



**Stepan** 

Investor Presentation

*Current as of May 13, 2014*

# Stepan Company

*Except for historical information, all other information in this presentation may consist 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.*

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Core components of Strategy		Surfactants	Polymers
		% of Sales = 70%	25%
<b><u>End Markets</u></b>			
1	Utilize Technical Leadership in core chemistries to <u>baseload</u> operations and provide <u>economies of scale</u>	Consumer Products	Insulation
2	Improve Customer and Product Mix by <u>extending</u> core chemistries into <u>higher value end markets</u> and <u>innovation</u> within all Markets	Distributors Institutional and Industrial Agricultural Oil Field	Resins for powder Coatings  Coatings, Adhesives, Sealants, Elastomers (CASE)  Polyurethane Systems House (PUSH)
<b><u>Innovation Priorities</u></b>			
		Agricultural Surfactants & Solvents  Metathesis: Surfactant as a Solvent Replacement  Enhanced Oil Recovery Surfactants  Secondary Surfactants for Liquid Cleansing	Polyols for Metal Panels  Polyols for PUSH applications
<b><u>Criteria / Geography</u></b>			
3	Disciplined <u>expansion into geographies</u> based on established criteria	Balanced Consumer Product and Functional Opportunities / Brazil	Greater Use of Insulation to Save on Energy Cost / China
<b><u>Recent Examples</u></b>			
4	Fund growth with <u>Operational Excellence</u>	Rationalization of Canadian Sulfonation Capacity is expected to save \$2.5MM/year	Reduced Cycle Times in Columbus is expected to increase Capacity 15%

## Core surfactant consumer products

- Provide economies of scale and baseload operations
- Are relatively recession resistant

## Disciplined **acquisition strategy** focused on adjacent markets and geographies

- Recent example: 2013 Columbus, GA (US) → adjacencies into Powdered Coatings, CASE and PUSH

**Strong balance sheet** → ability to **pursue global growth, innovation, and efficiency opportunities**

**Strong balance sheet + Growth opportunities**

*Definitions:*

*CASE = Coatings, Adhesives, Sealants, Elastomers*

*PUSH = Polyurethane Systems House*

## Track Record of Success

- 46 consecutive years of increased cash dividends
- Share value CAGR past 10 years vs. benchmarks

## Growth opportunities are driven by positive macro economic trends

- Population is expected to grow from 7B to 9B by 2040\*
- “Universal Consumer”
- Emerging middle class with evolution of laundry/ personal wash products that use more surfactants
- Improved farm efficiency, greater use of chemistry and enabling surfactants in formulations
- Higher levels of insulation recommended or required to reduce energy costs are expected to drive increased demand for polyols

## Further diversification into higher value surfactant end markets

- These sales increased by \$218MM from 2010 - 2013

**Aligned with positive macro economic trends  
Growing in higher value markets**

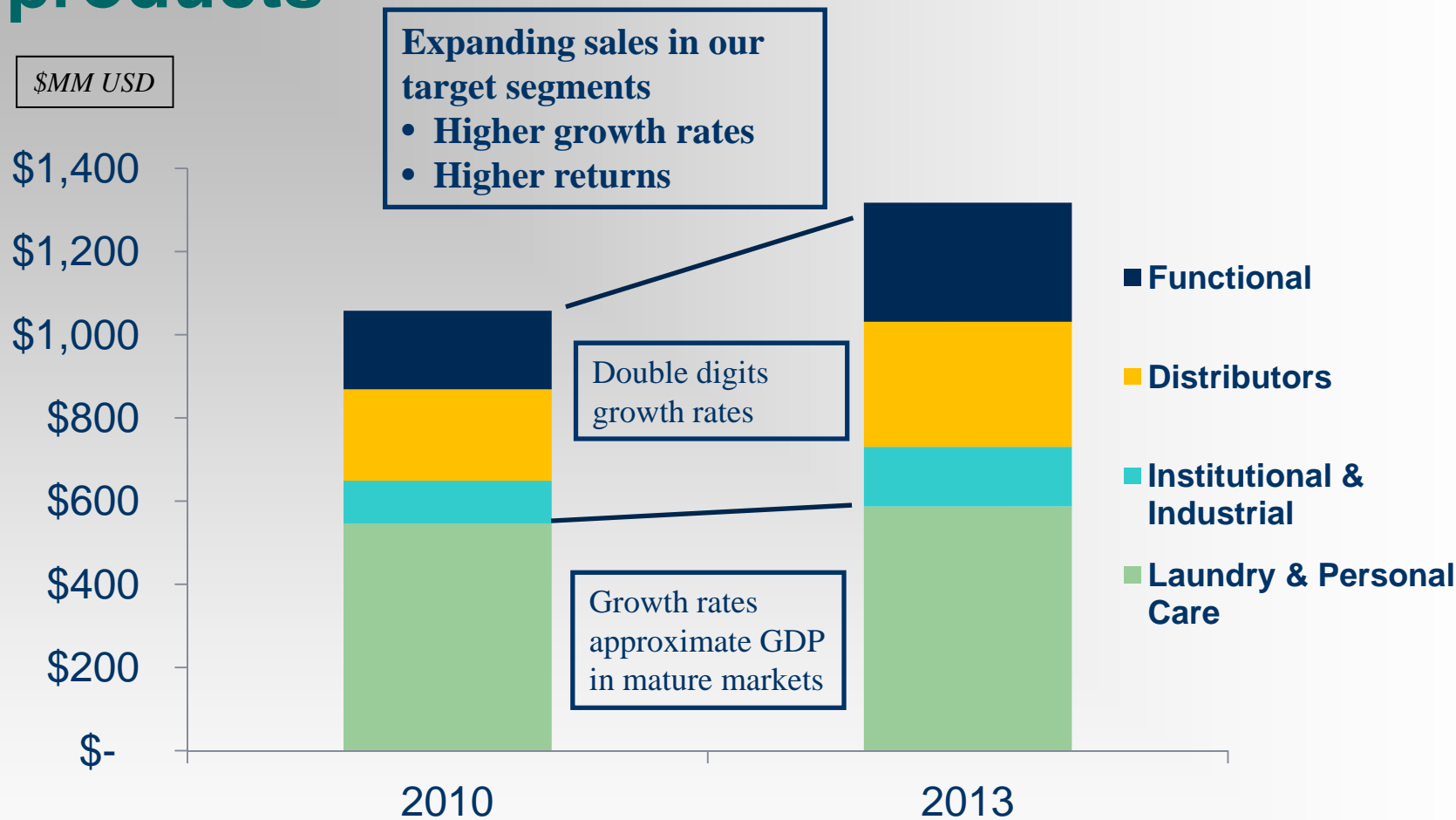
*Definition:*

*CAGR = Compound Annual Growth Rate*

*Dividends are assumed to be reinvested*

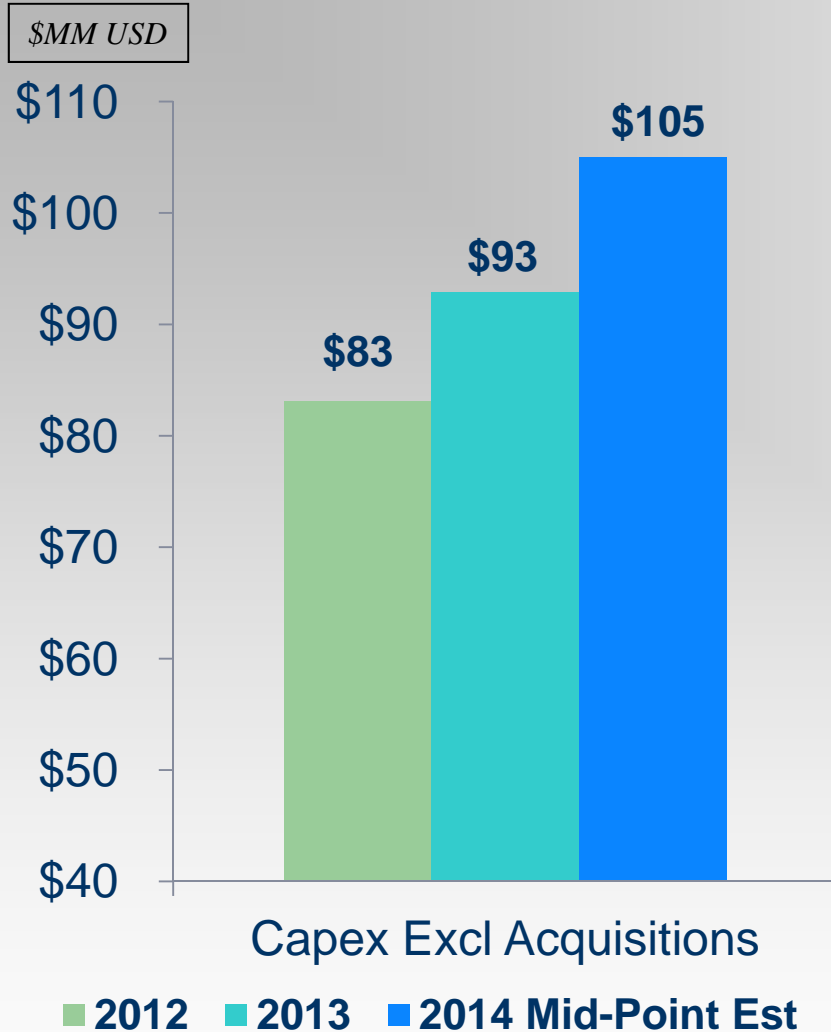
*\* Source: United Nations Department of Economics and Social Affairs*

# Increasing Surfactants sales in higher end products



**Sales to higher value end markets increased by \$218MM**

# Leveraging the Balance Sheet to drive future earnings growth



## Previous key investments

**R&D facilities in Brazil, China, and France**

### **Surfactants**

**US-Specialty surfactants**

**Brazil-Neutralization capacity**

**Asia- Singapore Methyl Ester plant near biorenewable feedstocks**

### **Polymers**

**Europe-Capacity for roof / metal panel**

**US-CASE Capacity**

## Planned investments

### **Surfactants**

**Brazil – 2<sup>nd</sup> neutralizer**

### **Polymers**

**Europe-CASE capacity**

**US-CASE Capacity**

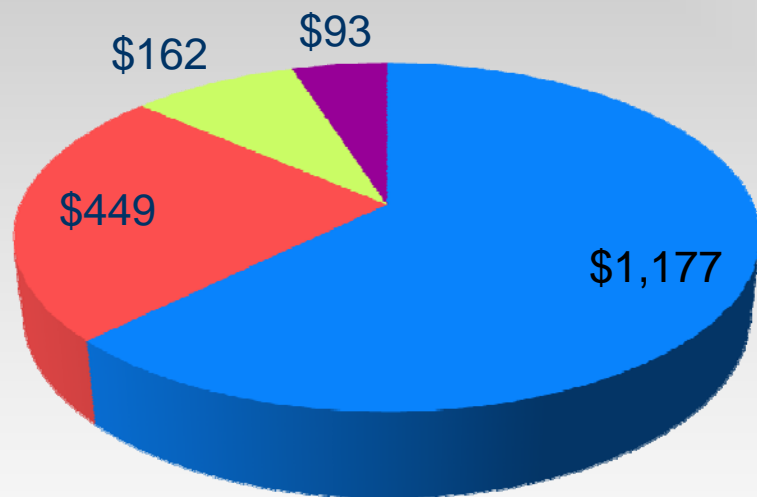
**China–New plant for roof / CASE**

**Investment priorities aligned with strategy**

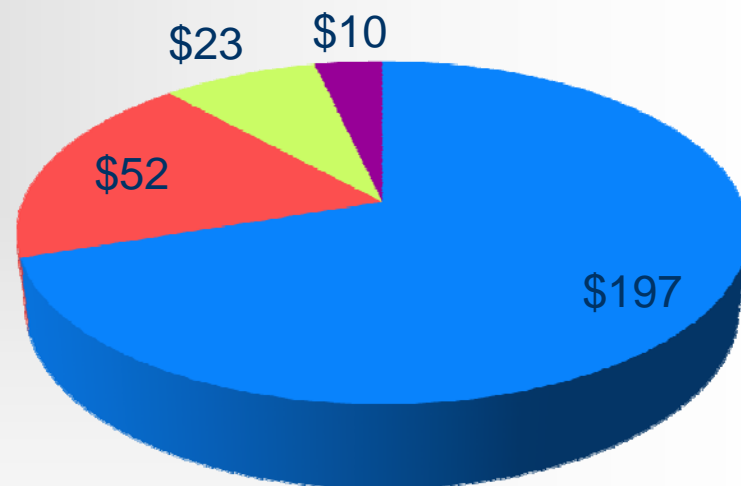
*Stepan Company  
Regional Results (\$MM)  
- As of End of 2013*

Gross Profit Percent of Sales	
NA	17%
EU	12%
LA	14%
AP	11%

**2013  
Net Sales  
\$1,881 million**



**2013  
Gross Profit  
\$282 million**



■ North America ■ Europe ■ Latin America ■ Asia

■ North America ■ Europe ■ Latin America ■ Asia

**Well positioned in North America with highest profitability**  
**Scale generally provides higher returns**  
**Continued growth opportunities overseas, volume leverage**



- Chinese Government mandating greater energy efficiency throughout economy and use of insulation
- Significant MDI investment in China which is reacted with Polyol to make insulation
- SCL History in China
  - 2005 start up of Polyol plant
  - 2013 Government mandated plant shut-down
  - 2013 SCL had \$2MM of additional costs to shut-down plant and establish interim supply chain
- SCL on 4Q 2013 Earnings Call → We plan to build a plant

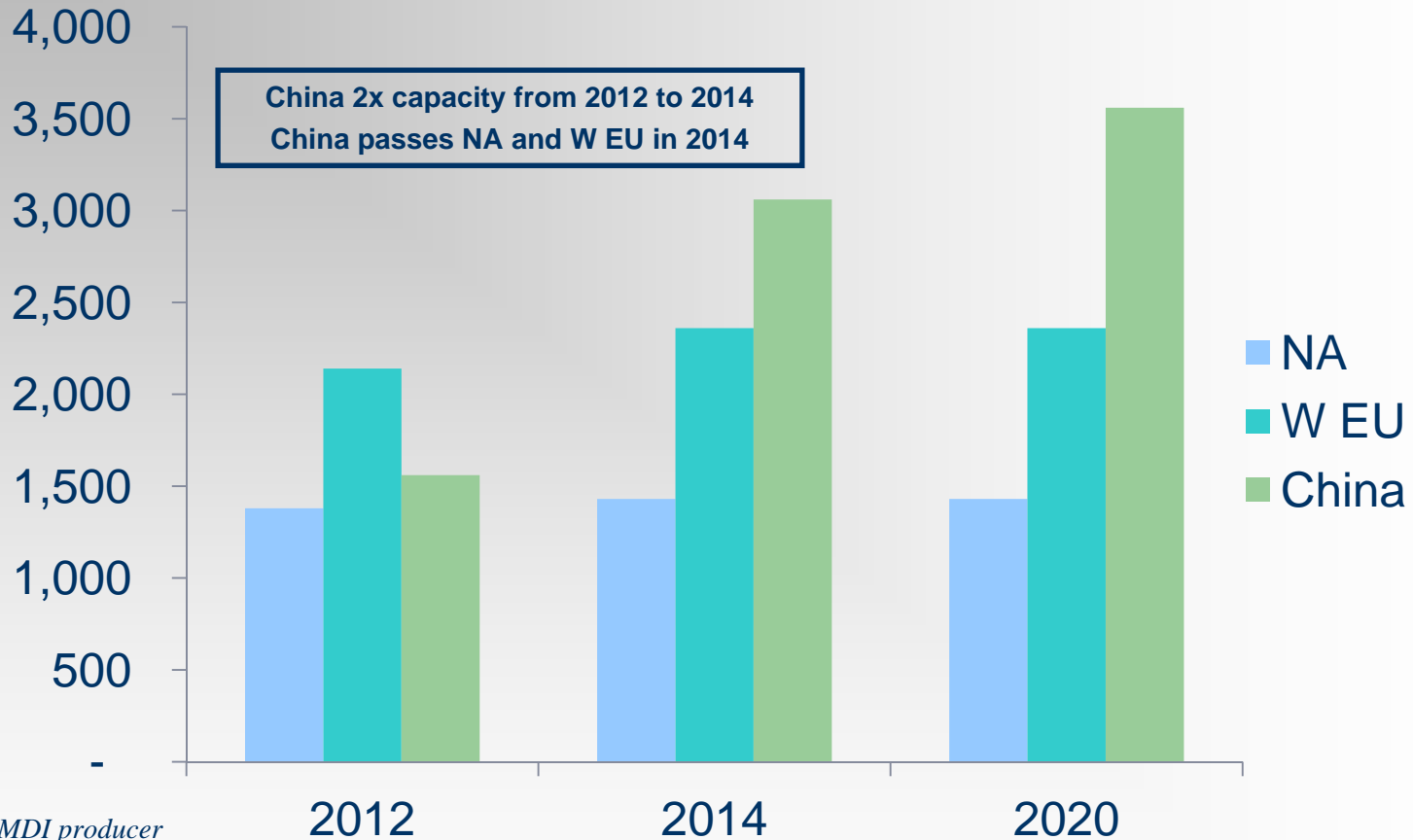
*Definitions:*

*MDI = Methylenebisphenylene Diisocyanate*

**We plan to participate in what we expect will be the largest Polyol market in the world**

# Global MDI Capacity, KMT

Thousand Metric Tons



Stepan is not an MDI producer

**MDI Producers are making big investments in China with \$6B invested in capacity**

Source: Tecnon OrbiChem 2013

# Brazil - Large, Growing Consumer Product Market

## Laundry – Typical evolution of end products →

Soap Bars



**Anionic Actives:**  
None  
**Total Actives:**  
0%

Powders



100% LAS, PAS or MES

15%

Liquids

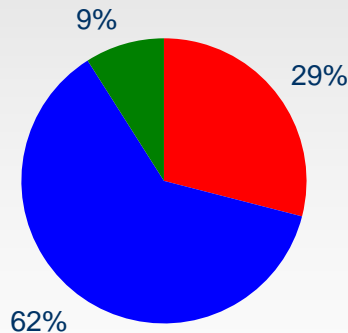


20% LAS / 80% SLES

5-15%

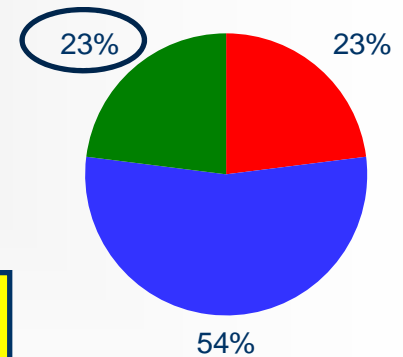
### Volume Evolution by Format

2012



- Bar Detergents
- Powder Detergents
- Liquid Detergents

2016



- Bar Detergents
- Powder Detergents
- Liquid Detergents

**Growing middle class with more people using these products**

**Increased surfactant content as markets develop**

Source: ICIS Trusted market intelligence for the global chemical, energy and fertilizer industries

# *Brazil Large, Growing Functional Market Driven by Agriculture*



- We believe Brazil provides the right combination of consumer surfactant drivers along with opportunities to grow in higher-end products such as the Ag and Oil Field markets
- Brazil is helping to feed the world and is now the largest agricultural producing country in the world
  - Global population growth expected from 7 to 9 billion by 2040 \*
  - Income growth in emerging middle class will drive greater protein demand
  - Limited new or shrinking arable land and water
  - 70% increase in crop production required
  - Chemistry must be part of the solution

**Growing in Brazil is a core component of our strategy**

\* Source: United Nations Department of Economics and Social Affairs and Phillips McDougal Agrireference Report (Sales Performance in 2012) dated December 2013

# Dividend legacy

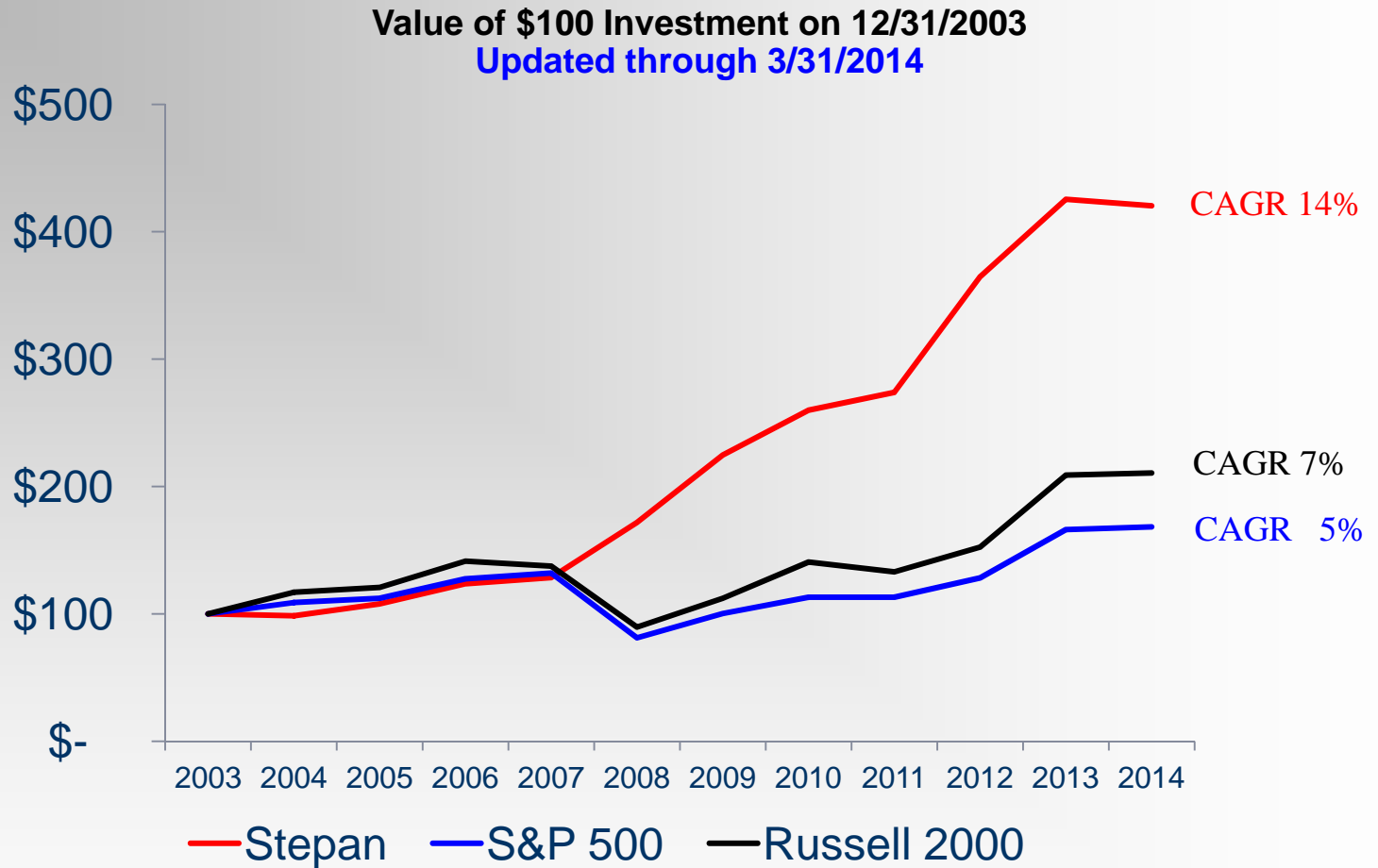
Symbol	Company Name	Increased Since
DBD	Diebold, Inc.	1954
AWR	American States Water	1955
DOV	Dover Corp.	1956
NWN	Northwest Natural Gas	1956
EMR	Emerson Electric	1957
GPC	Genuine Parts	1957
PG	Procter & Gamble	1957
MMM	3M	1959
PH	Parker Hannifin Corp.	1960
VVC	Vectren Corporation	1960
CINF	Cincinnati Financial	1961
JNJ	Johnson & Johnson	1963
KO	Coca-Cola Co.	1963
LANC	Lancaster Colony Corp.	1963
LOW	Lowe's	1963
CL	Colgate-Palmolive	1964
ITW	Illinois Tool Works	1964
NDSN	Nordson Corp	1964
CLC	Clarcor Inc.	1965
CB	Chubb Corp	1966
HRL	Hormel Foods	1967
ABM	ABM Industries	1968
CWT	California Water Services Group	1968
FRT	Federal Realty Investment Trust	1968
SJW	SJW Corp	1968
TGT	Target	1968
SWK	Stanley Black & Decker, Inc.	1968
SCL	Stepan Co.	1968

Source: [www.dividend.com](http://www.dividend.com) – “25-Year Dividend Increasing Stocks”

*The total group was sorted by the longest history of paying increased dividends and the companies with the longest histories are shown here.*

**Stepan is one of 28 companies which have paid increasing dividends for at least 46 consecutive years**

# Stepan Company Shareholder Returns



**Exceeding market performance over the past 10 years  
History of commitment to driving shareholder value**

CAGR = Compound Annual Growth Rate

# Thank you for your interest in Stepan Company (NYSE: SCL)

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