



# Stepan

Second Quarter 2017 Results

July 26, 2017

# 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 (the Exchange Act). 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," "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.*

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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.*

# Stepan Second Quarter 2017 Earnings Conference Call Agenda

Second Quarter Financial Highlights	F. Quinn Stepan Jr., <i>Chairman, President and Chief Executive Officer</i>
Second Quarter Results	Scott Beamer <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>

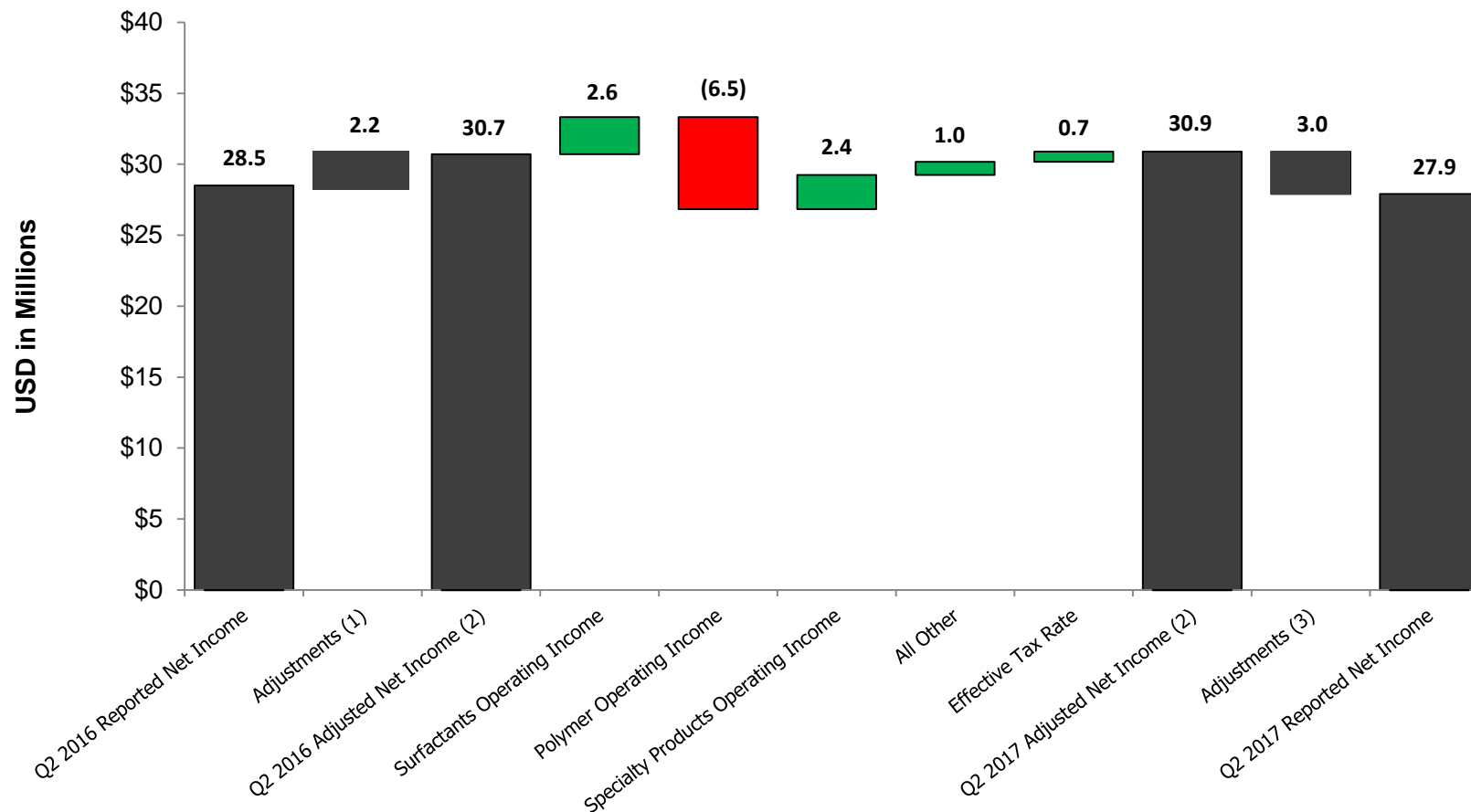
# Second Quarter 2017 Financial Recap

- **Q2 Reported Net Income was \$27.9 million, or \$1.19 per diluted share, a 2% decrease versus \$28.5 million, or \$1.24 per diluted share, in Q2 2016. Reported net income was adversely impacted by the following non-operational items:**
  - **Deferred compensation expense of \$2.5 million, or \$0.11 per diluted share.**
  - **Restructuring expense of \$0.5 million, or \$0.02 per diluted share.**
- **Q2 Adjusted Net Income\* was \$30.9 million, a slight increase versus \$30.7 million in Q2 2016. Q2 Adjusted EPS\* was \$1.32 per diluted share versus \$1.33 per diluted share in Q2 2016.**
- **Surfactant Operating Income was \$31.0 million, an increase of \$3.8 million, or 14%, versus Q2 2016. The increase was primarily due to higher demand for Functional Products and strength in Household, Industrial and Institutional (HI&I) end markets and lower manufacturing costs, mostly from prior plant closures in Canada and Brazil, partially offset by lower Consumer Product commodity volume.**
- **Polymer Operating Income was \$21.3 million, a decrease of \$9.7 million, or 31%, versus Q2 2016. The decrease over prior year was primarily due to higher crude-based raw material costs and lower volumes despite a strong global rigid polyol market.**
- **Specialty Product Operating Income was \$5.4 million, an increase of \$3.7 million versus Q2 2016 primarily due to higher sales volume related to the timing of orders within our flavor business and higher unit margins across the business.**
- **Announced intent to acquire a surfactant plant and a portion of the associated business in Mexico.**
- **Net-debt ratio declined 500 basis points to 10%.**

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

# Net Income Bridge – Q2 2016 to Q2 2017

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



(1) The adjustments to Reported Net Income in Q2 2016 were deferred compensation expense of \$1.4 and business restructuring of \$0.8.

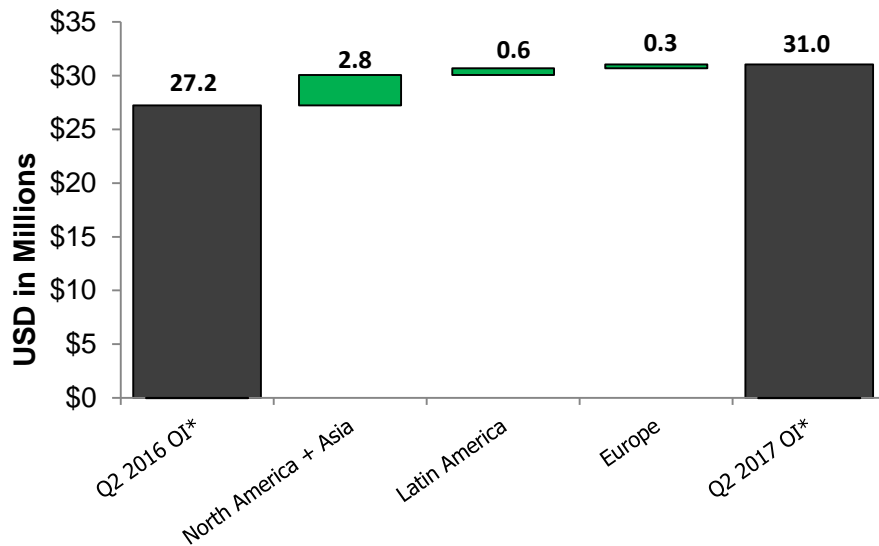
(2) Adjusted Net Income is a Non-GAAP measure which excludes certain significant, non-recurring items. See Appendix II for a reconciliation of Adjusted Net Income to Reported Net Income.

(3) The adjustments to Reported Net Income in Q2 2017 were deferred compensation expense of \$2.5 and business restructuring of \$0.5.

# Surfactants

**Strong results on improving product mix and savings from restructuring actions**

<i>in million \$</i>	<b>Q2 2017</b>	<b>Q2 2016</b>
<b>Net Sales</b>	<b>\$329.3</b>	<b>\$298.6</b>
<b>Operating Income</b>	<b>\$ 31.0</b>	<b>\$ 27.2</b>



\*OI = Operating Income

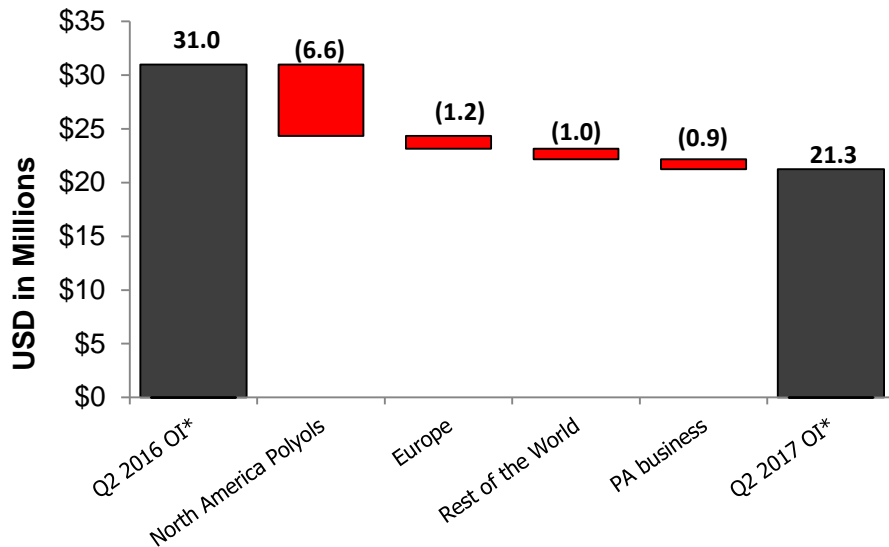
All amounts are shown on a pre-tax basis (unless noted differently)

- Operating Income increased \$3.8 million over prior year despite a 3% volume decline for the quarter; volume decline primarily driven by lower commodity demand.
- North America increase was driven by higher Agricultural, Oil Field and HI&I volumes as well as savings from the Canadian plant shutdown. Favorable results were partially offset by lower Consumer Product commodity volume.
- Latin America results benefited from the Brazil acquisitions and savings related to the shutdown of our Bahia site.
- European results improved slightly due to favorable product mix in the region, which offset lower commodity demand.
- Foreign exchange negatively impacted Net Sales by \$4.4 million and Operating Income by \$0.2 million.

# Polymers

Results down primarily due to higher raw material costs and lower volumes

<i>in million \$</i>	Q2 2017	Q2 2016
<b>Net Sales</b>	<b>\$141.2</b>	<b>\$134.5</b>
<b>Operating Income</b>	<b>\$ 21.3</b>	<b>\$ 31.0</b>

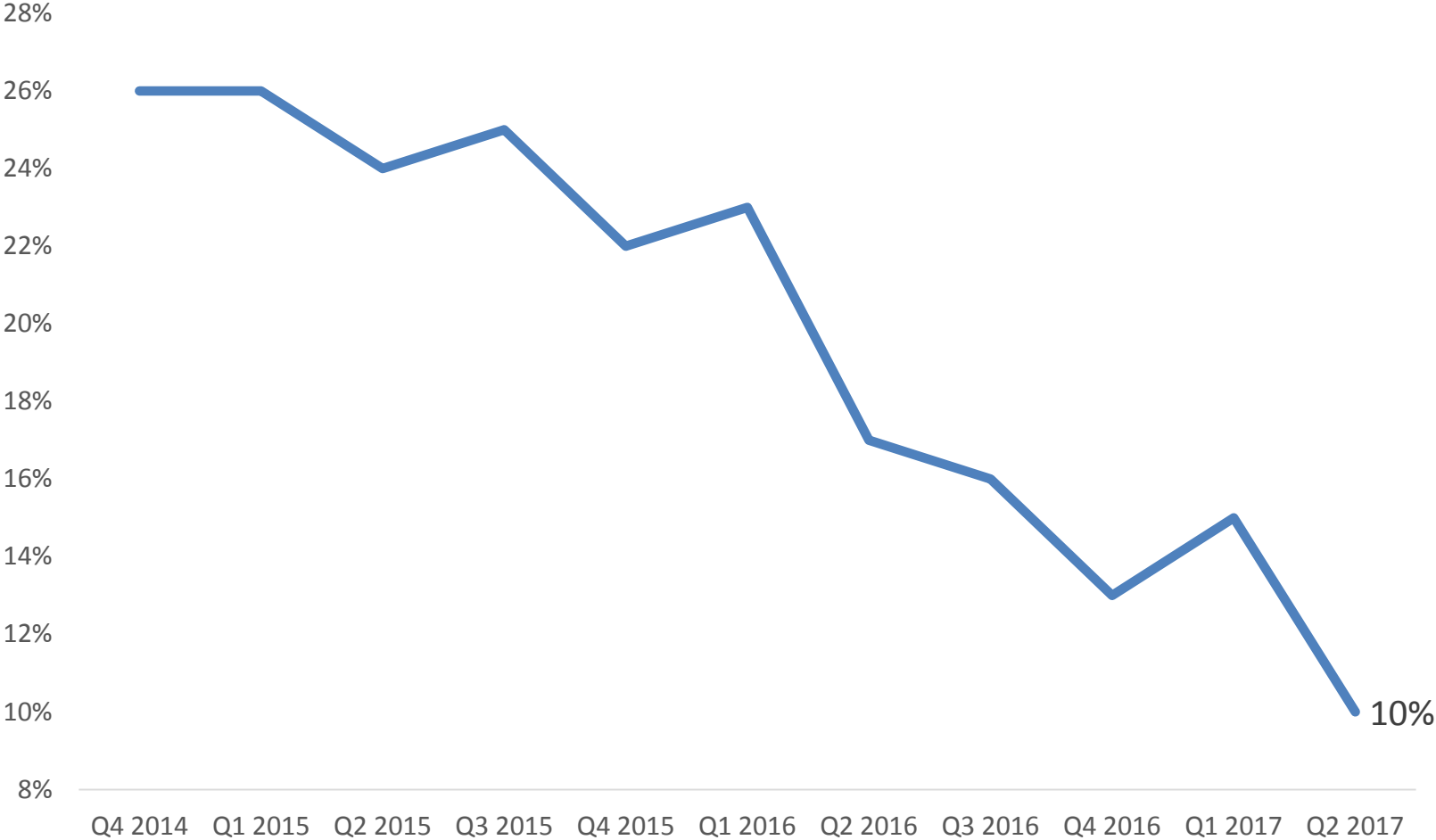


\*OI = Operating Income

\*\* MDI = Methylenebisphenylene Diisocyanate; a component product used to make Rigid Polyols. Stepan does not produce MDI.

- Operating Income was \$21.3 million, a decrease of \$9.7 million compared to the prior year.
- North America and Europe Polyol volumes declined 4%.
  - Rigid Polyol volume decreased due to pull-forward into Q1 2017 and lost share at one customer in North America as well as MDI\*\* shortages in Europe.
  - Global rigid polyol market remains strong.
  - Specialty Polyol volumes increased supported by the recent capacity addition in Poland.
- North America and Europe Polyol results were also negatively impacted by higher raw material costs during the quarter; the impact to North America was more significant. Europe margins improved sequentially from Q1 2017.
- China results were negatively impacted by higher plant operating costs and lower export shipments.
- Phthalic Anhydride (PA) results decreased over prior year due to a 16% reduction in sales volume primarily due to non-recurring sales to a co-producer.
- Foreign exchange positively impacted Net Sales by \$0.3 million and had no impact on Operating Income.

# Net Debt Ratio

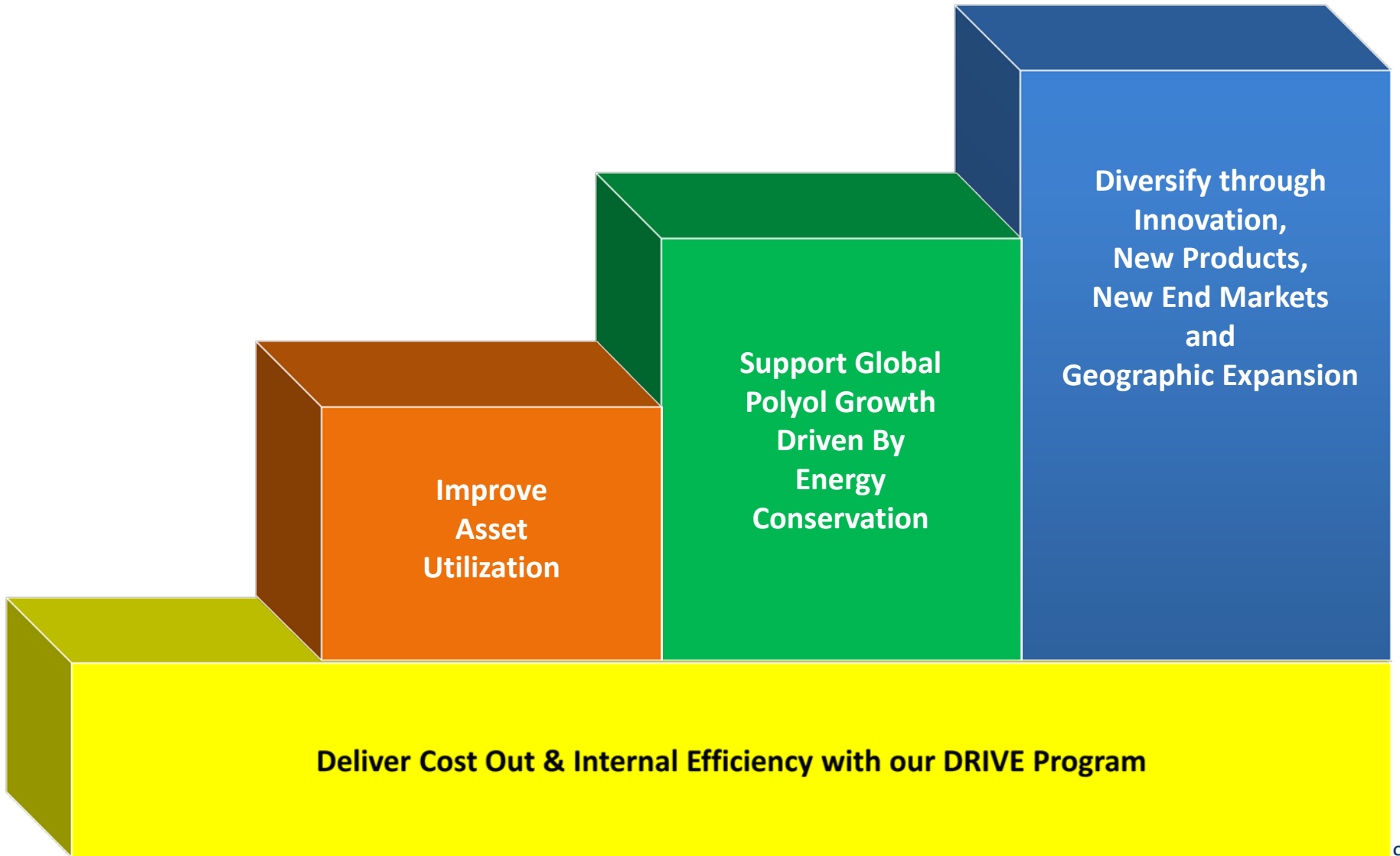


**Financial strength to enable growth**

*The net debt ratio is defined as total debt minus cash (i.e., net debt) divided by net debt plus equity.*



# Our Path to Increased Shareholder Value



# Thank you for your interest in Stepan

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# Appendix I

## Update on Certain Expectations

	2016 Actual	2017 Expected
Capital expenditures	\$103 million	\$95 to \$105 million
Debt repayments*	\$11.4 million	\$20.7 million
Interest expense	\$13.2 million	\$11.5 million
Effective Tax Rate	24%	26% to 28%

\* 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 June 30			
	2017	EPS	2016	EPS
Net Income Reported	\$ 27,882	\$ 1.19	\$ 28,496	\$ 1.24
Deferred Compensation Expense	\$ 2,538	\$ 0.11	\$ 1,419	\$ 0.06
Business Restructuring	\$ 473	\$ 0.02	\$ 796	\$ 0.03
Adjusted Net Income	<u>\$ 30,893</u>	<u>\$ 1.32</u>	<u>\$ 30,711</u>	<u>\$ 1.33</u>

## Reconciliation of Pre-Tax to After-Tax Adjustments

(\$ in thousands, except per share amounts)	Three Months Ended June 30			
	2017	EPS	2016	EPS
<b>Pre-Tax Adjustments</b>				
Deferred Compensation Expense	\$ 4,094		\$ 2,289	
Business Restructuring	\$ 586		\$ 1,061	
Total Pre-Tax Adjustments	\$ 4,680		\$ 3,350	
Cumulative Tax Effect on Adjustments	\$ (1,669)		\$ (1,135)	
After-Tax Adjustments	<u>\$ 3,011</u>	<u>\$ 0.13</u>	<u>\$ 2,215</u>	<u>\$ 0.09</u>

# Appendix III

## Foreign Exchange Impact – Q2 2017

	<b>Surfactants</b>	<b>Polymers</b>	<b>Specialty</b>	<b>Consolidated</b>
(in Millions USD)				
Net sales	(4.4)	0.3	(0.1)	(4.1)
Gross Profit	(0.3)	0.0	(0.0)	(0.3)
Operating Expenses	(0.2)	(0.0)	(0.0)	(0.2)
Operating Income	(0.2)	0.0	0.0	(0.1)
<b>Pretax Income</b>				<b>(0.1)</b>