prior year was primarily due to higher European Rigid Polyol and global Specialty Polyol volumes.**
- **Reported Specialty Product Operating Income was \$2.3 million, a decrease of \$2.0 million versus Q4 2016, primarily due to the timing of orders in our flavor business and lower volume and margins in our food business.**
- **Entered into a \$350 million unsecured revolving line of credit in January 2018. No net debt at year-end.**

Net Income Bridge – Q4 2016 to Q4 2017

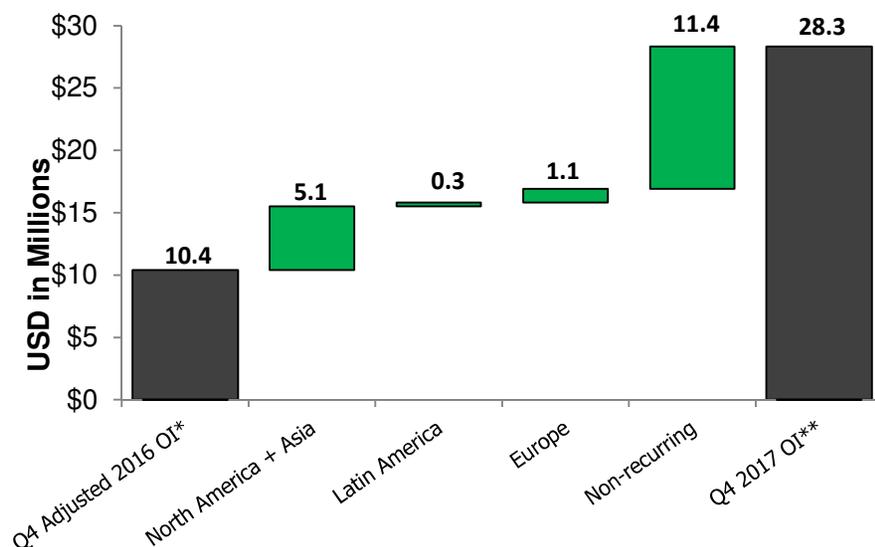
Note: All amounts are in millions of US dollars and are reported **after-tax**.



- (1) The adjustments to Reported Net Income in Q4 2016 were related to deferred compensation expense of \$2.7 million, restructuring costs of \$4.0 million and income related to a negotiated customer contract termination fee related to the Bahia, Brazil site of \$2.8 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 Q4 2017 were related to net expense from the U.S. tax reform bill of \$14.9 million, business restructuring expense of \$0.8 million and deferred compensation income of \$1.0 million.

Higher results due to non-recurring items and growth in key markets

<i>in millions \$</i>	Q4 2017	Q4 2016
Net Sales	\$324.2	\$282.5
Reported Operating Income	\$ 28.3	\$ 14.6
Adjusted Operating Income	\$ 28.3	\$ 10.4



* Adjusted Operating Income is a Non-GAAP measure. Refer to Appendix III.

** OI = Operating Income.

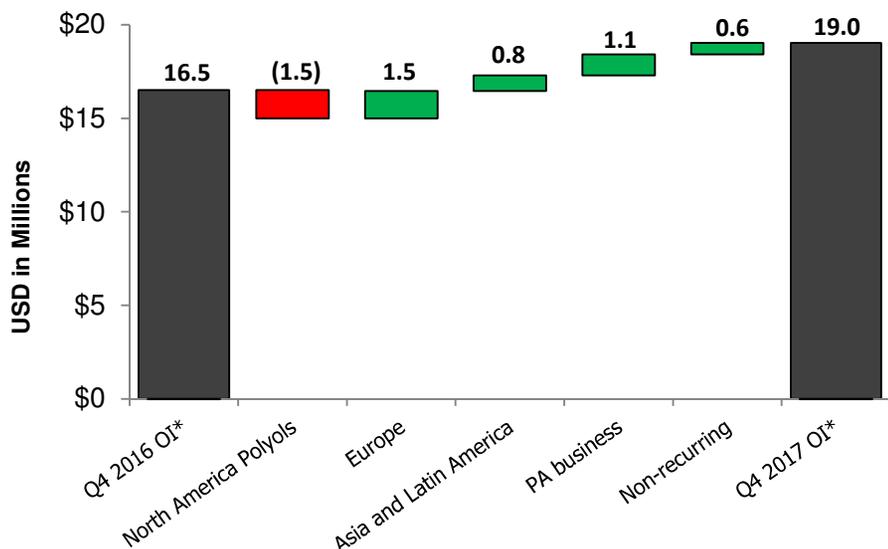
All amounts are shown on a pre-tax basis (unless noted differently)

- Reported Operating Income increased \$13.7 million over prior year. Volume increased 2%.
- North America increase was driven by higher demand for Oil Field products, sales through our Distribution partners, and savings from the Canadian plant shutdown.
- Latin American results, excluding customer contract termination in Q4 2016, were up slightly due to accretive income related to Brazil acquisition in 2016.
- Acquisition of BASF plant and associated business in Ecatepec, Mexico expected to close in Q1 2018.
- European results higher on improved product mix within the region and growth in Agricultural Chemicals.
- Non-recurring costs represent European product claim commitments which negatively impacted results in Q4 2016 and the positive impact due to the favorable resolution of one of the claims in Q4 2017.
- Foreign exchange positively impacted Net Sales by \$7.1 million and Operating Income by \$0.9 million.

Improved results on higher volumes despite challenges in North America

<i>in millions \$</i>	Q4 2017	Q4 2016
Net Sales	\$131.1	\$116.3
Operating Income	\$ 19.0	\$ 16.5

- Reported Operating Income was \$19.0 million, an increase of \$2.5 million, or 15%, compared to the prior year.
- Global Polyol volumes increased 2%.
 - Rigid Polyol volume increased globally despite share loss in North America.
 - Specialty Polyol volumes increased supported by the recent capacity addition in Poland.



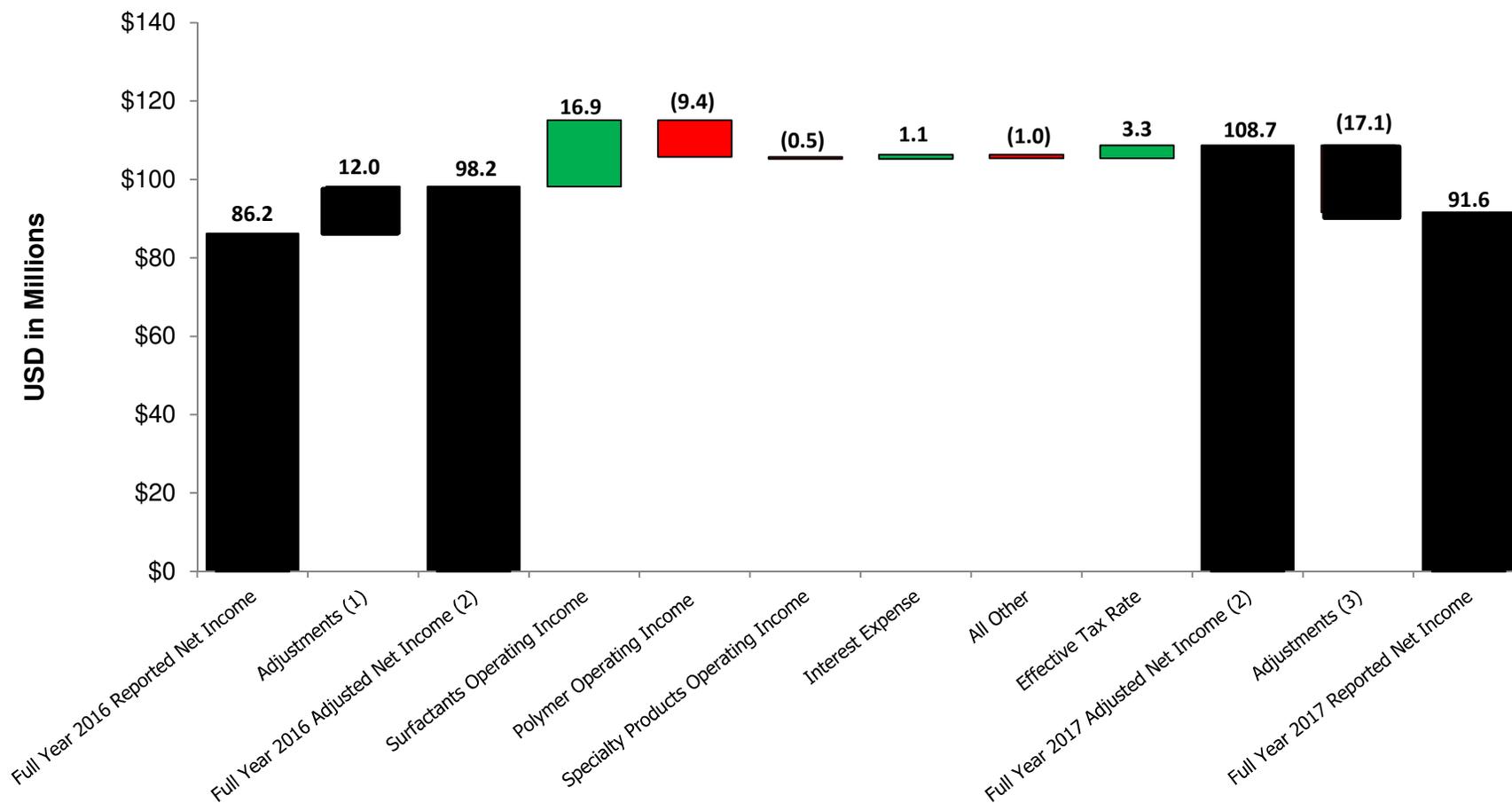
- North American results were negatively impacted by higher raw material costs during the quarter.
- European results continue to improve on higher volume and slightly higher margins.
- Phthalic Anhydride (PA) results increased despite lower volume and margins due to the scheduled maintenance shutdown in Q4 2016.
- Non-recurring expense represent remediation costs in the United States, which negatively impacted results in Q4 2016.
- Foreign exchange positively impacted Net Sales by \$5.1 million and Operating Income by \$0.4 million.

*OI = Operating Income

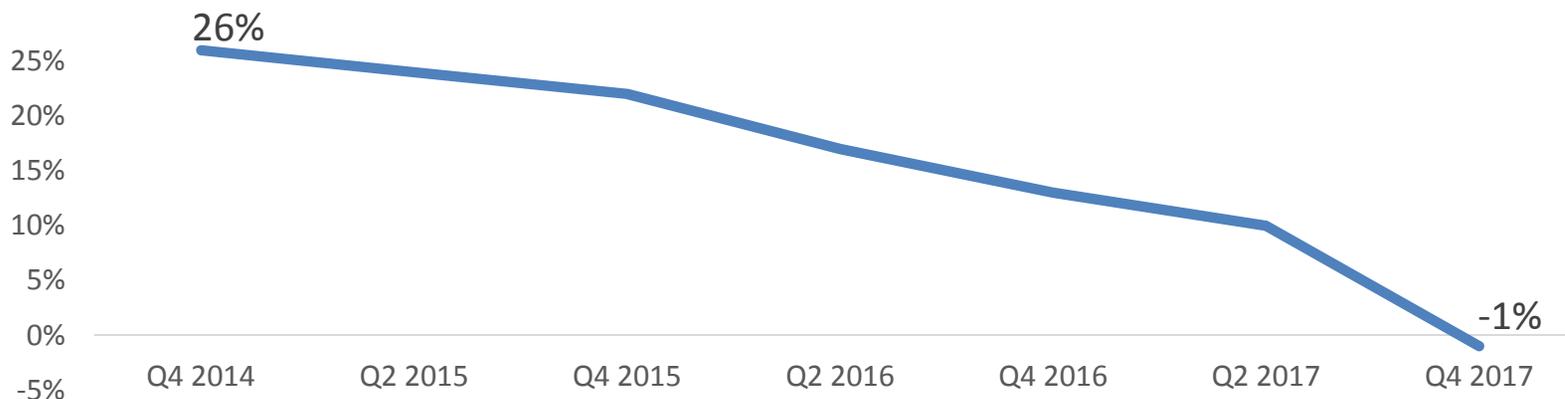
All amounts are shown on a pre-tax basis (unless noted differently)

- **2017 Reported Net Income** was a record \$91.6 million, or \$3.92 per diluted share, a 6% increase versus \$86.2 million, or \$3.73 per diluted share, in 2016. Reported Net Income for 2017 included a few non-operational and/or non-recurring items:
 - One-time expense related to the new U.S. tax reform bill of \$14.9 million, or \$0.64 per diluted share.
 - Restructuring expense of \$2.2 million, or \$0.09 per diluted share.
- **Adjusted Net Income*** was a record \$108.7 million, or \$4.65 per diluted share, an 11% increase versus \$98.2 million, or \$4.25 per diluted share, in 2016.
- **2016 results** were negatively impacted by \$10.8 million of pre-tax non-recurring costs, of which \$10.2 million impacted Surfactants and \$0.6 million impacted Polymers. In addition, **2017 results** were positively impacted by \$4.7 million of pre-tax income related to the favorable resolution of a Surfactant product claim in Europe.
- **Reported Surfactant Operating Income** was a record \$120.0 million, up from \$99.8 million in 2016 due to \$10.2 million of non-recurring expenses in the prior year, favorable resolution of a European product claim, improved product mix, growth in key global markets and improved internal operational efficiencies.
- **Reported Polymer Operating Income** was \$82.8 million, down from the \$96.6 million record in 2016. The decrease was primarily due to higher raw material costs despite higher Specialty Polyol volumes.
- **Reported Specialty Product Operating Income** was \$10.0 million, down \$0.7 million versus \$10.7 million reported in 2016 due primarily to timing of orders in our pharmaceutical business and lower volumes and margins in our food business.

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



- (1) The adjustments to Reported Net Income in 2016 were related to deferred compensation expense (\$10.0), restructuring costs (\$4.8) and income related to a negotiated customer contract termination fee related to the Bahia, Brazil site of \$2.8.
- (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 2017 were related to net expense from the U.S. tax reform bill of \$14.9 million and business restructuring expense of \$2.2 million.



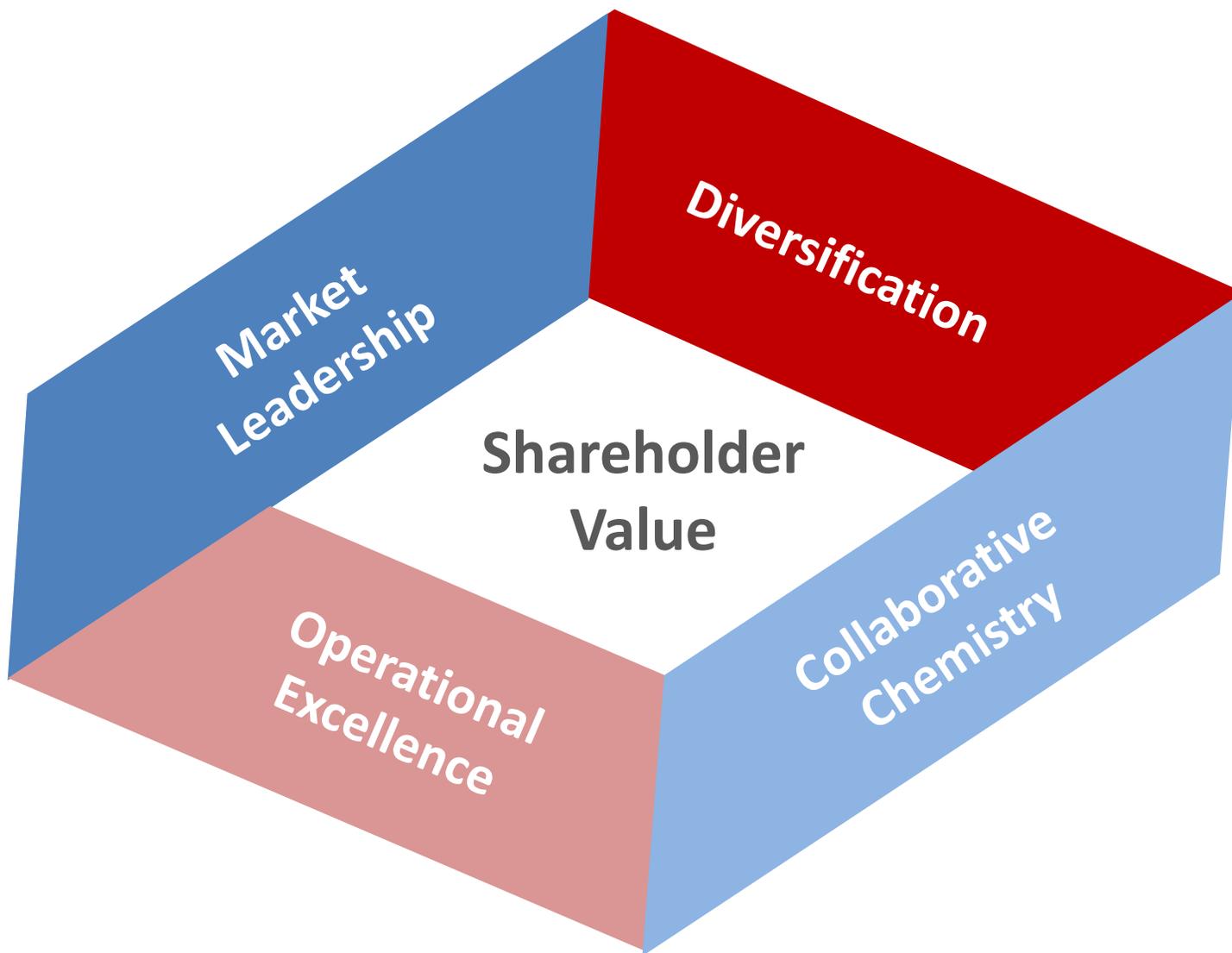
- For FY 2017
 - Cash flow from operations was \$199 million
 - Capital expenditures were \$79 million
 - Cash dividends paid were \$19 million
 - Share repurchases were \$6 million

- Net-debt to EBITDA ratio was less than zero

Free cash flow for the year was \$101 million vs \$92 million in prior year

Financial strength to enable growth

- The net-debt to total capitalization ratio is defined as total debt minus cash (i.e., net debt) divided by net debt plus equity.
 - Free cash flow is defined as cash flow from operations less capital expenditures less cash dividends paid.



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

Commodity Anionics & Amphoteric

Fabric Softeners

Rigid Polyester Polyols

Agricultural Surfactants & Solvents

Production Chemistries for Oilfield
(Biocides & Foamers)

Local Heroes – Tier 2 / Tier 3 Customers
(Home Care, HI&I and Personal Care)

CASE Polyols

Next Generation Polyol for Rigid

Green Solvents for the Agricultural and
Personal Care Markets

New Performance Aids for Hydraulic
Fracturing (Biocides / Friction Reducer
Boosters)

Right Sizing Global Plant Network

Process Improvements Delivering Incremental Capacity, Reducing CapEx Requirements

Cash-Out with Internal DRIVE Program

Improved Working Capital

Stepan  Thank you for your interest in Stepan

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Update on Certain Expectations

	2016 Actual	2017 Actual	2018 Expected
Capital expenditures 	\$103 million	\$79 million	\$105 to \$115 million
Debt repayments* 	\$11.4 million	\$20.7 million	\$20.7 million
Interest expense 	\$13.2 million	\$11.4 million	\$12.0 million
Effective Tax Rate** 	24%	34%	20% to 23%

* Debt repayments are projected according to the normal repayment schedule.

** Analysis and evaluation of the new U.S. tax legislation is preliminary and ongoing.

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

(\$ in thousands, except per share amounts)	Three Months Ended December 31				Twelve Months Ended December 31			
	2017	EPS	2016	EPS	2017	EPS	2016	EPS
Net Income Reported	\$ 9,884	\$ 0.42	\$ 8,417	\$ 0.36	\$ 91,578	\$ 3.92	\$ 86,191	\$ 3.73
Deferred Compensation (Income) Expense	\$ (1,006)	\$ (0.04)	\$ 2,654	\$ 0.11	\$ (40)	\$ (0.00)	\$ 9,977	\$ 0.43
Business Restructuring	\$ 834	\$ 0.04	\$ 4,028	\$ 0.17	\$ 2,216	\$ 0.09	\$ 4,824	\$ 0.21
Contract Termination Settlement	—	—	\$ (2,805)	\$ (0.12)	—	—	\$ (2,805)	\$ (0.12)
US Tax Reform Impact	\$ 14,937	\$ 0.64	—	—	\$ 14,937	\$ 0.64	—	—
Adjusted Net Income	\$ 24,649	\$ 1.06	\$ 12,294	\$ 0.52	\$ 108,691	\$ 4.65	\$ 98,187	\$ 4.25

Reconciliation of Pre-Tax to After-Tax Adjustments

(\$ in thousands, except per share amounts)	Three Months Ended December 31				Twelve Months Ended December 31			
	2017	EPS	2016	EPS	2017	EPS	2016	EPS
Pre-Tax Adjustments								
Deferred Compensation (Income) Expense	\$ (1,622)		\$ 4,281		\$ (65)		\$ 16,092	
Business Restructuring	1,271		6,003		3,069		7,064	
Contract Termination Settlement	—		(4,250)		—		(4,250)	
Total Pre-Tax Adjustments	\$ (351)		\$ 6,034		\$ 3,004		\$ 18,906	
Cumulative Tax Effect on Adjustments	\$ 179		\$ (2,157)		\$ (828)		\$ (6,910)	
US Tax Reform Impact	\$ 14,937		—		\$ 14,937		—	
After-Tax Adjustments	\$ 14,765	\$ 0.64	\$ 3,877	\$ 0.16	\$ 17,113	\$ 0.73	\$ 11,996	\$ 0.52

Reconciliation of Surfactant Non-GAAP Adjusted Operating Income

<i>in million \$</i>	<u>Q4 2017</u>	<u>Q4 2016</u>
Surfactant Reported Operating Income	\$ 28.3	\$ 14.6
Contract Termination Settlement	-	(\$4.2)
Surfactant Adjusted Operating Income	\$ 28.3	\$ 10.4

Foreign Exchange Impact – Q4 2017

	Surfactants	Polymers	Specialty Products	Consolidated
(in Millions USD)				
Net Sales	7.1	5.1	0.2	12.4
Gross Profit	1.2	0.8	0.2	2.2
Operating Expenses	0.4	0.4	0.0	0.8
Operating Income	0.9	0.4	0.2	1.4
Pretax Income				1.3