



# Stepan

Second Quarter 2015 Results

July 22, 2015

# Cautionary Statement

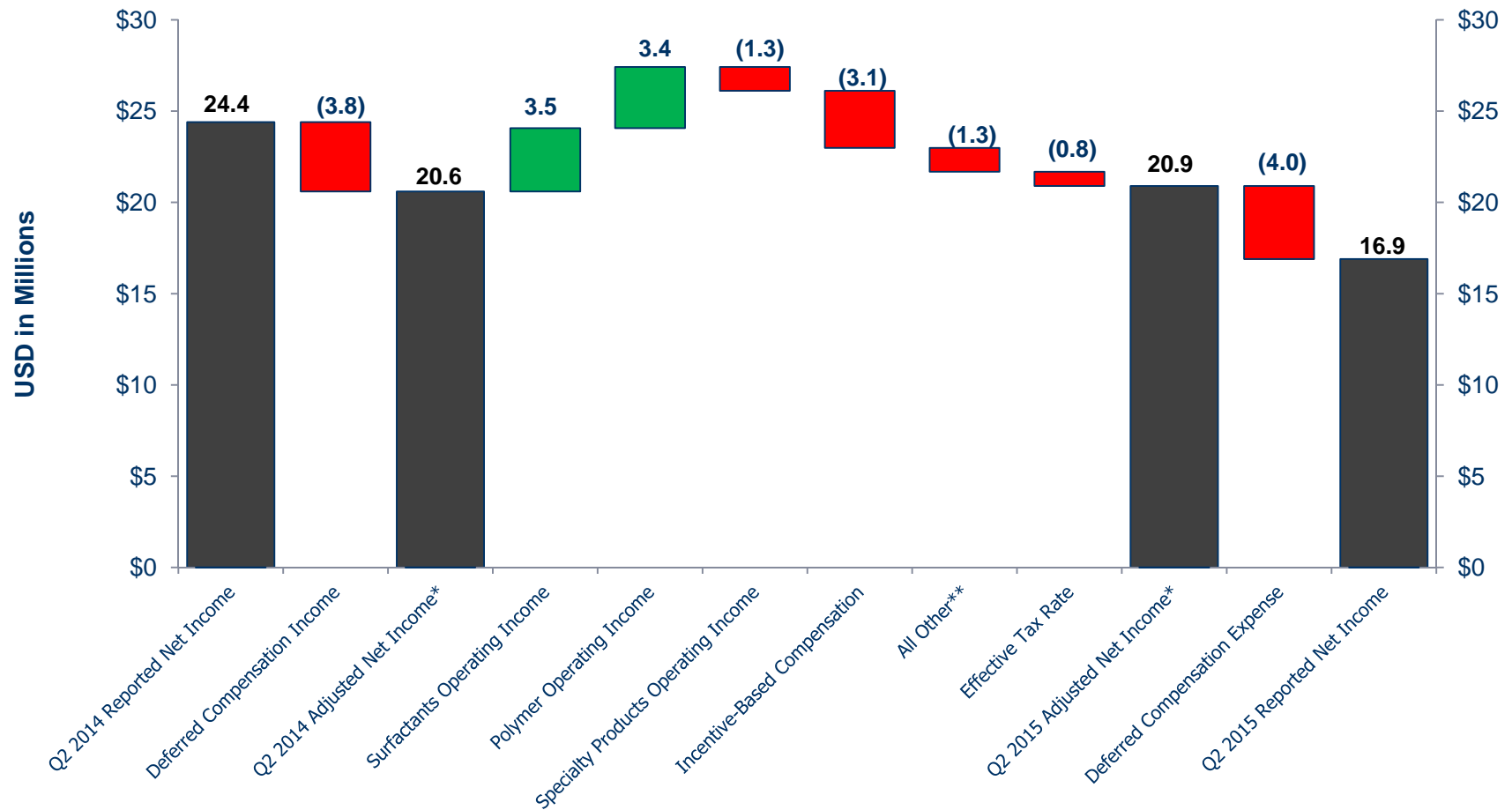
*Except for historical information, all other information in this news release consists of forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that could cause actual results to 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 2015 Financial Recap

- Q2 Reported Net Income of \$16.9 million or \$0.74 per diluted share included non-operational deferred compensation expense (\$4.0 million or \$0.17 per diluted share).
- Q2 Adjusted Net Income increased 1% to \$20.9 million or \$0.91 per diluted share compared to \$20.6 million or \$0.90 per diluted share in Q2 2014.
- Surfactants Operating Income increased \$5.0 million or 26% over prior year due to favorable product mix and improved overseas performance, despite foreign currency headwinds.
  - North America results increased despite lower volumes; second half 2015 results should benefit from the new supply contract with The Sun Products Corporation (SUN).
- Polymers had record Operating Income of \$23.4 million, representing an increase of \$5.0 million or 27% compared to prior year results.
  - Operating Income increased primarily due to volume and margin growth within the Rigid Polyol business.
- Key strategic actions:
  - Signed a long-term supply agreement with SUN.
  - Completed purchase of production facility located in Bahia, Brazil.
  - Completed a \$100 million debt offering to fund capex and pay off existing higher cost debt.

# Net Income Bridge – Q2 2014 to Q2 2015

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



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

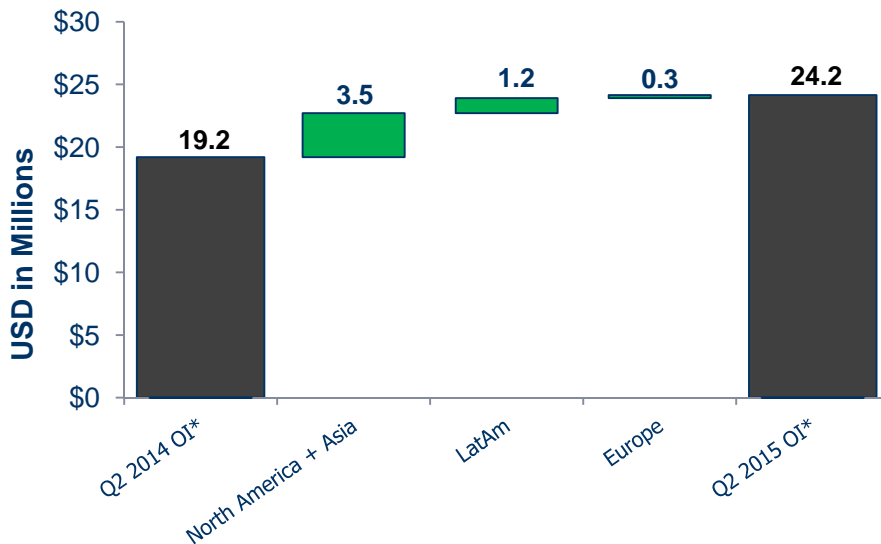
\*\* All Other primarily represents external consulting fees related to the efficiency initiative.

See Appendix II for reconciliation of Adjusted Net Income to Reported Net Income.

# Surfactants

<i>in million \$</i>	Q2 2015	Q2 2014
<b>Net Sales</b>	<b>\$299.7</b>	<b>\$333.8</b>
<b>Operating Income*</b>	<b>\$ 24.2</b>	<b>\$ 19.2</b>

- Operating Income increased \$5.0 million over prior year.
- Slightly lower volume in North America was more than offset by improved product mix and lower operational costs due to investments made in 2014.
- North America capacity utilization will significantly improve with new SUN supply contract.
- Latin America delivered meaningful growth in both Consumer and Functional businesses.
- Europe increased slightly for the quarter but is up 51% on a year-to-date basis.
- Foreign exchange negatively impacted Net Sales by \$24.0 million and Operating Income by \$2.2 million due to the strengthening of the US dollar.

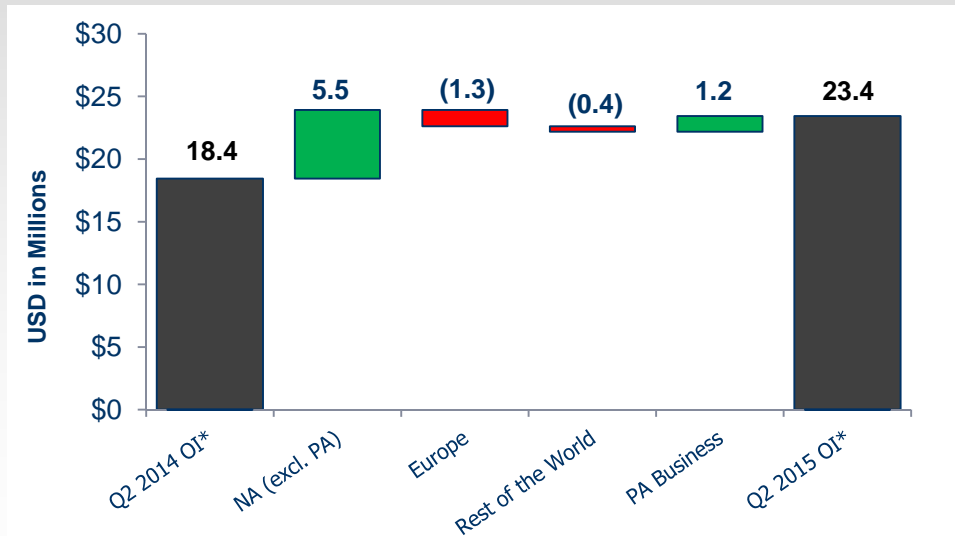


\*OI = Operating Income.  
 SUN = The Sun Products Corporation  
 All amounts are shown on a pre-tax basis (unless noted differently)

# Polymers

<i>in million \$</i>	Q2 2015	Q2 2014
<b>Net Sales</b>	<b>\$133.6</b>	<b>\$148.3</b>
<b>Operating Income</b>	<b>\$ 23.4</b>	<b>\$ 18.4</b>

- Record quarter of Operating Income due to Rigid Polyol volume growth and improved margins in North America.
- Global Rigid Polyol volume is up 6% over prior year due to increased insulation standards and conversion to metal panels in Europe. Local currency margins improved due to lower petroleum-based raw material costs.
- Overall European results decreased on negative foreign exchange impact, despite volume growth.
- Specialty Polyols, including CASE, delivered income growth.
- Foreign exchange negatively impacted Net Sales by \$8.7 million and Operating Income by \$0.9 million due to the strengthening of the US dollar.



\*OI = Operating Income.

PA = Phthalic Anhydride and CASE = Coatings Adhesives Sealants Elastomers

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

- Originally expected net improvements of \$17 million or \$0.75 EPS prior to growth and other initiatives
- Update: \$14 million or \$0.65 EPS improvement now expected but additional opportunities are in queue

**One third of annual benefit was earned in Q1 2015  
Q2 benefit is smaller**

## Expectations for 2015

- Continued income growth in Polymers 
- Higher Functional Surfactant volumes 
- Improved asset utilization in North America 
- Improved operational cost savings from 2014 investments 
- Stronger US Dollar should negatively impact near-term earnings 
- Continued benefits from favorable year-over-year raw material costs 

Pursuing actions to restore earnings growth



# Thank you for your interest in Stepan

## Contact information:

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## Appendix I

# Key Assumptions / Expectations

Item	Full Year
Capital Spending	Expect between \$120MM and \$140MM for 2015 as we further invest in China, Poland and Brazil
Debt	<p>Completed a \$100 million offering of 3.95% Senior Notes due in 2027.</p> <p>Intend to use the net proceeds to fund capital expenditures and to pay off existing higher cost debt when due.</p> <p>Expect \$3MM additional interest expense on an annual basis which starts in July 2015.</p>
Effective Tax Rate	<p>1H 2015 = 30%</p> <p>Expect between 28% and 32% for 2015</p>

# Appendix II

RECONCILIATIONS FOR ADJUSTED NET INCOME AND ADJUSTED DILUTED EARNINGS PER SHARE									
<i>(Amounts in Millions, Except per Share Amounts)</i>									
	Three Months Ended				Six Months Ended				
	June 30				June 30				
	2015		2014		2015		2014		
	Net Income	Diluted EPS	Net Income	Diluted EPS	Net Income	Diluted EPS	Net Income	Diluted EPS	
<b>Net Income Attributable to Stepan Company As Reported</b>	<b>\$ 16.9</b>	<b>\$ 0.74</b>	<b>\$ 24.4</b>	<b>\$ 1.06</b>	<b>\$ 38.2</b>	<b>\$ 1.67</b>	<b>\$ 37.4</b>	<b>\$ 1.63</b>	
Deferred Compensation (Income) Expense, Net of Investment Income	4.0	0.17	(3.8)	(0.16)	4.6	0.20	(4.0)	(0.17)	
Gain on Sale of Specialty Polyurethane Systems Product Line	-	-	-	-	(1.8)	(0.08)	-	-	
Environmental Remediation Expenses	-	-	-	-	0.3	0.01	-	-	
<b>Adjusted Net Income Attributable to Stepan Company</b>	<b>\$ 20.9</b>	<b>\$ 0.91</b>	<b>\$ 20.6</b>	<b>\$ 0.90</b>	<b>\$ 41.3</b>	<b>\$ 1.80</b>	<b>\$ 33.4</b>	<b>\$ 1.46</b>	

# Appendix III

## Foreign Exchange Impact – Q2 2014 vs. Q2 2015

	Surfactants	Polymers	Specialty	Consolidated
(in Millions USD)				
Net sales	(24.0)	(8.7)	(0.8)	(33.6)
Gross Profit	(3.8)	(1.3)	(0.1)	(5.1)
Operating Income	(2.2)	(0.9)	0.0	(3.1)
Pretax Income				<b>(2.6)</b>