



**Stepan** 

Second Quarter 2014 Results

July 23, 2014

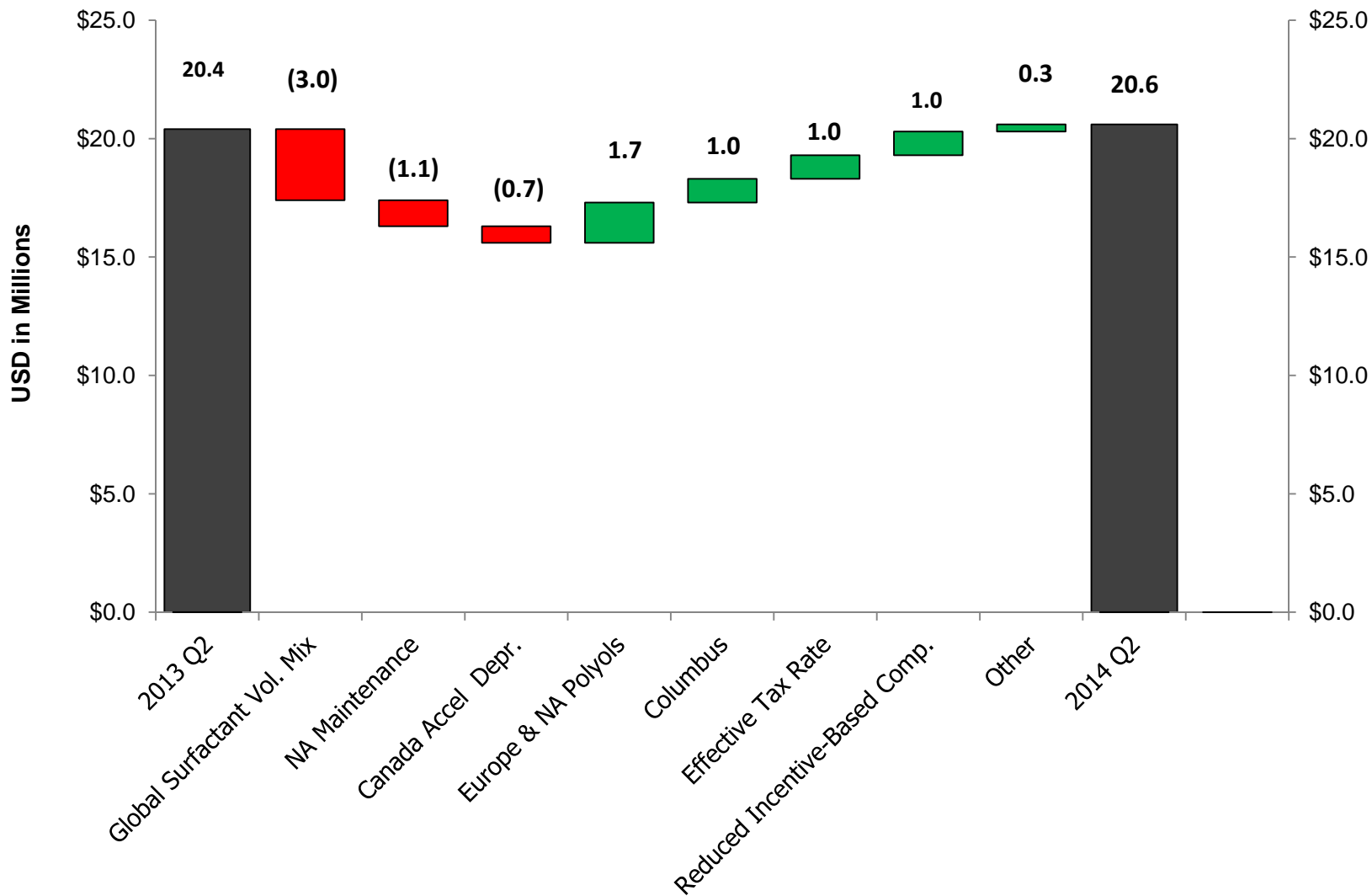
# Cautionary Statement

*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.*

# Second Quarter 2014 Financial Recap

- Earnings from operations were flat
  - Surfactant results down on lower volumes and higher costs in North America
  - Polymer Income up on organic volume growth and 2013 acquisition
- Global Surfactants Operating Income was down by \$6.8 million due primarily to an 11% decrease in North America volume and \$1.4 million in higher maintenance costs. Surfactant Income excluding North America was up.
- Polymer Operating Income up \$4.9 million primarily due to rigid foam insulation volume growth of 18%.
- Strategic initiatives on track:
  - Singapore fully operational and contributing at expected levels
  - Enhanced Oil Recovery Surfactants' contribution should improve by \$3-\$5 million
  - Sulfonation acquisition announced in Brazil
  - Columbus is expected to deliver \$6-\$8 million Operating Income in 2014

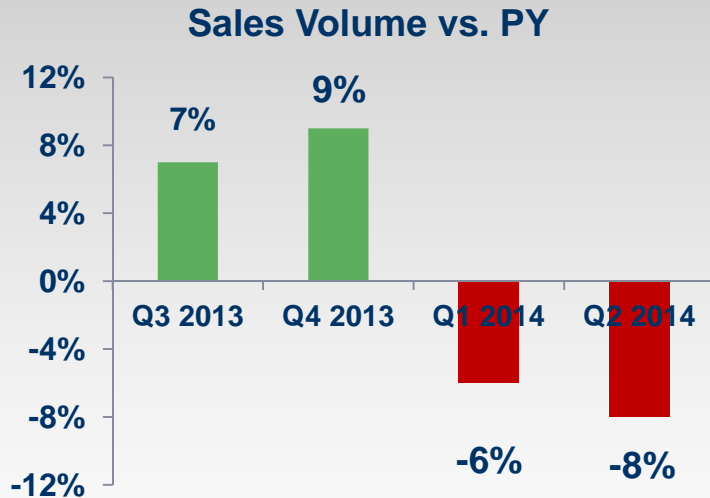
# Q2 Net Income Excluding Deferred Comp Bridge



Notes: All amounts are after-tax.

See Appendix for reconciliation of Net Income Excluding Deferred Comp to reported Net Income

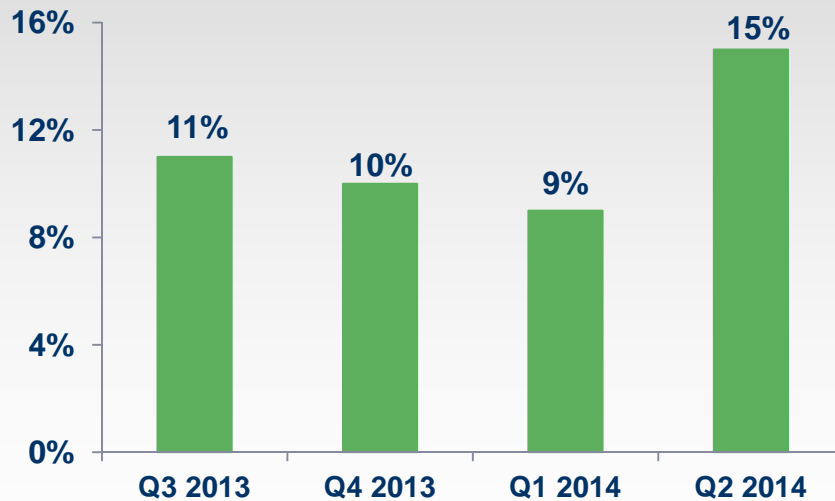
| <i>in million \$</i>    | Q2 2014 | Q2 2013 |
|-------------------------|---------|---------|
| <b>Net Sales</b>        | \$333.8 | \$331.1 |
| <b>Operating Income</b> | \$ 19.2 | \$ 26.0 |



- Surfactant volumes were down 8%
- North American Consumer Product volumes down due to greater use of internal capacity by customers
- Agriculture demand lower in North America and Brazil in first half - Anticipate improvement in Brazil in second half
- Latin America down in Q2 but is expected to grow in second half
- Biodiesel still not economically attractive
- Opportunities exist to improve efficiency
- Progress on EOR surfactants and recent metathesis derivative launch

| <i>in million \$</i>    | Q2 2014        | Q2 2013        |
|-------------------------|----------------|----------------|
| <b>Net Sales</b>        | <b>\$148.3</b> | <b>\$121.3</b> |
| <b>Operating Income</b> | <b>\$ 18.4</b> | <b>\$ 13.5</b> |

**Sales Volume vs. PY Excluding Columbus Acquisition**



- Organic volume up 15%
  - Macro trend toward greater use of insulation
  - Government mandated or recommended higher energy standards
  - High energy prices
  - Improving U.S. and European economies
  - Increased volumes sold into metal panel and CASE applications
- Columbus acquisition delivering expected growth
- EPC contract signed for China polyol plant

- **Challenges remain in North America Surfactants; continued diversification and cost opportunities**
- **North American and European rigid foam insulation growth supported by macro trends and existing capacity**
- **Columbus acquisition is fully integrated and is on track to deliver \$6 - \$8 million Operating Income; additional investments planned**
- **Enhanced Oil Recovery on track to deliver \$3 - \$5 million Operating Income improvement**
- **Continued investment in Brazil; new sulfonation acquisition pending regulatory approval**
- **Balance sheet remains strong; will invest to grow and improve efficiency**

# Key Assumptions / Outlook

| Item                      | Full Year expectation   |
|---------------------------|---|
| <b>Capital Spending</b>   | <b>Expect full year between \$100MM and \$110MM</b>                 |
| <b>Effective Tax Rate</b> | <b>1H 2014 = 27%</b><br><b>Expect full year between 26% and 28%</b> |



# Thank you for your interest in Stepan

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# Appendix

| Net Income Excluding Deferred Compensation Reconciliation       |  |  |  |  |  | Appendix I         |                |
|---|--|--|--|--|--|--------------------|----------------|
| <i>(Amounts in Millions)</i>                                    |  |  |  |  |  | Three Months Ended |                |
|   |  |  |  |  |  | June 30            |                |
|   |  |  |  |  |  | <u>2014</u>        | <u>2013</u>    |
| <b>Net Income Attributable to Stepan Company As Reported</b>    |  |  |  |  |  | \$ 24.4            | \$ 22.7        |
| Deferred Compensation (Income)Expense, Net of Investment Income |  |  |  |  |  | (3.8)              | (2.3)          |
| <b>Net Income Excluding Deferred Compensation</b>               |  |  |  |  |  | <u>\$ 20.6</u>     | <u>\$ 20.4</u> |