



Stepan 

Second Quarter 2016 Results

July 20, 2016

Cautionary Statement

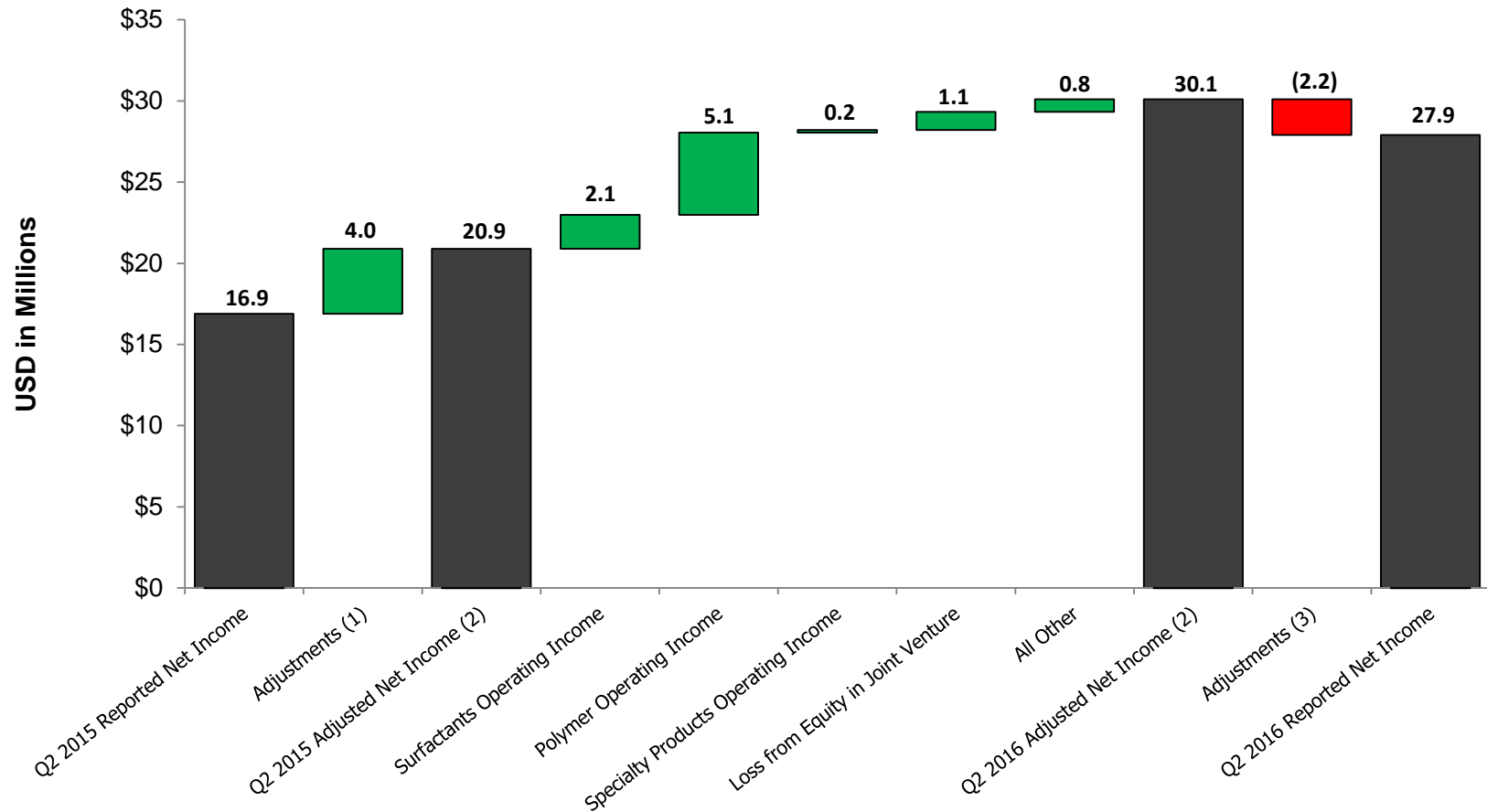
Except for historical information, all other information in this presentation may consist of forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied. Significant risks and 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) risks related to our foreign operations, foreign currency fluctuations, certain global and regional economic conditions, costs related to expansion or other capital projects, the probability of future acquisitions and the uncertainties related to the integration of acquired businesses, the effect of customer product reformulations or new technologies, 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, natural gas 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, our level of indebtedness 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 these forward-looking statements, whether as a result of new information, future events or otherwise.

Second Quarter 2016 Financial Recap

- **Q2 Reported Net Income was a record \$27.9 million or \$1.21 per diluted share, a 65% increase versus \$16.9 million, or \$0.74 per diluted share, in Q2 2015. Reported net income was adversely impacted by the following non-operational items:**
 - **Deferred compensation expense (\$1.4 million or \$0.06 per diluted share).**
 - **Restructuring expense related to the full closure of the Canadian plant (\$0.8 million or \$0.04 per diluted share).**
- **Q2 Adjusted Net Income* was a record \$30.1 million, or \$1.31 per diluted share, a 44% increase versus \$20.9 million or \$0.91 per diluted share in Q2 2015.**
- **Surfactant Operating Income was \$27.2 million, up \$3.0 million, or 12%, versus Q2 2015 primarily due to improved performance in North America.**
- **Polymer Operating Income was a record \$31.0 million, up \$7.6 million, or 32%, versus Q2 2015. The increase over prior year was primarily due to volume growth within the Global Rigid Polyol business and improved Phthalic Anhydride results.**
- **Specialty Product Operating Income was \$1.8 million, up \$0.3 million, or 17%, versus Q2 2015 on improved Lipid Nutrition results, slightly offset by timing of orders in our flavor business.**

Net Income Bridge – Q2 2015 to Q2 2016

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



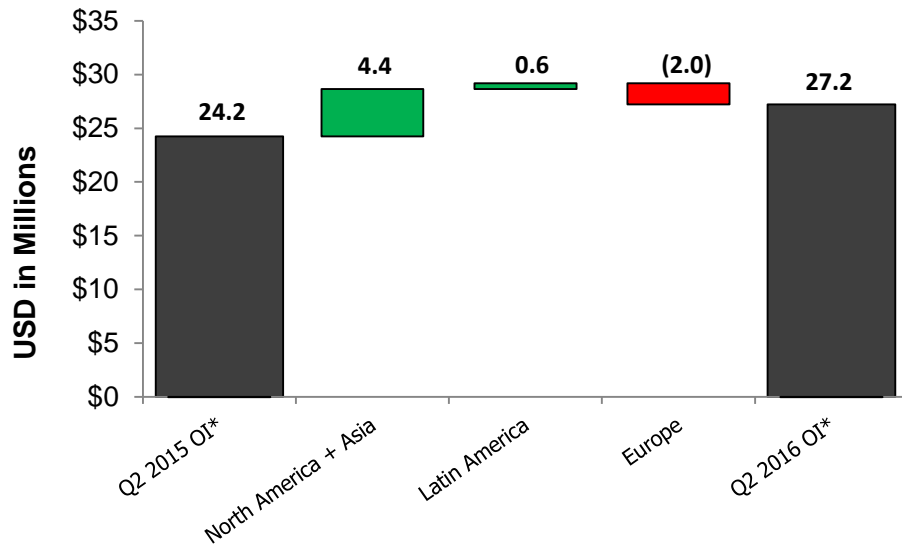
(1) The adjustments to Reported Net Income in Q2 2015 were related to deferred compensation expense (\$4.0).

(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 2016 were related to deferred compensation expense (\$1.4) and business restructuring (\$0.8).

Surfactants

<i>in million \$</i>	Q2 2016	Q2 2015
Net Sales	\$298.6	\$299.7
Operating Income	\$ 27.2	\$ 24.2

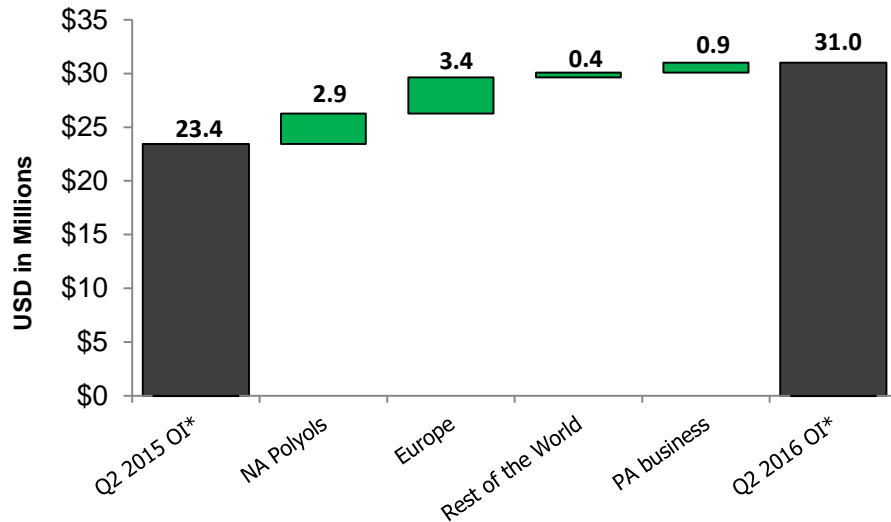


*OI = Operating Income.
All amounts are shown on a pre-tax basis (unless noted differently)

- Operating Income increased \$3.0 million over prior year. Volume increased 12% for the quarter. Excluding the new Laundry contract, volumes were up slightly.
- North America growth was driven by favorable mix on higher sales volume into the Distribution channel, lower raw material costs, DRIVE contributions and the new Laundry supply contract.
- Accelerated depreciation related to the full shutdown of the Canadian plant negatively impacted Operating Income by \$0.8 million.
- Latin America continues to perform well, particularly in local currency. The acquisition of Tebras / PBC is expected to expand and diversify our customer base in Brazil and to provide an opportunity to sell our broader surfactant portfolio.
- After a record year in 2015, Europe results are down due to unfavorable product mix.
- Strong demand and favorable mix for Agricultural Chemicals in North America and Latin America offset lower profitability in Oil Field and EOR.
- Foreign exchange negatively impacted Net Sales by \$8.1 million and Operating Income by \$0.8 million.

Polymers

<i>in million \$</i>	Q2 2016	Q2 2015
Net Sales	\$134.5	\$133.6
Operating Income	\$ 31.0	\$ 23.4



*OI = Operating Income.

PA = Phthalic Anhydride

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

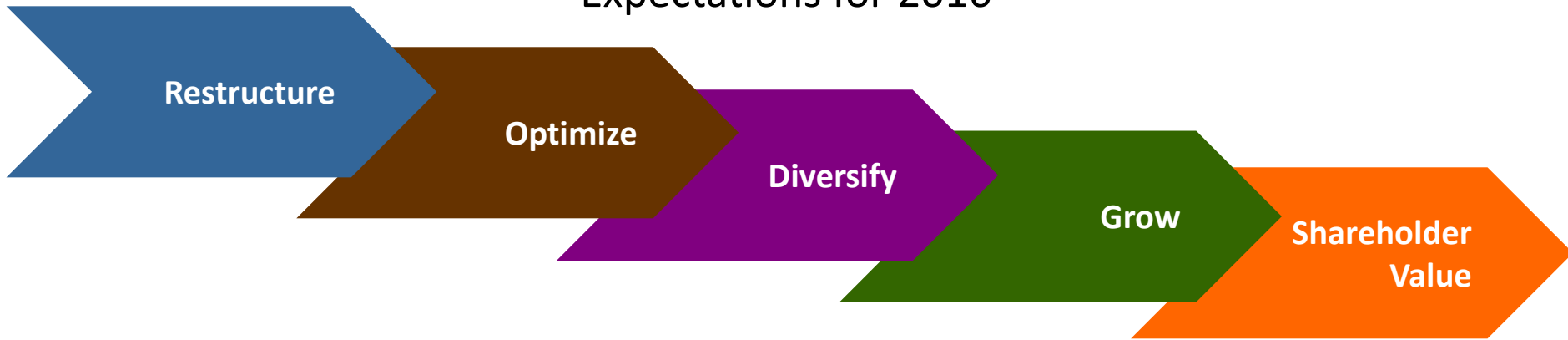
- Operating Income was a record \$31.0 million, an increase of \$7.6 million over prior year.
- North America Rigid Polyol volumes up 14% over prior year due to strong market demand from increased insulation standards and growth in construction.
- European results increased on higher Rigid Polyol volume due to increased insulation standards and increased volume to metal panel applications.
- Global Rigid Polyol margins benefited from falling raw material costs.
- New Specialty Polyol reactor in Poland is expected to begin production in Q3 2016.
- In China, export shipments and lower operating costs reduced expected losses.
- Phthalic Anhydride (PA) results increased over prior year due to increased sales volume.
- Foreign exchange negatively impacted Net Sales by \$2.5 million and Operating Income by \$0.2 million.

Impact of Brexit to Stepan

- **The business in the United Kingdom represents only 5% of total net sales.**
- **Stepan is mostly naturally hedged since Stepan's plant in the U.K. primarily serves the U.K. market, whereas generally our competitors ship product from other locations in the European Union.**
- **Weakening of the GBP currency negatively impacted Stepan's June 2016 Operating Income by \$10,000 due to foreign currency translation.**

Stepan's exposure to the U.K. economy and the British Pound currency is relatively small

Expectations for 2016



- Deliver benefits from TIORCO dissolution
- Restore LIPID Nutrition profitability
- Full shutdown of Canadian plant
- Deliver income growth from efficiency program
- Full year of new commodity sulfonation volume will positively impact utilization of assets
- Government mandated maintenance shutdown in Germany (30 days)
- Start-up expenses and slower economic growth in China will negatively impact earnings
- Start-up of new CASE capacity in Poland is expected to 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
- Increased dividend in 2015 which was the 48th consecutive year of increase

Legend:

- Represents an expected positive item
- Represents an expected neutral item
- Represents an expected headwind

Thank you for your interest in Stepan

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Appendix I

Update on Certain Expectations

Item	Full Year
Capital Spending	<p>Expect between \$110MM and \$120MM for 2016 as we further invest in China, Poland and Brazil (which compares to \$119MM in 2015).</p> <p style="text-align: center;">Previously expected between \$115MM and \$135MM for 2016.</p>
Debt	<p>In 2015 we completed a \$100 million offering of 3.95% Senior Notes due in 2027</p> <p style="text-align: center;">Net proceeds used primarily to fund capital expenditures and to pay off existing higher cost debt when due</p> <p>Expect 2016 interest expense to be in line with 2015</p> <p>Net debt to capital ratio as of June 30, 2016 was 17%</p>
Effective Tax Rate	<p>Expect between 30% and 32% in 2016</p>

Appendix II

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

(\$ in thousands, except per share amounts)	Three Months Ended June 30				Six Months Ended June 30			
	2016	EPS	2015	EPS	2016	EPS	2015	EPS
Net Income Reported	\$ 27,865	\$ 1.21	\$ 16,914	\$ 0.74	\$ 55,519	\$ 2.42	\$ 38,184	\$ 1.67
Deferred Compensation Expense	\$ 1,419	\$ 0.06	\$ 3,998	\$ 0.17	\$ 3,240	\$ 0.14	\$ 4,593	\$ 0.20
Business Restructuring	\$ 796	\$ 0.04			\$ 796	\$ 0.04		
Environmental Remediation Expense							\$ 341	\$ 0.01
Gain on Divestiture of Product Line							\$ (1,774)	\$ (0.08)
Adjusted Net Income	\$ 30,080	\$ 1.31	\$ 20,912	\$ 0.91	\$ 59,555	\$ 2.60	\$ 41,344	\$ 1.80

Reconciliation of Pre-Tax to After-Tax Adjustments

(\$ in thousands, except per share amounts)	Three Months Ended June 30				Six Months Ended June 30			
	2016	EPS	2015	EPS	2016	EPS	2015	EPS
Pre-Tax Adjustments								
Deferred Compensation Expense	\$ 2,289		\$ 6,447		\$ 5,226		\$ 7,407	
Business Restructuring	\$ 1,061		—		\$ 1,061		—	
Environmental Remediation Expense	—		—		—		\$ 550	
Gain on Divestiture of Product Line	—		—		—		\$ (2,862)	
Total Pre-Tax Adjustments	\$ 3,350		\$ 6,447		\$ 6,287		\$ 5,095	
Cumulative Tax Effect on Adjustments	\$ (1,135)		\$ (2,449)		\$ (2,251)		\$ (1,935)	
After-Tax Adjustments	\$ 2,215	\$ 0.10	\$ 3,998	\$ 0.17	\$ 4,036	\$ 0.18	\$ 3,160	\$ 0.13

Appendix III

Foreign Exchange Impact – Q2 2016

	Surfactants	Polymers	Specialty	Consolidated
(in Millions USD)				
Net sales	(8.1)	(2.5)	0.1	(10.5)
Gross Profit	(1.2)	(0.4)	(0.0)	(1.6)
Operating Expenses	(0.5)	(0.1)	0.0	(0.6)
Operating Income	(0.8)	(0.2)	(0.0)	(1.0)
Pretax Income				(1.0)