



Earnings Call Presentation

Second Quarter 2023

July 26, 2023



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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 2023 Financial Recap

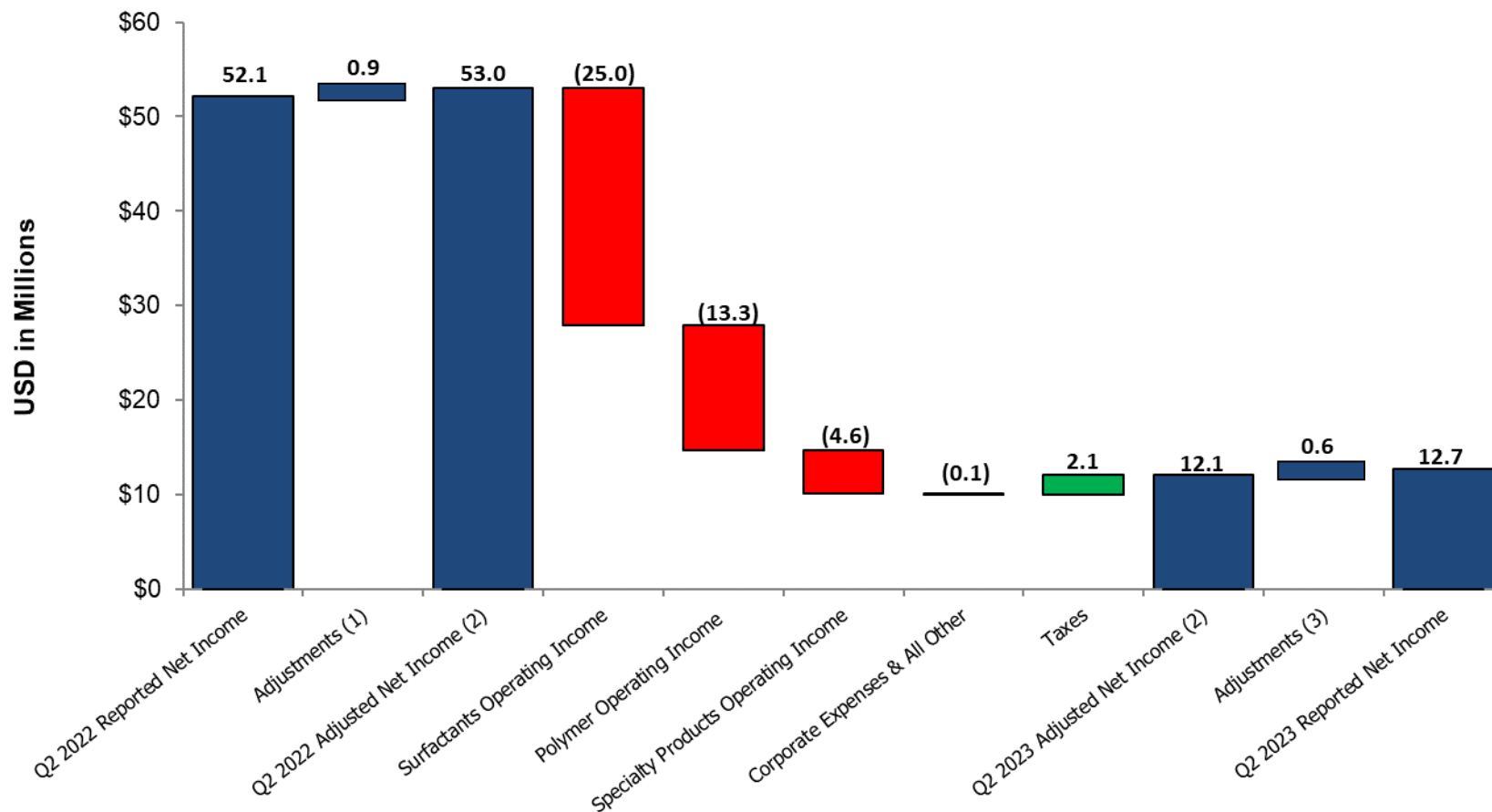
- Q2 Reported Net Income was \$12.7 million, or \$0.55 per diluted share, versus the record \$52.1 million, or \$2.26 per diluted share, in Q2 2022.
- Q2 Adjusted net income⁽¹⁾ was \$12.1 million, or \$0.53 per diluted share, versus the record \$53.0 million, or \$2.30 per diluted share, in the prior year. The decline in both reported and adjusted net income was predominately due to a 19% reduction in sales volume versus the prior year. Adjusted Net Income in Q2 2023 excludes the following non-operational items:
 - Deferred compensation and cash-settled SARs income of \$0.7 million, or \$0.02 per diluted share.
 - Environmental remediation and business restructuring expense of \$0.1 million, or \$0.00 per diluted share.
- Surfactant operating income was \$15.1 million versus \$48.2 million in the prior year. This decrease was primarily due to a 15% decline in global sales volume. The decline in sales volume was primarily due to overall lower demand, customer and channel inventory destocking, and the previously disclosed backward integration by one customer, associated with the low 1,4 dioxane transition, in the third quarter of 2022. In addition, unit margins were slightly lower due to less favorable product mix, high-cost inventory carryover and increased competitive pricing pressures in Latin America.
- Polymer operating income was \$16.3 million versus \$33.9 million in the prior year. This decrease was primarily due to a 29% decline in global sales volume, including a 28% decline in Rigid Polyols. The lower demand reflects continued customer and channel inventory destocking and reduced construction-related activities. Global Rigid Polyols volume improved sequentially each month during the second quarter of 2023 and was up 9% versus the first quarter of 2023.
- Specialty Product operating income was \$3.8 million versus the record \$9.9 million in the prior year. This decrease was primarily attributable to lower unit margins and sales volume within the medium chain triglycerides (MCT) product line. The lower unit margins were primarily due to high-cost inventory carryover.
- Total Company EBITDA⁽²⁾ was \$46.7 million during the second quarter of 2023 versus \$95.5 million in the prior year. Adjusted EBITDA⁽²⁾ was \$45.8 million versus \$96.7 million in the prior year and \$48.7 million in the first quarter of 2023. The decline in both reported and adjusted EBITDA⁽²⁾ was primarily due to a 19% reduction in sales volume versus the prior year.
- The effect of foreign currency translation had a negligible impact on net income and earnings per diluted share, versus the 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.

(2) EBITDA and adjusted EBITDA are non-GAAP measures. See Appendix V for GAAP reconciliations.

Net Income Bridge – Q2 2022 to Q2 2023

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



- (1) The adjustments to Reported Net Income in Q2 2022 consisted of deferred compensation expense and cash-settled SARs expense of \$0.6 million, environmental remediation expense of \$0.2 million and restructuring expense 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 2023 consisted of deferred compensation income and cash settled SARs income of \$0.7 million and environmental remediation expense and restructuring expense of \$0.1 million.

Surfactants

Operating Income impacted by lower Volumes and mix. Agricultural Chemicals impacted by customer and channel destocking.



Q2 2023 Business Results Highlights

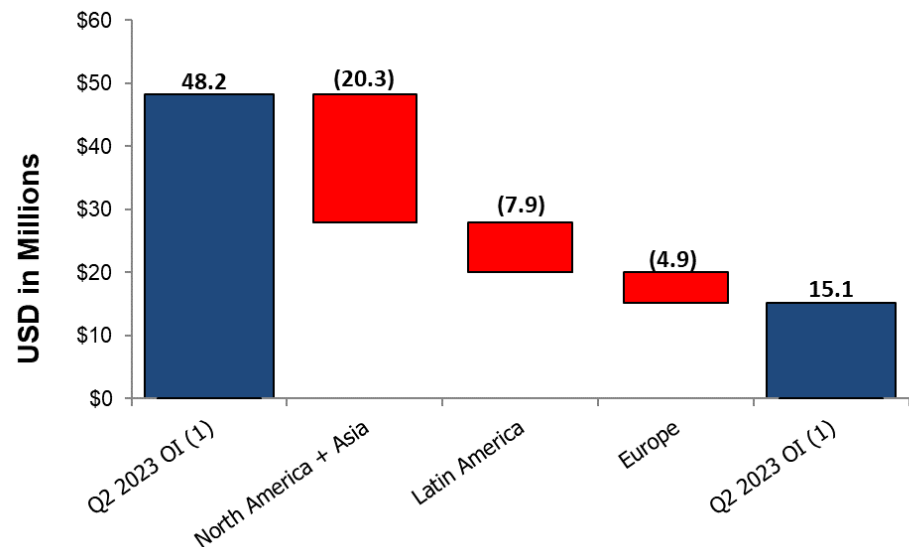
Operating income was \$15.1MM, a decrease of \$33.1MM compared to prior year driven by a volume decline of 15%. Selling prices were down 5% mainly due to the pass-through of lower raw material costs as well as less favorable product and customer mix.

North America results were impacted by overall lower demand in commodity Laundry and Personal Care end markets and the previously disclosed backward integration by one customer, associated with the low 1,4 Dx transition, in the third quarter of 2022. Agricultural Chemicals results were negatively impacted by customer and channel destocking. Higher expenses related to our low 1,4 Dx and Pasadena facility investments created additional headwinds.

Latin America results were down driven by lower overall demand and competitive pressure from imports.

Europe results decreased mainly as a result of lower overall end-market demand and competitive pressure, impacting both Consumer and Functional Products.

<i>in millions \$</i>	Q2 2023	Q2 2022
Net Sales	\$ 391.7	\$ 485.1
Operating Income	\$ 15.1	\$ 48.2



Polymers

Lower Operating Income attributable to volume driven by reduced construction-related activity and continued customer and channel destocking.



Q2 2023 Business Results Highlights

Operating income was \$16.3MM, a decrease of \$17.6MM compared to prior year. Selling prices decreased 3% mainly due to the pass-through of lower raw material costs. Global volume declined by 29%, primarily due to a 28% volume decline in Rigid Polyol. The decrease was driven by reduced construction industry activity as well as customer and channel inventory destocking.

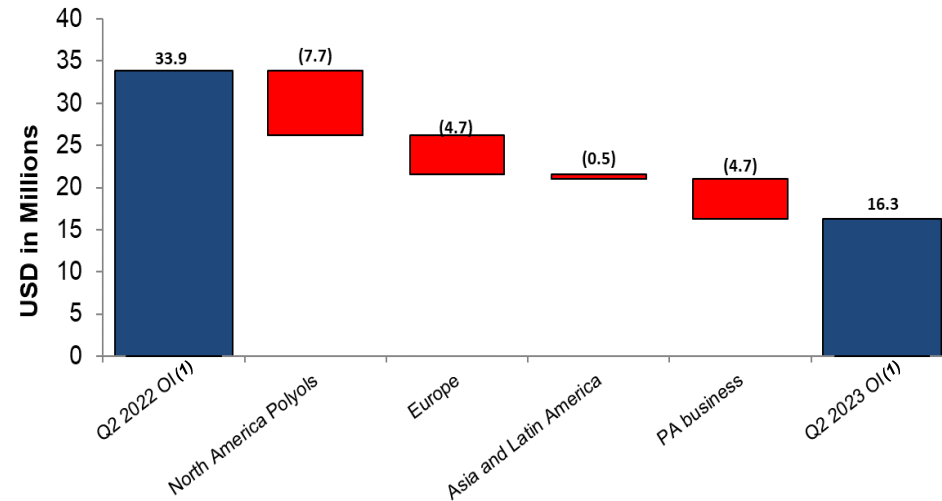
North America results were impacted by lower volume in the Rigid Polyol, Specialty Polyol and Phthalic Anhydride businesses, partially offset by margin recovery efforts.

Europe results were down due to lower sales volume in the Rigid Polyol and Specialty Polyol businesses.

Asia results improved on continued increased demand following the easing of COVID lockdowns and restrictions with the re-opening of China. Latin America was down due to lower volume.

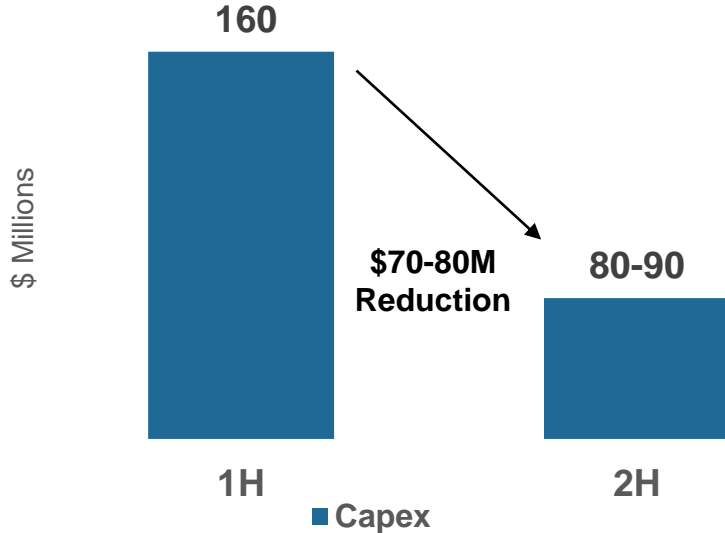
in millions \$

	Q2 2023	Q2 2022
Net Sales	\$ 164.5	\$ 238.9
Operating Income	\$ 16.3	\$ 33.9

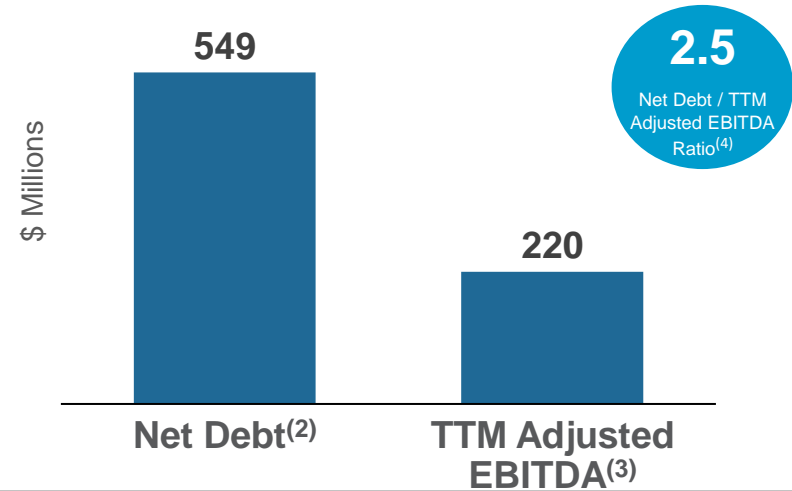


Balance Sheet remains healthy

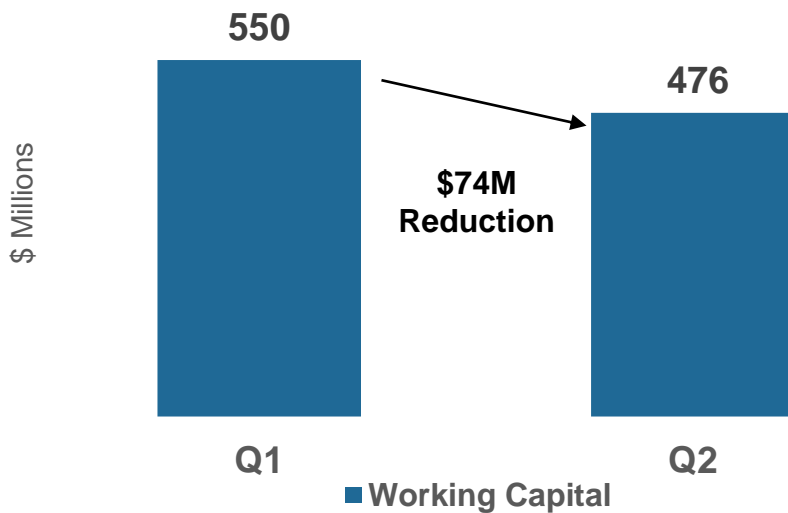
2023 Capital Expenditure⁽¹⁾



Net Debt / TTM Adjusted EBITDA



2023 Working Capital⁽⁵⁾



Scheduled Debt Principal Repayments

Year	Amount (\$MM)
2023	26
2024	54
2025	69
2026	67
2027	136
2028	45
2029	25
2030	25
2031	25
2032	11
Other (Revolver)	200
Total	683

Debt repayments include the term loan

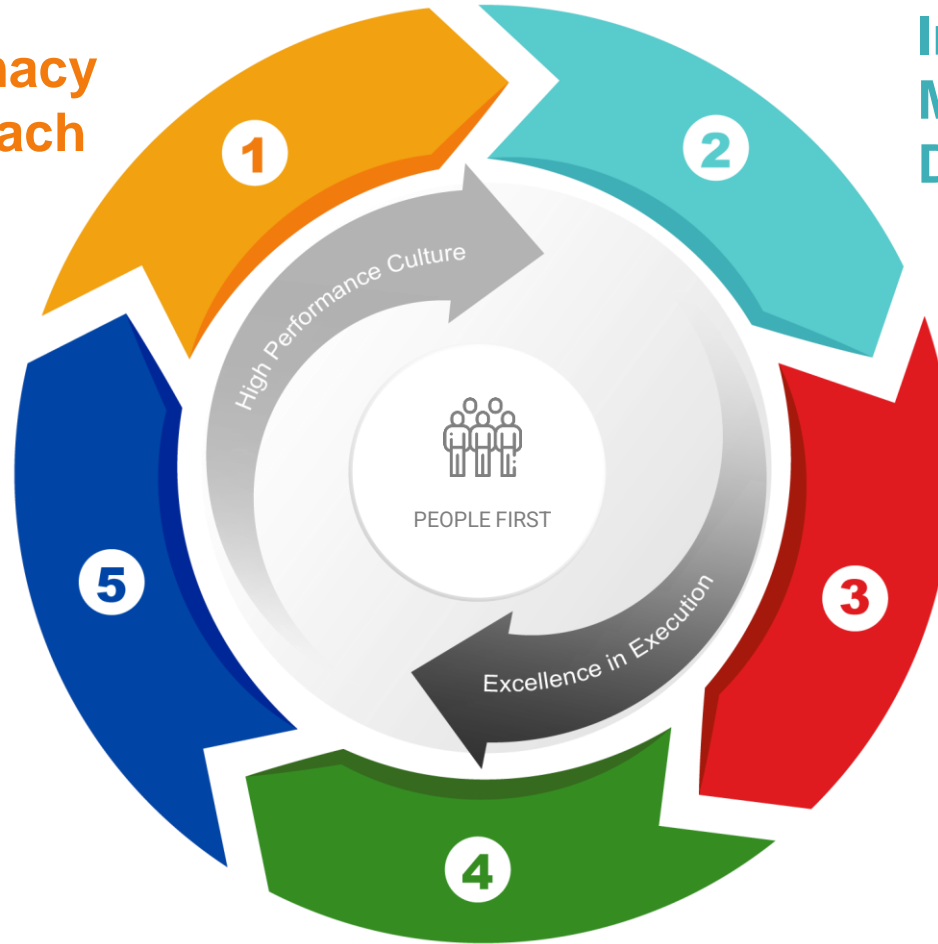
(1) 2H represents expected Amount
 (2) Net debt is a non-GAAP measure. See Appendix IV for a GAAP reconciliation.
 (3) TTM Adjusted EBITDA is a non-GAAP measure. See Appendix VIII for a GAAP reconciliation.
 (4) Net Debt / TTM Adjusted EBITDA Ratio is a non-GAAP measure. See Appendix V for a GAAP reconciliation.
 (5) Includes major components of Working Capital

Stepan Strategic Priorities

Shareholder Value Creation

**Customer Intimacy
& Extended Reach**

**Innovation &
Market
Diversification**



**Cost &
Operational
Excellence**

**Efficient Capital
Allocation**

ESG

Strategic Capital Investments Update

Alkoxylation / Specialty Nonionics



Pasadena, Texas (United States)

Stepan investing in new alkoxylation capacity at existing Pasadena, Texas facility. **Estimated Capex \$265MM.**

Benefits of Investment

Strategic Drivers: Alkoxylates are a **core surfactant technology** consumed across Stepan's key agricultural, oilfield, construction and household end use markets. Business continued growing Volume double digits in 1H 2023.

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.**

Expected Start-Up in mid-2024

Low 1,4 Dioxane Capability



Millsdale, Illinois (United States)

Stepan investing in Low 1,4 dioxane capabilities at several North America sites.

Benefits of Investment

Strategic Drivers: **Legislation** banning the sale of consumer products containing certain 1,4 dioxane levels is in effect in the State of New York. Customers have **made long-term commitments** to Low 1,4 Dioxane Ether Sulfates.

Investing in **1,4 dioxane removal technology** will enable Stepan to maintain and grow our North American Sulfonation business. Expecting to grow in second half of 2023 due to new contracted business.

Stepan will have the **largest installed Low 1,4 Dioxane production capacity** for supply to the North American Merchant Market.

Project Overview: Stepan's North America network will have **three facilities** with 1,4 dioxane removal capabilities.

Network Completion in 3rd Quarter 2023

Thank You

Luis E. Rojo

VP and CFO

847-446-7500

WORKING TOGETHER FOR A SAFER, CLEANER WORLD

APPENDIX

Financials and GAAP Reconciliations

Appendix I

Update on Certain Expectations

(millions USD)	2020 Actual	2021 Actual	2022 Actual	2023 Forecast
Capital Expenditures	126	195	301	240 - 250
Debt Repayments	24	38	38	42
Interest Net	5	6	10	15
Depreciation & Amortization	82	91	95	109
Effective Tax Rate (%)	25%	20%	22%	23-26%

2023 Capex guidance includes \$125-135MM for Pasadena and Low 1,4 Dx projects.

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			
	2023	EPS	2022	EPS	2023	EPS	2022	EPS
Net Income Reported	\$ 12,684	\$ 0.55	\$ 52,126	\$ 2.26	\$ 28,826	\$ 1.25	\$ 96,935	\$ 4.19
Deferred Compensation (Income) Expense	\$ (653)	\$ (0.02)	\$ 518	\$ 0.02	\$ (757)	\$ (0.03)	\$ (3,431)	\$ (0.15)
Business Restructuring Expense	\$ 31	\$ -	\$ 61	\$ 0.01	\$ 146	\$ 0.01	\$ 100	\$ 0.01
Cash-Settled SARs (Income) Expense	\$ (44)	\$ -	\$ 55	\$ -	\$ (84)	\$ -	\$ (347)	\$ (0.02)
Environmental Remediation Expense	\$ 39	\$ -	\$ 249	\$ 0.01	\$ 345	\$ 0.01	\$ 479	\$ 0.02
Adjusted Net Income	<u>\$ 12,057</u>	<u>\$ 0.53</u>	<u>\$ 53,009</u>	<u>\$ 2.30</u>	<u>\$ 28,476</u>	<u>\$ 1.24</u>	<u>\$ 93,736</u>	<u>\$ 4.05</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			
	2023	EPS	2022	EPS	2023	EPS	2022	EPS
Pre-Tax Adjustments								
Deferred Compensation (Income) Expense	\$ (871)		\$ 681		\$ (1,009)		\$ (4,514)	
Business Restructuring Expense	\$ 42		\$ 81		\$ 199		\$ 133	
Cash-Settled SARs (Income) Expense	\$ (58)		\$ 73		\$ (111)		\$ (455)	
Environmental Remediation Expense	\$ 52		\$ 327		\$ 461		\$ 630	
Total Pre-Tax Adjustments	\$ (835)		\$ 1,162		\$ (460)		\$ (4,206)	
Cumulative Tax Effect on Adjustments	\$ 208		\$ (279)		\$ 110		\$ 1,007	
After-Tax Adjustments	<u>\$ (627)</u>	<u>\$ (0.02)</u>	<u>\$ 883</u>	<u>\$ 0.04</u>	<u>\$ (350)</u>	<u>\$ (0.01)</u>	<u>\$ (3,199)</u>	<u>\$ (0.14)</u>

Appendix III

Foreign Exchange Impact – Q2 2023

(millions USD)	Surfactants	Polymers	Specialty Products	Consolidated
Net Sales	(2.9)	(5.0)	(0.2)	(8.0)
Gross Profit	(0.4)	(0.6)	(0.0)	(1.1)
Operating Expenses	(0.1)	(0.1)	(0.0)	(0.3)
Operating Income	(0.3)	(0.5)	(0.0)	(0.8)

Appendix IV

Net Debt to Total Capitalization Ratio

(millions USD)	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Total Debt	682.6	526.0	238.9	207.9	232.6	286.8
Cash	133.9	194.6	127.1	272.9	275.3	256.7
Net Debt	548.7	331.4	111.8	(65.0)	(42.7)	30.7
Equity	1,215.1	1,125.7	1,048.8	897.4	857.7	761.2
Net Debt + Equity	1,763.8	1,457.1	1,160.6	832.4	815.0	791.3
Net Debt / (Net Debt + Equity)	31%	23%	10%	(8%)	(5%)	4%

Appendix V

Adjusted EBITDA and EBITDA Reconciliations

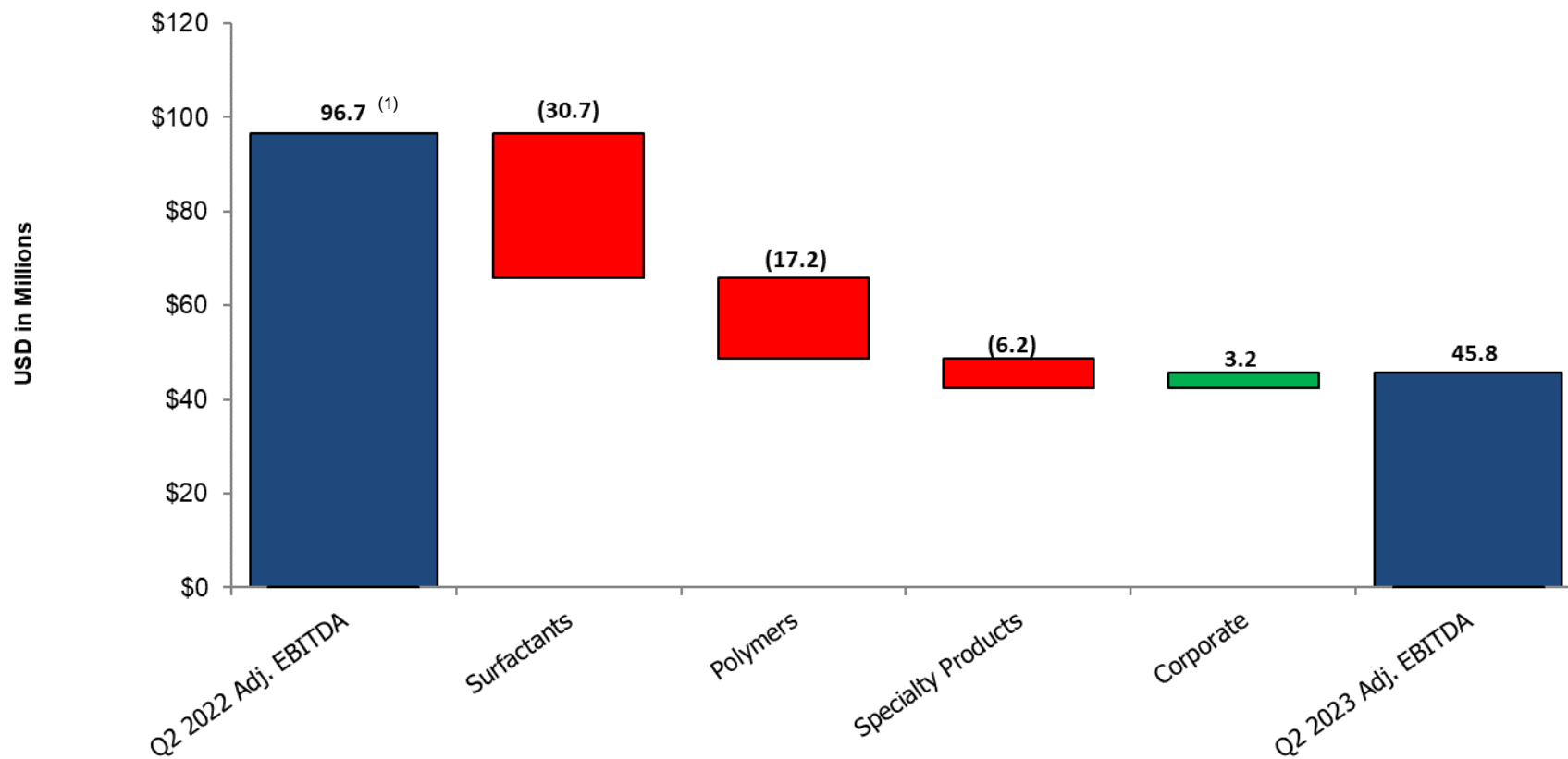
(millions USD)	Q2 2023 – Quarterly Adjusted EBITDA by Segment				
	Surfactants	Polymers	Specialty Products	Corporate	Total Stepan
Net Sales	392	165	24	-	580
Reported Operating Income	15	16	4	(17)	18
Adjustments	0	0	0	2	2
Adjusted Operating Income	15	16	4	(16)	19
Depreciation & Amortization	16	8	1	1	27
Adjusted EBITDA	31	25	5	(16)	46
Adjusted EBITDA Margin	7.9%	15.0%	21.8%	n/a	7.9%

	Q2 2023 – Adjusted EBITDA Total Stepan
Net Sales	580
Subtotal Segment Reported Operating Income	35
Cash Settled SARS	(0)
Corporate Expenses	(17)
Consolidated Adjusted Operating Income	19
Depreciation & Amortization	27
Other	2
Adjusted EBITDA	46
<i>Adjusted EBITDA Margin</i>	7.9%

(millions USD)	Q2 2023 – Quarterly EBITDA by Segment				
	Surfactants	Polymers	Specialty Products	Corporate	Total Stepan
Reported Operating Income	15	16	4	(17)	18
Depreciation & Amortization	16	8	1	1	27
Other Net Income (Expense)	0	0	0	3	2
EBITDA	31	25	5	(14)	47
EBITDA Margin	7.9%	15.0%	21.9%	n/a	8.1%

Appendix VI

Adjusted EBITDA Bridge⁽¹⁾



(1) Adjusted EBITDA is a non-GAAP measure. See Appendix V and Appendix VII for GAAP reconciliations.

Appendix VII

Adjusted EBITDA and EBITDA Reconciliations 2022

(millions USD)	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 expense and \$3.4 million in deferred compensation and cash-settled SARs income to Corporate

	Q2 2022 – Adjusted EBITDA
Net Sales	752
Subtotal Segment Reported Operating Income	93
Cash-Settled SARS	(0)
Corporate Expenses	(16)
Consolidated Adjusted Operating Income	75
Depreciation & Amortization	23
Other	(3)
Adjusted EBITDA	97
Adjusted EBITDA Margin	12.9%

(millions USD)	Q2 2022 – Quarterly EBITDA by Segment				
	Surfactants	Polymers	Specialty Products	Corporate	Total Stepan
Reported Operating Income	48	34	10	(14)	78
Depreciation & Amortization	13	8	1	1	23
Other Net Income (Expense)	0	0	0	(5)	(5)
EBITDA	62	42	11	19	96
EBITDA Margin	12.7%	17.5%	41.2%	n/a	12.7%

Appendix VIII

Trailing Twelve Months Adjusted EBITDA Reconciliation

	6/30/2023 TTM – Adjusted EBITDA
Reported Operating Income	105
Depreciation & Amortization	100
Other Net Income (Expense)	2
EBITDA	208
Deferred Compensation	0
Cash Settled SARS	(0)
Business Restructuring	0
Environmental Remediation	11
Adjusted EBITDA	220