



# Earnings Call Presentation

Second Quarter 2022

July 27, 2022



# Cautionary Statement

Certain information in this presentation consists of forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include statements about Stepan Company's plans, objectives, strategies, financial performance and outlook, trends, the amount and timing of future cash distributions, prospects or future events and involve known and unknown risks that are difficult to predict. As a result, Stepan Company's actual financial results, performance, achievements or prospects may differ materially from those expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as "may," "could," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "guidance," "predict," "potential," "continue," "likely," "will," "would," "should," "illustrative" and variations of these terms and similar expressions, or the negative of these terms or similar expressions. Such forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by Stepan Company and its management based on their knowledge and understanding of the business and industry, are inherently uncertain. These statements are not guarantees of future performance, and stockholders should not place undue reliance on forward-looking statements.

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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.

# Earnings Conference Call Agenda

Second Quarter Highlights	Scott R. Behrens, <i>President and Chief Executive Officer</i>
Second Quarter Financial Results	Luis E. Rojo, <i>Vice President and Chief Financial Officer</i>
Strategic Outlook	Scott R. Behrens, <i>President and Chief Executive Officer</i>
Analyst / Shareholder Questions	
Closing Remarks	Scott R. Behrens, <i>President and Chief Executive Officer</i>

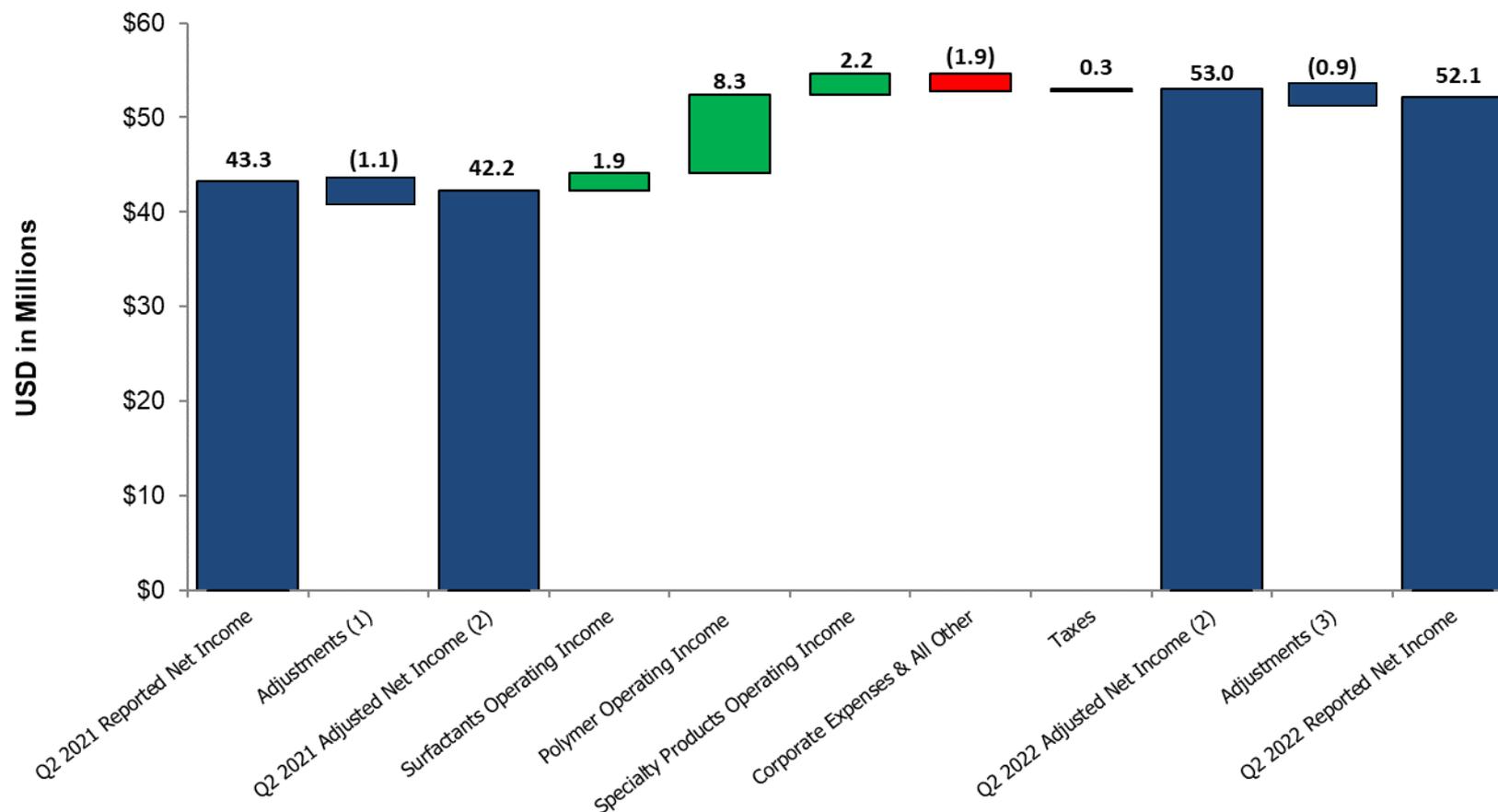
# Second Quarter 2022 Financial Recap

- **RECORD** Q2 Reported Net Income was \$52.1 million, or \$2.26 per diluted share, versus \$43.3 million, or \$1.85 per diluted share, in Q2 2021.
- **RECORD** Q2 Adjusted Net Income<sup>(1)</sup> was \$53.0 million, or \$2.30 per diluted share, versus \$42.2 million, or \$1.81 per diluted share, in Q2 2021. Adjusted Net Income in Q2 2022 excludes the following non-operational items:
  - Deferred compensation and cash-settled SARs expense of \$0.6 million, or \$0.02 per diluted share.
  - Environmental remediation and business restructuring of \$0.3 million, or \$0.01 per diluted share.
- Surfactant Operating Income was \$48.2 million, an increase of \$2.3 million, versus Q2 2021. This increase was primarily driven by improved product and customer mix that was partially offset by a 3% decline in global sales volume. The lower sales volume was driven by global commodity laundry products due to raw material and logistics constraints in North American and lower demand in Latin America. Higher demand in the Functional Products, Personal Care and Institutional Cleaning end markets partially offset the above.
- **RECORD** Polymer Operating Income was \$33.9 million, an increase of \$10.9 million, versus Q2 2021. This increase was primarily attributable to margin recovery, mix improvements and a 2% increase in global sales volume. Global Rigid Polyol volume was up 5% versus the prior year driven by North America growing high single digits. This was partially offset by lower demand within the Phthalic Anhydride and Specialty Polyols businesses.
- **RECORD** Specialty Product operating income was \$9.9 million versus \$7.0 million in the prior year. This increase was primarily attributable to improved margins and favorable customer mix within the Medium Chain Triglycerides (MCTs) product line, partially offset by order timing differences within the food and flavor business.
- FX had a negative impact on Net Income of \$1.9MM or 0.08 EPS. Excluding FX, our Adjusted Net Income grew +30% versus prior year.

(1) Adjusted Net Income is a non-GAAP measure that excludes certain significant, non-recurring items. See Appendix II for a GAAP reconciliation..

# Net Income Bridge – Q2 2021 to Q2 2022

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



(1) The adjustments to Reported Net Income in Q2 2021 consisted of deferred compensation income and cash-settled SARs income of \$1.1 million and restructuring costs of \$0.1 million

(2) Adjusted Net Income is a Non-GAAP measure that excludes certain significant, non-recurring items. See Appendix II for a GAAP reconciliation.

(3) The adjustments to Reported Net Income in Q2 2022 consisted of deferred compensation expense and cash settled SARs expense of \$0.6 million, Environmental cost of \$0.2 million and restructuring costs of \$0.1 million.

# Surfactants

Price/Mix improvements offset inflationary pressures. Lower volumes in Commodity Laundry were partially offset by higher demand in Functional Product, Institutional Cleaning and Personal Care end markets.



## Q2 2022 Business Results Highlights

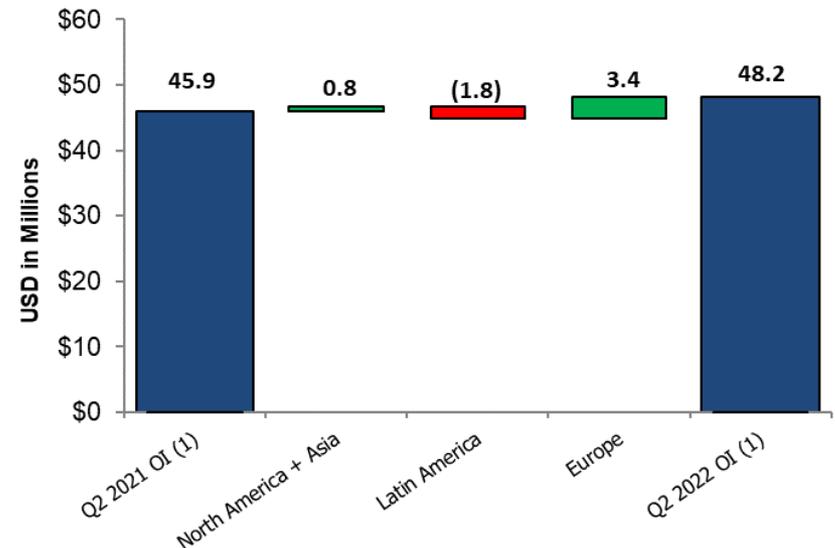
Operating Income was \$48.2 million, an increase of \$2.3 million compared to the prior year. Selling prices were up 32% primarily due to the pass-through of higher raw material and logistic costs as well as improved product and customer mix. Foreign currency translation negatively impacted net sales by 3%.

North America results were slightly up due to improved product and customer mix.

Latin America results were down driven by lower demand in Commodity Laundry and supply chain/raw material challenges.

Europe results increased due to volume growth and improved product and customer mix.

<i>in millions \$</i>	Q2 2022	Q2 2021
<b>Net Sales</b>	<b>\$ 485.1</b>	<b>\$ 384.0</b>
<b>Operating Income</b>	<b>\$ 48.2</b>	<b>\$ 45.9</b>



# Polymers– RECORD Quarter

**Record Operating Income due to margin recovery, improved mix and Volume growth of +2%. Price/Mix increased +30%.**



## Q2 2022 Business Results Highlights

Operating Income was \$33.9 million, an increase of \$10.9 million versus prior year. Selling prices increased 30% primarily due to the pass through of higher raw material and logistic costs and margin recovery. Sales volume increased 2% primarily due to Rigid Polyol growth of 5% that was partially offset by lower demand within PA and supply constraints in the Specialty Polyols business. The translation impact of a stronger U.S. dollar negatively impacted net sales by 7%.

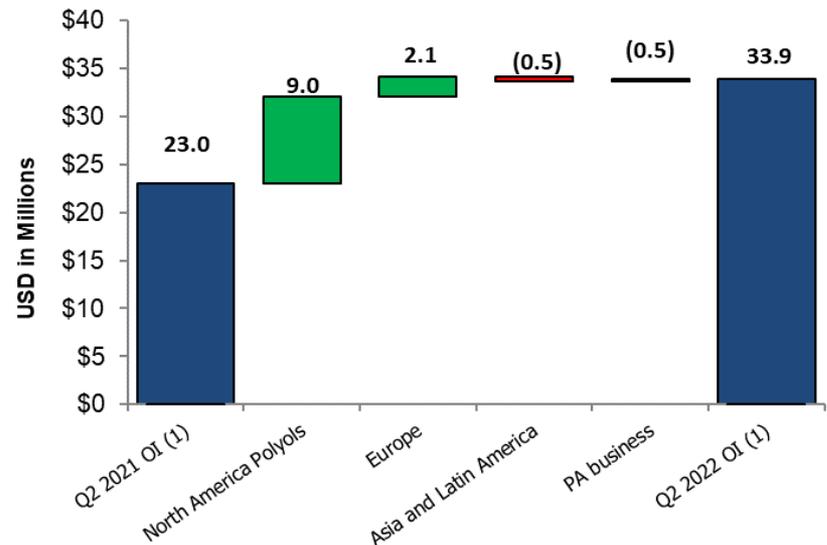
North America Polyol and PA results increased due to margin recovery, mix improvements and 8% volume growth in Rigid Polyols.

Europe results increased due to volume growth in Rigid Polyol and margin recovery.

Asia results were slightly down due to COVID lockdowns and restrictions.

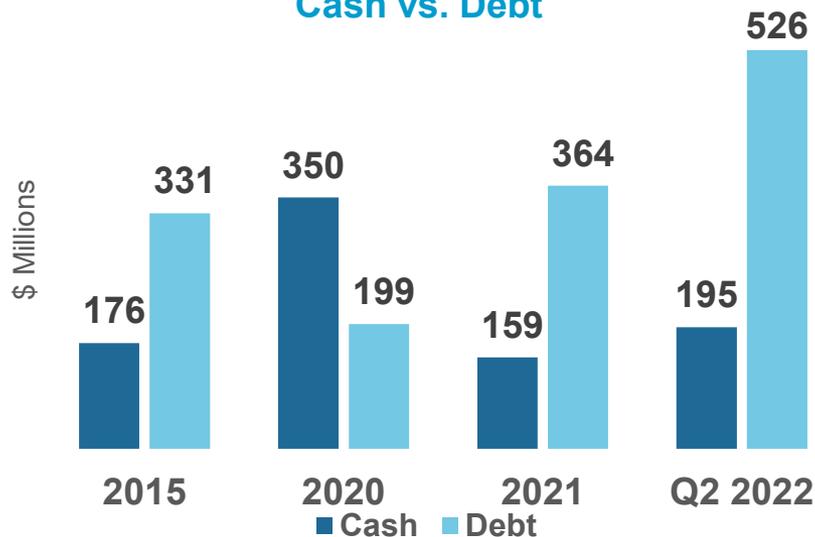
*in millions \$*

	Q2 2022	Q2 2021
<b>Net Sales</b>	<b>\$ 238.9</b>	<b>\$ 190.6</b>
<b>Operating Income</b>	<b>\$ 33.9</b>	<b>\$ 23.0</b>

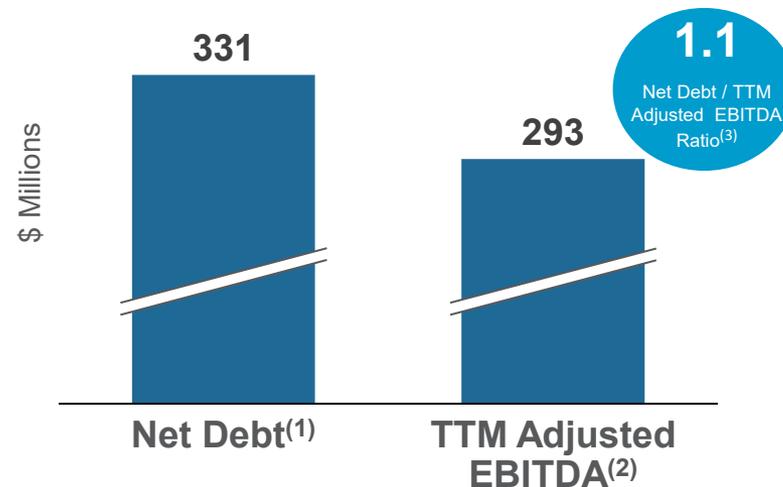


# Strong Balance Sheet and Ample Liquidity to Invest for Growth

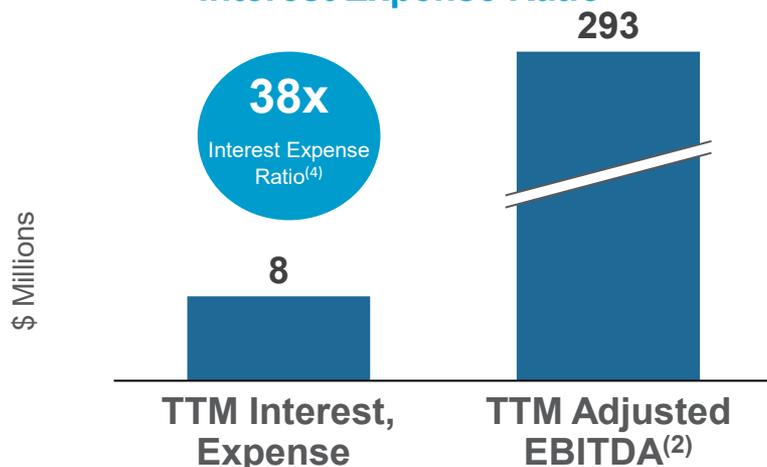
## Cash vs. Debt



## Net Debt / TTM Adjusted EBITDA



## Interest Expense Ratio



## Scheduled Debt Principal Repayments

Year	Amount (\$MM)
2022	24
2023	38
2024	49
2025	63
2026	59
2027	59
2028	45
2029	25
2030	25
2031	25
2032	11
Other (Revolver)	103
<b>Total</b>	<b>526</b>

(1) Net debt is a non-GAAP measure. See Appendix IV for a GAAP reconciliation.

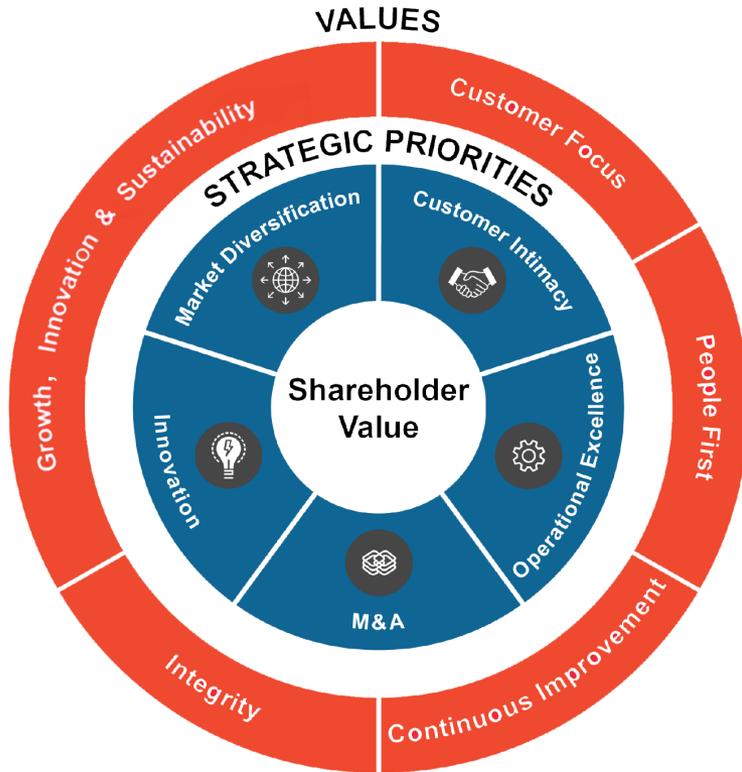
(2) TTM Adjusted EBITDA is a non-GAAP measure. See Appendix V for a GAAP reconciliation.

(3) Net Debt / TTM Adjusted EBITDA Ratio is a non-GAAP measure. See Appendix V for a GAAP reconciliation.

(4) Interest Expense Ratio is a non-GAAP measure. See Appendix V for a GAAP reconciliation.

# Stepan Strategic Priorities

Our Vision: Innovative Chemical Solutions for a Cleaner, Healthier, More Energy Efficient World



## BUSINESS PRIORITIES



- Enable a healthier world through the supply of Surfactants for cleaning, disinfection and personal wash applications.



- Accelerate growth with Tier 2/3 customers, while continuing to support our Global Tier 1 customers.



- Continue Surfactant diversification strategy into Functional Markets, including agricultural and oilfield chemicals.



- Capture growth driven by energy conservation efforts in Rigid Polyols; accelerate growth in China.



- Deliver productivity and efficiency across all of Stepan to improve margins.



- Continue to integrate acquired Polymer assets and technology into the Stepan network.
- Continue bio-surfactant development project.
- Leverage our strong balance sheet to complement organic growth opportunities and add new chemistries and technologies.

# Strategic Priorities:

Key Priorities	Stepan Opportunities / Actions
 <p><b>COVID-19</b></p>	<ul style="list-style-type: none"> <li>• Ensure the health and safety of our employees and preserve the right to operate and compete during and after the COVID-19 pandemic. Produce and deliver products that help fight the global pandemic.</li> <li>• 25 formulations approved by the EPA for on-label claims to kill SARS-CoV-2, the virus that causes COVID-19.</li> </ul>
 <p><b>Cleaning &amp; Disinfection and Personal Care</b></p>	<ul style="list-style-type: none"> <li>• Lower volume in Commodity Laundry driven by raw material constraints in North America and lower demand in Latin America was partially offset by volume growth in Personal Care and Institutional Cleaning.</li> <li>• Debottleneck and increase capacity in key product lines. Secure critical raw materials for growth. Expanding Capacity for Amphoteric in Mexico.</li> <li>• Increasing North America capability to make low 1,4 Dioxane Sulfates to meet upcoming regulatory requirements.</li> </ul>
 <p><b>Tier 2/3 Customers</b></p>	<ul style="list-style-type: none"> <li>• Tier 2/3 volume (including Functional Products) grew double digits versus prior year.</li> <li>• Continued growth in customer base with approximately 100 new Tier 2/3 customers in the second quarter.</li> </ul>
 <p><b>Agricultural Chemicals</b></p>	<ul style="list-style-type: none"> <li>• Global agricultural volume increased double digits.</li> <li>• High commodity prices for corn and soybeans, coupled with increased planted acreage for the 2022 season drove a strong demand for crop protection sales in North America and Europe.</li> <li>• High commodity crop prices and favorable currency impact on exports are driving increased planted areas of major crops in Brazil.</li> </ul>
 <p><b>Oilfield Solutions</b></p>	<ul style="list-style-type: none"> <li>• Oilfield Volume increased driven by higher commodity prices</li> <li>• Increased US oilfield activity resulted in strong demand growth for Biocides</li> <li>• Patent-pending oilfield technologies (flowback modifiers and friction reducer boosters) can help customers be more productive and cost efficient.</li> <li>• Continue the integration and supply chain planning of the KMCO Demulsifier portfolio in anticipation of 2H 2022 relaunch.</li> </ul>
 <p><b>Rigid Polyols</b></p>	<ul style="list-style-type: none"> <li>• Effectively integrated the acquired Polymer assets and business into the Stepan network.</li> <li>• Continue the development of next generation of value-added and sustainably advantaged Rigid Polyol Technologies.</li> <li>• Continue growing the Chinese business.</li> </ul>
 <p><b>Productivity</b></p>	<ul style="list-style-type: none"> <li>• Accelerating interventions and investments needed (e.g. maintenance and capex) in our ML plant to increase capacity (de-bottleneck projects) and improve productivity.</li> <li>• Upgrading our IT platform and several automation projects to improve efficiency and productivity; enhance digital marketing.</li> </ul>
 <p><b>M&amp;A</b></p>	<ul style="list-style-type: none"> <li>• Leverage our strong Balance Sheet to continue working on potential projects to complement our portfolio.</li> </ul>

# Strategic Investments

## US Gulf Coast Alkoxylation

Stepan investing in new alkoxylation capacity at existing Pasadena, Texas facility



Pasadena, Texas (United States)

### Benefits of Investment

**Strategic Drivers:** Alkoxylation is a **core surfactant technology** consumed across Stepan's key agricultural, oilfield, construction and household end use markets

Pasadena will become Stepan's third alkoxylation site, providing **strategically located redundancy and long-term capacity for growth** in ethoxylates and propoxylates

**Project Overview:** State of the art, flexible, multi-reactor facility with approximately **75KTA of annual alkoxylation capacity**

**Broke Ground in Q1 2022**

### Project Updates

#### Main Updates:

- Site Operation now expected to **Start-Up early 2024**
- The Capex Investment for the project estimated to increase by ~10% (~\$245MM Capex).
- The Alkoxylation business **grew** volumes strong double digits with healthy margins that are accretive to Stepan.

**Expected Start-Up - Early 2024**

# Thank You

**Luis E. Rojo**

VP and CFO

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**WORKING TOGETHER FOR A SAFER, CLEANER WORLD**

# APPENDIX

Financials and GAAP Reconciliations

# Appendix I

## Update on Certain Expectations

(millions USD)		2019 Actual	2020 Actual	2021 Actual	2022 Expected
Capital Expenditures	➔	106	126	195	350-375
Debt Repayments	➔	54	24	38	38
Interest Net	➔	6	5	6	13
Effective Tax Rate	➔	18%	25%	20%	24-26%

Capex guidance includes \$150-175MM for Pasadena project.

# Appendix II

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

(\$ in thousands, except per share amounts)	Three Months Ended June 30				Six Months Ended June 30			
	2022	EPS	2021	EPS	2022	EPS	2021	EPS
Net Income Reported	\$52,126	\$ 2.26	\$43,278	\$ 1.85	\$96,935	\$ 4.19	\$83,889	\$ 3.59
Deferred Compensation (Income) Expense	\$ 518	\$ 0.02	\$ (1,050)	\$ (0.04)	\$ (3,431)	\$ (0.15)	\$ 451	\$ 0.02
Business Restructuring Expense	\$ 61	\$ 0.01	\$ 85	\$ 0.00	\$ 100	\$ 0.01	\$ 146	\$ 0.01
Cash-Settled SARs (Income) Expense	\$ 55	\$ 0.00	\$ (95)	\$ (0.00)	\$ (347)	\$ (0.02)	\$ 103	\$ 0.00
Environmental Remediation Expense	\$ 249	\$ 0.01	\$ -	\$ -	\$ 479	\$ 0.02	\$ -	\$ -
Adjusted Net Income	<u>\$53,009</u>	<u>\$ 2.30</u>	<u>\$42,218</u>	<u>\$ 1.81</u>	<u>\$93,736</u>	<u>\$ 4.05</u>	<u>\$84,589</u>	<u>\$ 3.62</u>

## Reconciliation of Pre-Tax to After-Tax Adjustments

(\$ in thousands, except per share amounts)	Three Months Ended June 30				Six Months Ended June 30			
	2022	EPS	2021	EPS	2022	EPS	2021	EPS
<b>Pre-Tax Adjustments</b>								
Deferred Compensation (Income) Expense	\$ 681		\$ (1,381)		\$ (4,514)		\$ 594	
Business Restructuring Expense	\$ 81		\$ 114		\$ 133		\$ 195	
Cash-Settled SARs (Income) Expense	\$ 73		\$ (125)		\$ (455)		\$ 136	
Environmental Remediation Expense	\$ 327		\$ -		\$ 630		\$ -	
Total Pre-Tax Adjustments	\$ 1,162		\$ (1,392)		\$ (4,206)		\$ 925	
Cumulative Tax Effect on Adjustments	\$ (279)		\$ 332		\$ 1,007		\$ (225)	
After-Tax Adjustments	<u>\$ 883</u>	<u>\$ 0.04</u>	<u>\$ (1,060)</u>	<u>\$ (0.04)</u>	<u>\$ (3,199)</u>	<u>\$ (0.14)</u>	<u>\$ 700</u>	<u>\$ 0.03</u>

# Appendix III

## Foreign Exchange Impact – Q2 2022

(millions USD)	Surfactants	Polymers	Specialty Products	Consolidated
Net Sales	(11.3)	(13.7)	(0.6)	(25.6)
Gross Profit	(1.1)	(2.1)	(0.3)	(3.5)
Operating Expenses	(0.5)	(0.4)	(0.0)	(1.0)
Operating Income	(0.6)	(1.7)	(0.3)	(2.5)

# Appendix IV

## Net Debt to Total Capitalization Ratio

(millions USD)	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Total Debt	526.0	238.9	207.9	232.6	286.8	304.4
Cash	194.6	127.1	272.9	275.3	256.7	223.8
Net Debt	331.4	111.8	(65.0)	(42.7)	30.7	80.6
Equity	1,125.7	1,048.8	897.4	857.7	761.2	707.3
Net Debt + Equity	1,457.1	1,160.6	832.4	815.0	791.3	788.0
Net Debt / (Net Debt + Equity)	23%	10%	(8%)	(5%)	4%	10%

# Appendix V

## Adjusted EBITDA Reconciliations

	Q2 2022 – Quarterly Adjusted EBITDA by Segment				
	Surfactants	Polymers	Specialty Products	Corporate	Total Stepan
Net Sales	485	239	28	-	752
Reported Operating Income	48	34	10	-14	78
Adjustments*	0	0	0	-3	-3
Adjusted Operating Income	48	34	10	-17	75
Depreciation & Amortization	13	8	1	1	23
Adjusted EBITDA	62	42	11	-18	97
Adjusted EBITDA Margin	12.7%	17.5%	40.9%	n/a	12.9%

\*Includes \$0.3 million in Environmental Remediation income and \$3.4 million in deferred compensation and Cash Settled SARs expense to Corporate

	Q2 2022 – Trailing Twelve Months Adjusted EBITDA Total Stepan
Net Sales	2,640
Subtotal Segment Reported Operating Income	268
Cash Settled SARs	0
Corporate Expenses	(68)
Consolidated Adjusted Operating Income	199
Depreciation & Amortization	93
Other	1
Adjusted EBITDA	293
Adjusted EBITDA Margin	11.1%

Interest Expense Ratio = TTM Adjusted EBITDA / Interest Expense = 293/ 7.7 = 38x

Net Debt/TTM Adjusted EBITDA Ratio = 331/293 = 1.13