



**Stepan** 

Fourth Quarter 2015 Results

February 24, 2016

# 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.*

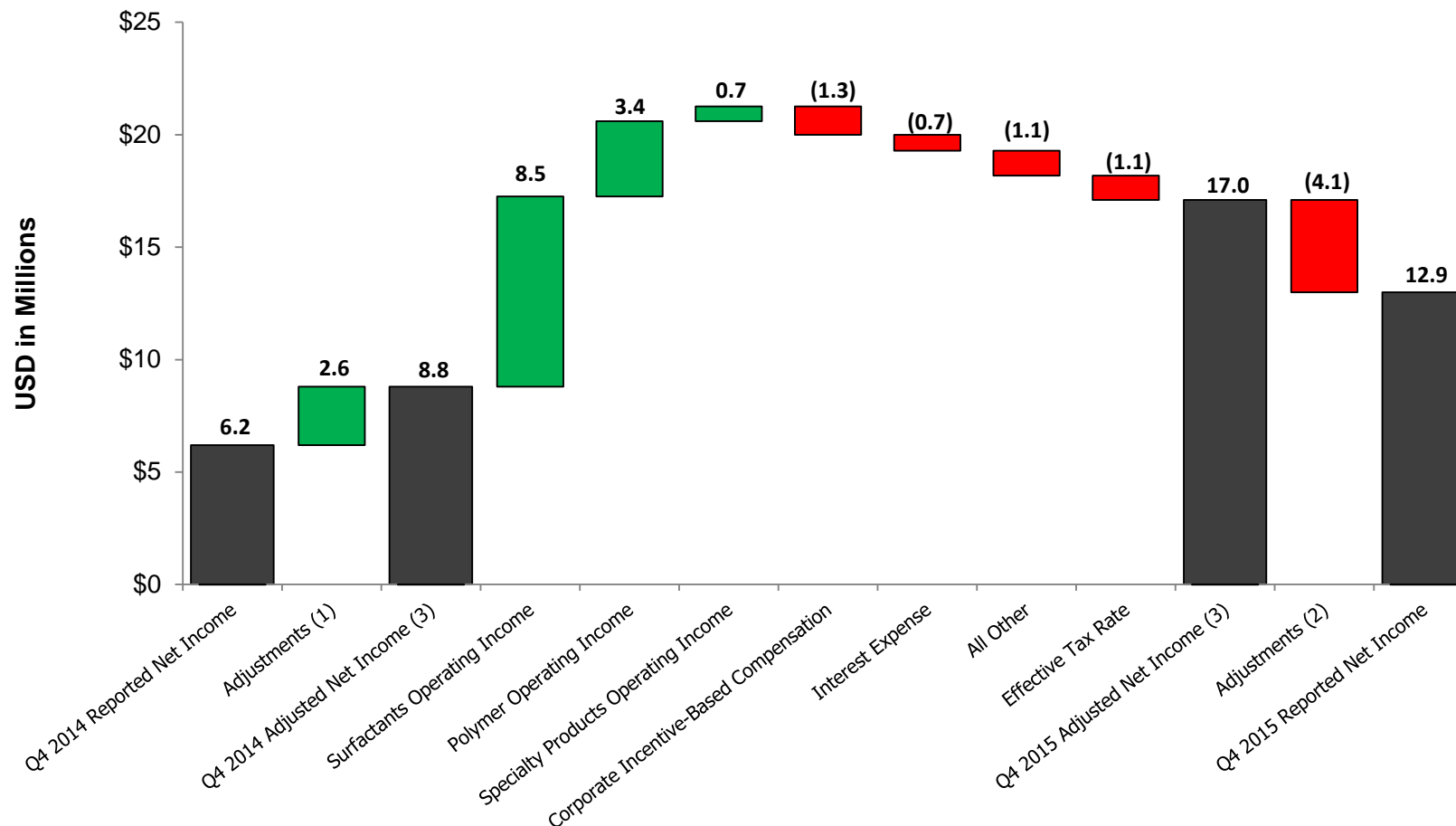
# Fourth Quarter 2015 Financial Recap

- **Q4 2015 Reported Net Income was \$12.9 million or \$0.56 per diluted share, a 106% increase versus \$6.2 million or \$0.27 per diluted share in Q4 2014. Reported Net Income for Q4 2015 included two significant non-operational items.**
  - **Deferred compensation expense (\$2.7 million or \$0.12 per diluted share).**
  - **Expense related to the dissolution of the Tiorco JV (\$1.5 million or \$0.06 per diluted share).**
- **Q4 Adjusted Net Income\* was \$17.0 million or \$0.74 per diluted share, a 93% increase versus \$8.8 million or \$0.38 per diluted share in Q4 2014.**
- **Surfactant Operating Income was \$24.3 million, up \$12.2 million or 101% versus Q4 2014 due to improved performance in North America and Latin America.**
- **Polymer Operating Income was \$18.1 million, up \$5.0 million or 38% versus Q4 2014. The increase over prior year was primarily due to volume growth within the Global Rigid Polyol business. For the full year, Polymer delivered its sixth consecutive record operating income.**
- **Specialty Product Operating Income was \$0.9 million, up \$1.0 million versus 2014 due mostly to order timing differences by food and flavor product customers.**
- **Key strategic actions:**
  - **Dissolved Tiorco joint venture and restructured Enhanced Oil Recovery business**
  - **Lipid Nutrition cost reductions and supply chain efficiencies**
  - **In Q1 2016, announced the closure of ethoxylation production in Canada**

*\*Adjusted Net Income is a Non-GAAP measure which excludes certain significant, non-recurring items. See appendix for Non-GAAP reconciliation .  
Note: All amounts are after the effect of taxes except figures related to Segment Operating Income.*

# Net Income Bridge – Q4 2014 to Q4 2015

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



(1) The adjustments to Reported Net Income in Q4 2014 were related to restructuring and asset impairment expense (\$3.1), deferred compensation income (\$1.6), environmental remediation liability expense (\$1.8), and reversal of bad debt expense for a customer bankruptcy (\$0.6).

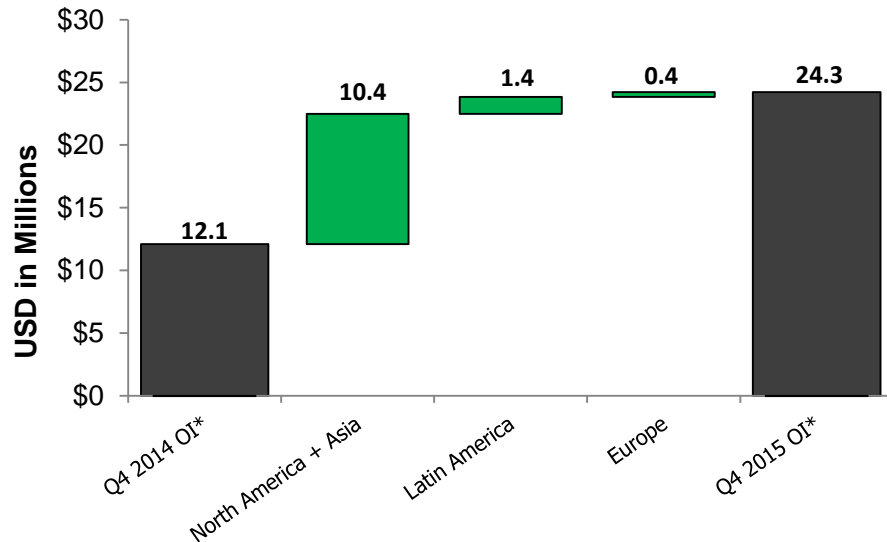
(2) The adjustments to Reported Net Income in Q4 2015 were related to deferred compensation expense (\$2.7) and the Tiorco JV dissolution expense (\$1.4).

(3) 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>	Q4 2015	Q4 2014
<b>Net Sales</b>	<b>\$284.7</b>	<b>\$308.7</b>
<b>Operating Income</b>	<b>\$ 24.3</b>	<b>\$ 12.1</b>

- Operating Income increased \$12.2 million over prior year.
- North America growth was driven by improved operations, favorable product mix on higher Agriculture and Distribution volumes, benefits of lower raw material costs and the new supply contract with The Sun Products Corporation.
- Latin America delivered meaningful growth in both Brazil and Colombia, despite inflation and currency devaluation.
- Europe increased slightly for the quarter but is up \$4.9 million for the full year due to product diversification efforts and new business.
- Europe, Colombia and Brazil all generated a record year of operating income.
- Foreign exchange negatively impacted Net Sales by \$23.4 million and Operating Income by \$2.6 million.



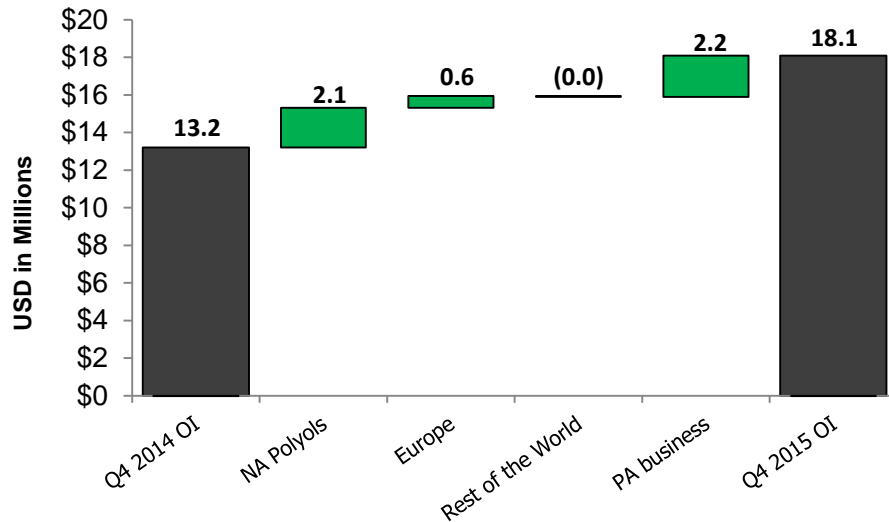
\*OI = Operating Income.

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

# Polymers

<i>in million \$</i>	Q4 2015	Q4 2014
<b>Net Sales</b>	<b>\$113.8</b>	<b>\$130.6</b>
<b>Operating Income</b>	<b>\$ 18.1</b>	<b>\$ 13.2</b>

- Operating Income increased \$4.9 million over prior year.
- North America Polyol growth driven by 6% increase in volume over prior year due to strong Rigid customer demand and improved margins.
- Overall European results increased on higher Rigid Polyol volume due to unusually warm climate.
- Phthalic Anhydride (PA) results were up on new customer demand despite planned maintenance activity.
- Foreign exchange negatively impacted Net Sales by \$6.0 million and Operating Income by \$0.5 million.



\*OI = Operating Income.

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

# Full Year 2015 Financial Recap

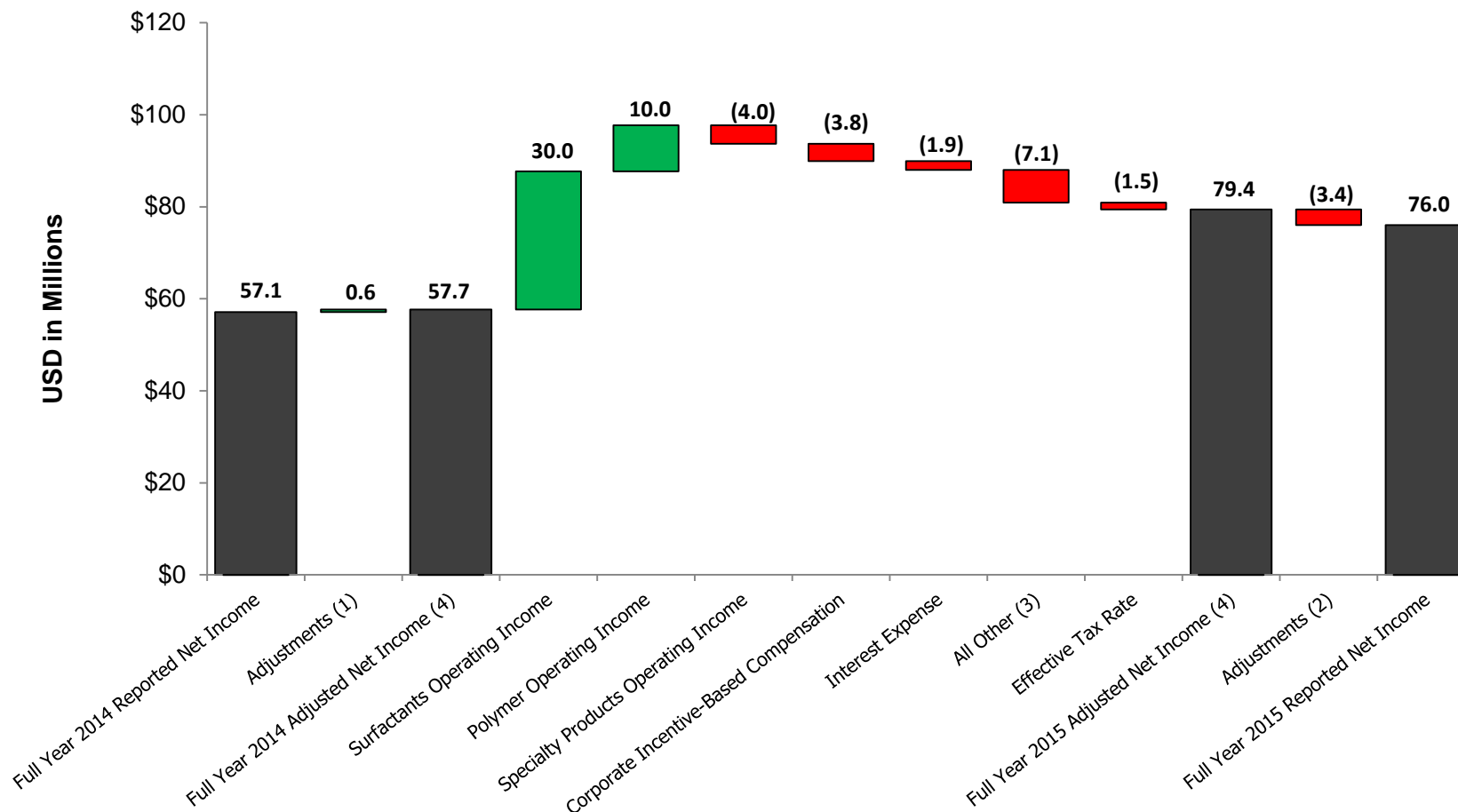
- **2015 Reported Net Income was \$76.0 million or \$3.32 per diluted share, a 33% increase versus \$57.1 million or \$2.49 per diluted share in 2014. Reported Net Income for 2015 included a few significant non-operational items.**
  - **Deferred compensation expense (\$3.4 million or \$0.15 per diluted share).**
  - **Expense related to the dissolution of the Tiorco JV (\$1.5 million or \$0.06 per diluted share).**
  - **One-time gain from the sale of the Specialty Polyurethane Systems (“Systems”) business (\$1.8 million or \$0.08 per diluted share)**
  - **Increase in reserve for a previously recognized environmental expense (\$0.3 million or \$0.01 per diluted share)**
- **Adjusted Net Income\* was \$79.4 million or \$3.46 per diluted share, a 38% increase versus \$57.7 million or \$2.52 per diluted share in 2014.**
- **Surfactant Operating Income was \$104.1 million, up \$43.3 million or 71% versus 2014 due to improved asset utilization, favorable product mix and strong performance overseas.**
- **Polymers delivered its sixth consecutive record year. Operating Income of \$80.9 million includes the one-time gain from the sale of the Systems business (\$2.9 million pre-tax). The increase over prior year was primarily due to volume growth within the Global Rigid Polyol business and overall improved margins.**
- **Specialty Product Operating Income was \$4.4 million, down \$6.1 million or 58% versus 2014 due to a decline in the Lipid Nutrition business.**

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

*Note: All amounts are after the effect of taxes except figures related to Segment Operating Income.*

# Net Income Bridge – Full Year 2014 to Full Year 2015

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



(1) The adjustments to Reported Net Income in 2014 were related to restructuring and asset impairment expense (\$3.1), deferred compensation income (\$8.3), environmental remediation liability expense (\$4.4), and bad debt expense for a customer bankruptcy (\$1.5).

(2) The adjustments to Reported Net Income in 2015 were related to deferred compensation expense (\$3.4), the Tiorco JV dissolution expense (\$1.4), gain on divestiture of product line (\$1.8), and environmental remediation liability expense (\$0.3).

(3) All other primarily represents external consulting fees related to the efficiency initiative, globalization and acquisition activity expenses.

(4) 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



# Progress in 2015

Restructure

Optimize

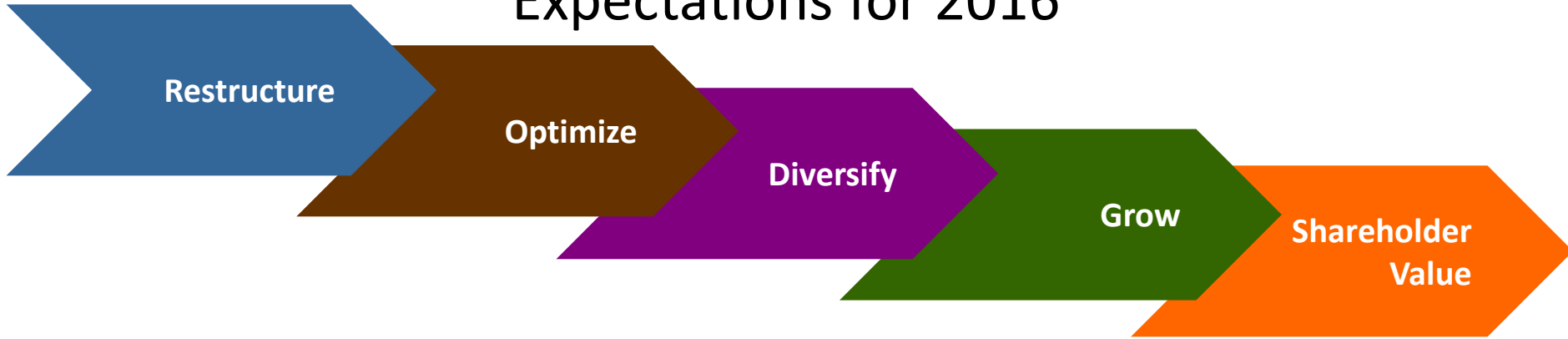
Diversify

Grow

Shareholder  
Value

- Delivered saving from 2013 and 2014 restructure actions
- Dissolved TIORCO joint venture and restructured EOR business in Q4
- Reduced Lipid Nutrition SG&A and supply chain costs in Q4
- Announced closure of ethoxylation production in Canada in January, 2016
- Delivered income growth from efficiency program. Continue to build pipeline of cost-out opportunities
- North America sulfonation utilization improved significantly with new SUN contract
- Continued progress on projects to add CASE polyol capacity in China, Poland and the United States
- Record European surfactant results based on new Functional surfactant/ green solvent volumes and specialty surfactants to Consumer Product Customers
- Record operating income for Latin America due to higher sulfate and specialty volumes
- Increased volumes for Rigid Polyol due to global energy conservation efforts
- Seamless integration of acquired production facility located in Bahia Brazil
- Adjusted EPS increased from \$2.52 to \$3.46 per share
- Stockholders' Equity increased 4% to \$557 million
- Net debt ratio improved to 22%
- Increased dividend from \$0.18 per share per quarter to \$0.19 per share per quarter. 48 consecutive years of dividend increase

# Expectations for 2016



- Deliver benefits from TIORCO dissolution
- Restore LIPID Nutrition profitability
- Transition ethoxylation volumes from Canada to other sites in Stepan network. Utilize outside toller as necessary
- Deliver income growth from efficiency program. Use of external resource discontinued Q4 2015
- Full year of new commodity sulfonation volume will positively impact utilization of assets
- Government mandated shutdown in Germany
- Start-up expenses and slower economic growth in China will negatively impact earnings
- Start-up of new CASE capacity in Poland will contribute in second half
- Increased volumes for Rigid Polyol due to global energy conservation efforts
- New products / new customers in Latin America
- EPS should grow
- Balance sheet should remain strong
- Expected to increase dividends during 2016

# Thank you for your interest in Stepan

**Contact information:**

**Scott D. Beamer – VP, CFO**

**847-446-7500**

# Appendix I

## Update on Certain Expectations

Item	Full Year
<b>Capital Spending</b>	<p><b>2015 = \$119MM</b></p> <p><b>Expect between \$115MM and \$135MM for 2016 as we further invest in China, Poland and Brazil</b></p>
<b>Debt</b>	<p><b>In 2015 we completed a \$100 million offering of 3.95% Senior Notes due in 2027</b></p> <p style="text-align: center;"><b>Intend to use the net proceeds to fund capital expenditures and to pay off existing higher cost debt when due</b></p> <p><b>Expect 2016 interest expense to be in line with 2015</b></p>
<b>Effective Tax Rate</b>	<p><b>Full Year 2015 = 26%</b></p> <p><b>Expect between 30% and 32% in 2016</b></p>

# Appendix II

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

(\$ in thousands, except per share amounts)	Three Months Ended December 31				Twelve Months Ended December 31			
	2015	EPS	2014	EPS	2015	EPS	2014	EPS
Net Income Reported	\$ 12,872	\$ 0.56	\$ 6,239	\$ 0.27	\$ 75,968	\$ 3.32	\$ 57,101	\$ 2.49
Deferred Compensation Expense/ (Income)	2,675	\$ 0.12	(1,623)	\$ (0.07)	3,453	\$ 0.15	(8,288)	\$ (0.36)
Environmental Remediation Expense	—	—	1,752	0.08	341	\$ 0.01	4,403	\$ 0.19
Gain on Divestiture of Product Line	—	—	—	—	(1,774)	\$ (0.08)	—	—
Bad Debt Expense	—	—	(643)	\$ (0.03)	—	—	1,481	\$ 0.07
Restructuring and Asset Impairment Expense	—	—	3,049	\$ 0.13	—	—	3,049	\$ 0.13
TIORCO JV Dissolution	1,461	\$ 0.06	—	—	1,461	\$ 0.06	—	—
Adjusted Net Income	<u>\$ 17,007</u>	<u>\$ 0.74</u>	<u>\$ 8,774</u>	<u>\$ 0.38</u>	<u>\$ 79,449</u>	<u>\$ 3.46</u>	<u>\$ 57,746</u>	<u>\$ 2.52</u>

\* All amounts in this Table are presented after-tax

# Appendix III

## Foreign Exchange Impact – Q4 2015

	<b>Surfactants</b>	<b>Polymers</b>	<b>Specialty</b>	<b>Consolidated</b>
(in Millions USD)				
Net sales	(23.4)	(6.0)	(0.5)	(29.9)
Gross Profit	(4.3)	(0.9)	0.1	(5.1)
Operating Expenses	(1.6)	(0.4)	(0.1)	(2.1)
Operating Income	(2.7)	(0.5)	0.2	(3.0)
<b>Pretax Income</b>				<b>(3.2)</b>