



# Earnings Call Presentation

First Quarter 2022

April 26, 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

First Quarter Highlights	Scott R. Behrens, <i>President and Chief Executive Officer</i>
First 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>

# First Quarter 2022 Financial Recap

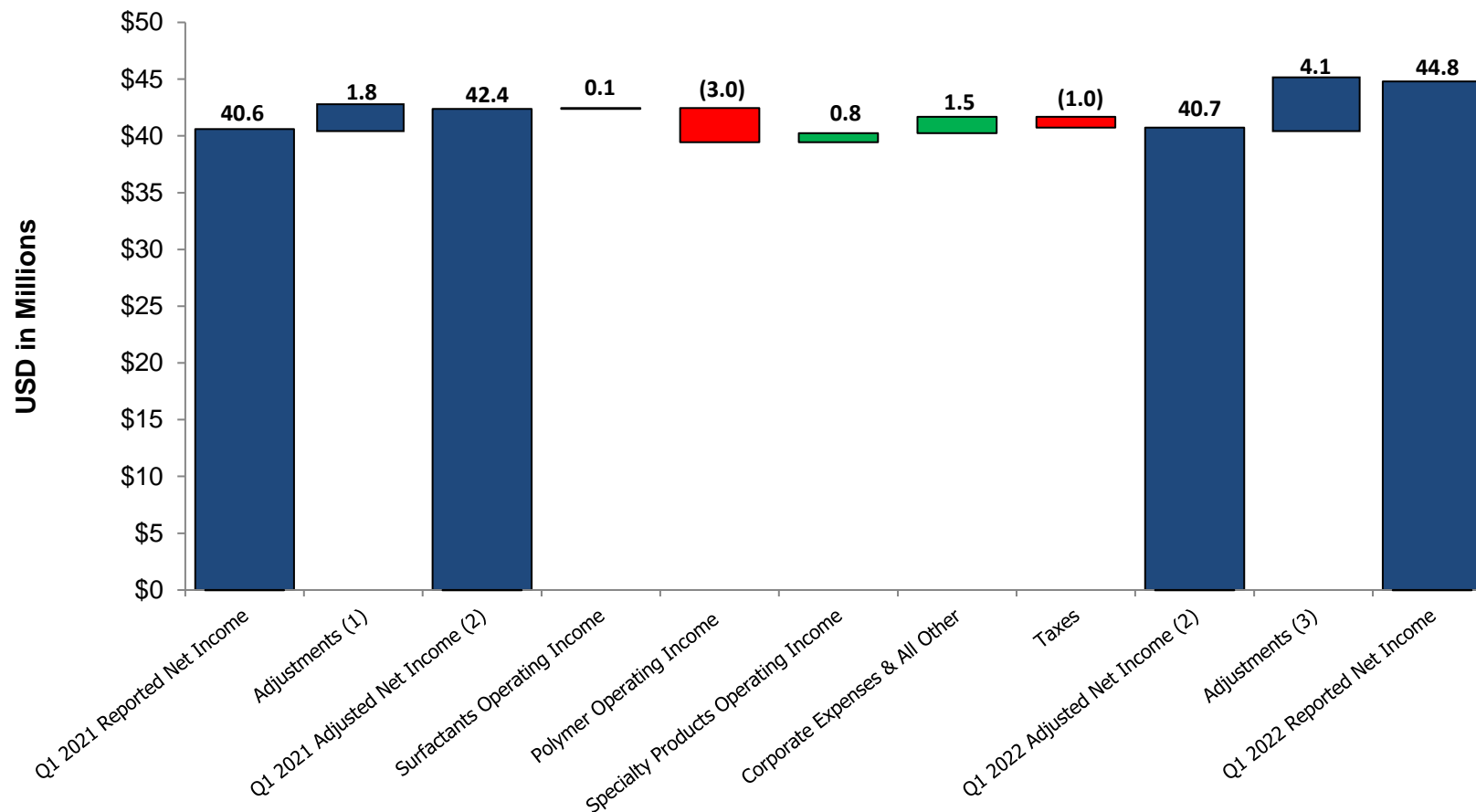
- **RECORD** Q1 Reported Net Income was \$44.8 million, or \$1.93 per diluted share versus \$40.6 million, or \$1.74 per diluted share, in Q1 2021.
- Q1 Adjusted Net Income<sup>(1)</sup> was \$40.7 million, or \$1.76 per diluted share, versus \$42.4 million, or \$1.82 per diluted share, in Q1 2021. Adjusted Net Income in Q1 2022 excludes the following non-operational items:
  - Deferred compensation and cash-settled SARs income of \$4.4 million, or \$0.18 per diluted share.
  - Environmental remediation of \$0.2 million, or \$0.01 per diluted share.
- **RECORD** Reported Surfactant Operating Income was \$53.8 million, an increase of \$0.6 million, versus Q1 2021. This increase was primarily driven by improved product and customer mix that was mostly offset by ongoing global supply chain challenges and a 1% decline in global sales volume.
- Reported Polymer Operating Income was \$14.1 million, a decrease of \$3.8 million, versus Q1 2021. This decrease was due to a January 2022 power outage at the Company's Millsdale, IL plant site that negatively impacted production. The production disruption resulted in the declaration of force majeure for select products and higher sourcing, logistic and maintenance costs. The Company estimates these items negatively impacted Polymer's first quarter 2022 earnings by approximately \$5.0 million pre-tax. The force majeure was lifted on April 15th. Global Polymer sales volume increased 2% versus the prior year. Global rigid polyol volume was up 5% versus the prior year largely due to the 2021 INVISTA polyester polyol acquisition which closed at the end of January 2021.
- Specialty Product operating income was \$3.7 million versus \$2.6 million in the prior year. This increase was primarily attributable to order timing differences within the food and flavor business and margin recovery within the medium chain triglycerides (MCTs) product line, partially offset by a decline in MCTs sales volume.

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

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

# Net Income Bridge – Q1 2021 to Q1 2022

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



- (1) The adjustments to Reported Net Income in Q1 2021 consisted of deferred compensation expense and cash-settled SARs expense of \$1.7 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 Q1 2022 consisted of deferred compensation income and cash settled SARs income of \$4.4 million and restructuring costs of \$0.2 million.

# Surfactants – RECORD Quarter

Pricing and mix improvements offsetting inflationary pressures and higher global demand in functional product, institutional cleaning and personal care end markets.



## Q1 2022 Business Results Highlights

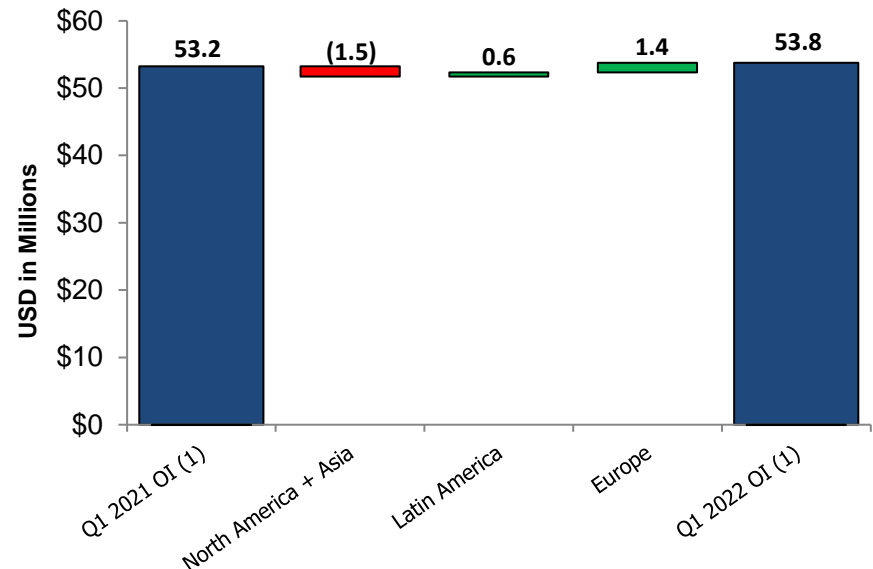
Operating Income was a record \$53.8 million, an increase of \$0.6 million compared to the prior year. Selling prices were up 29% primarily due to the pass-through of higher raw material costs as well as improved product and customer mix. Foreign exchange negatively impacted Net Sales by 2%.

North America results decreased primarily due to lower demand for Laundry products within the consumer products business.

Latin America results up driven by improved product and customer mix in Brazil partially offset by lower demand in Laundry products in Mexico.

Europe results increased due to an improved product and customer mix driven by the Agriculture business.

<i>in millions \$</i>	Q1 2022	Q1 2021
<b>Net Sales</b>	<b>\$ 468.3</b>	<b>\$ 370.9</b>
<b>Operating Income</b>	<b>\$ 53.8</b>	<b>\$ 53.2</b>



# Polymers

Lower results primarily due to Millsdale plant power outage.



## Q1 2022 Business Results Highlights

Operating Income was \$14.1 million, a decrease of \$3.8 million versus prior year, primarily due to the Q1 2022 Millsdale plant power outage that negatively impacted operating income by \$5.0 million. Selling prices increased 26% primarily due to the pass through of higher raw material costs. Sales volume increased 2% primarily due to rigid polyol growth of 5% that was partially offset by an 8% decline in phthalic anhydride. Net sales were \$187 million in the first quarter, a 24% increase versus prior year.

North America Polyol and PA results decreased due to the Q1 2022 Millsdale power outage. Plant has been running at full capacity since March.

Europe results increased due to volume growth in Rigid Polyol from the INVISTA acquisition and a strong base business.

Asia Rigid Polyol was flat despite continued challenges with COVID lockdowns.

*in millions \$*

**Net Sales**

**Q1 2022**

**\$ 187.1**

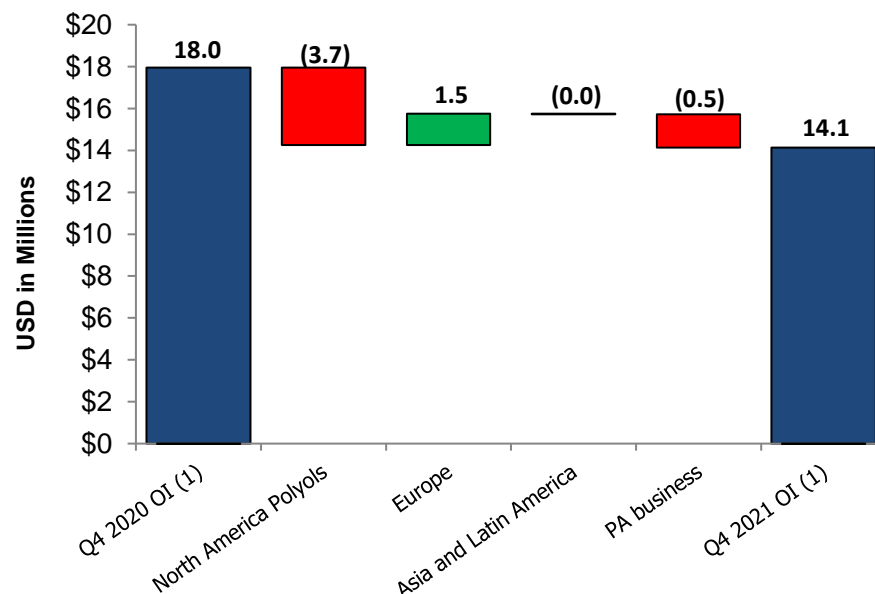
**Q1 2021**

**\$ 150.4**

**Operating Income**

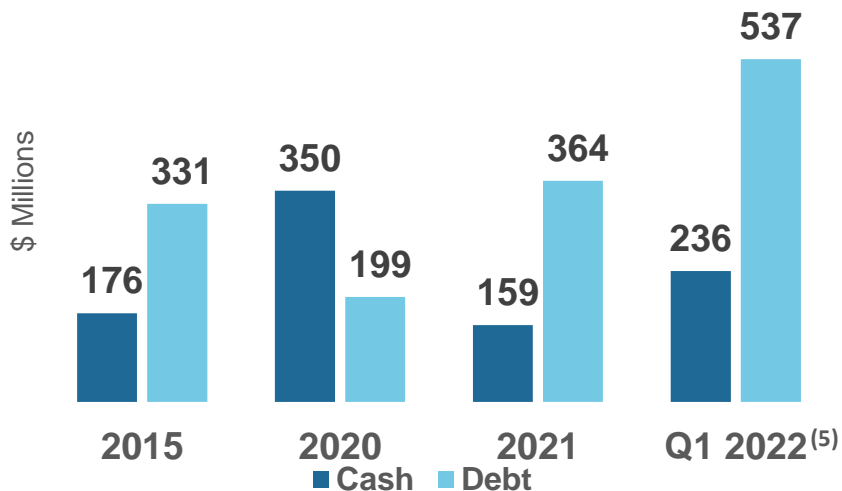
**\$ 14.1**

**\$ 18.0**

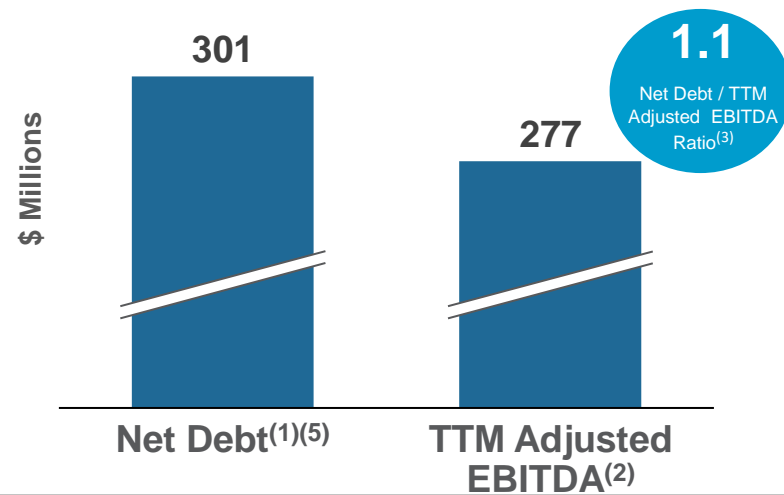


# Strong Balance Sheet and Ample Liquidity to Invest for Growth

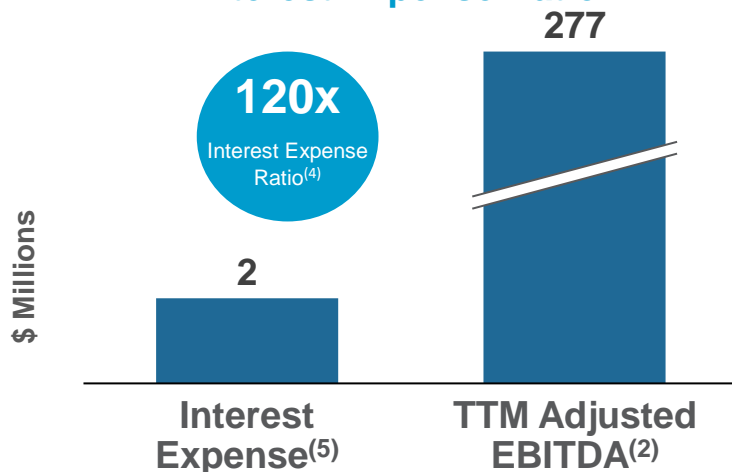
## Cash vs. Debt



## Net Debt / TTM Adjusted EBITDA



## Interest Expense Ratio



## Scheduled Debt Principal Repayments<sup>(5)</sup>

Year	Amount (\$MM)
2022	38
2023	38
2024	49
2025	63
2026	59
2027	59
2028	45
2029	25
2030	25
2031	25
2032	11
Other (Revolver)	101
<b>Total</b>	<b>537</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.  
 (5) Figures as of 3/31/2022 closing.



# Stepan Strategic Priorities

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



## BUSINESS PRIORITIES



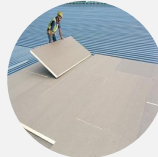
- Enable a healthier world through the supply of surfactants for cleaning, disinfection and personal wash applications.



- 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> <li>• Consumer Products Biocides Volumes down versus pandemic peak.</li> </ul>
 <p><b>Cleaning &amp; Disinfection and Personal Care</b></p>	<ul style="list-style-type: none"> <li>• Lower volume in Laundry driven by raw material sourcing disruptions 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.</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 mid single digits over prior year.</li> <li>• Increased customer penetration with 250 new Tier 2/3 customers in the first quarter.</li> </ul>
 <p><b>Agricultural Chemicals</b></p>	<ul style="list-style-type: none"> <li>• Global agricultural volume increased high single digits.</li> <li>• High commodity prices for corn and soybeans, coupled with increased planted acreage for the 2022 growing season drove a strong season for crop protection sales in North America.</li> <li>• Strong Q1 2022 results in Asia due to the continued growth in the post-patent herbicide market.</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 mid single digits 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 to be more productive and cost efficient.</li> <li>• Continue the integration and supply chain planning of the KMCO demulsifier portfolio in anticipation of 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 B/S to continue working on potential projects to complement our portfolio.</li> </ul>

# Strategic Investments

## Acquisition of INVISTA's Aromatic Polyester Polyol Business & US Gulf Coast Alkoxylation

**\$120+ million** Annual Revenue



Wilmington,  
NC (United States)



Vlissingen  
(the Netherlands)

Stepan acquired INVISTA's aromatic polyester polyol business and associated assets in January 2021.

### Benefits of Acquisition

**Sustainability:** The long-term prospects for rigid polyol use in insulation remain strong as **energy conservation** efforts and **more stringent building codes** should continue to drive market growth

**Operations:** New product capabilities (**TERATE® flame retardant polyester polyol**), capital efficient expansion, enhanced business continuity with a stronger supply network.

**Financial Performance:** **Accretive to Stepan's EPS and EBITDA margins** in 2021 and Q1 2022.

**2021 EBITDA : \$20MM +**

**\$220 million** Capital Investment



Pasadena, Texas (United States)

Stepan to invest in alkoxylation capacity increase at existing Pasadena, Texas facility.

### 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**  
**Expected Start-Up - Late 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)		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 March 31			
	2022	EPS	2021	EPS
Net Income Reported	\$ 44,809	\$ 1.93	\$ 40,611	\$ 1.74
Deferred Compensation (Income) Expense	\$ (3,948)	\$ (0.17)	\$ 1,501	\$ 0.07
Business Restructuring	39	0.00	61	0.00
Cash Settled Stock Appreciation Rights	(402)	(0.01)	199	0.01
Environmental Remediation	230	0.01	-	-
Adjusted Net Income	<u>\$ 40,728</u>	<u>\$ 1.76</u>	<u>\$ 42,372</u>	<u>\$ 1.82</u>

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

(\$ in thousands, except per share amounts)	Three Months Ended March 31			
	2022	EPS	2021	EPS
<b><u>Pre-Tax Adjustments</u></b>				
Deferred Compensation (Income) Expense	\$ (5,195)		\$ 1,975	
Business Restructuring	52		81	
Cash Settled Stock Appreciation Rights	(529)		261	
Environmental Remediation	303		—	
Total Pre-Tax Adjustments	\$ (5,369)		\$ 2,317	
Cumulative Tax Effect on Adjustments	\$ 1,288		\$ (556)	
After-Tax Adjustments	<u>\$ (4,081)</u>	<u>\$ (0.17)</u>	<u>\$ 1,761</u>	<u>\$ 0.08</u>

# Appendix III

## Foreign Exchange Impact – Q1 2022

(millions USD)	Surfactants	Polymers	Specialty Products	Consolidated
Net Sales	(6.1)	(5.3)	(0.2)	(11.6)
Gross Profit	(0.8)	(0.8)	(0.1)	(1.7)
Operating Expenses	(0.3)	(0.2)	(0.0)	(0.6)
Operating Income	(0.4)	(0.6)	(0.1)	(1.1)



# Appendix IV

## Net Debt to Total Capitalization Ratio

(millions USD)	March 31, 2022	December 31, 2021	March 31, 2021	March 31, 2020	March 31, 2019	March 31, 2018
Total Debt	537.1	363.6	248.4	222.1	271.9	290.8
Cash	236.0	159.2	150.7	254.3	269.5	244.6
Net Debt	301.1	204.4	97.7	(32.2)	2.4	46.2
Equity	1,116.7	1,074.2	1,002.3	866.8	831.4	774.6
Net Debt + Equity	1,417.8	1,278.6	1,100.0	834.6	833.8	820.8
Net Debt / (Net Debt + Equity)	21%	16%	9%	(4%)	0%	6%

# Appendix V

## Adjusted EBITDA Reconciliations

	Q1 2022 – Quarterly Adjusted EBITDA by Segment				
	Surfactants	Polymers	Specialty Products	Corporate	Total Stepan
Net Sales	468	187	20	-	675
Reported Operating Income	54	14	4	-8.2	63
Adjustments*	0	0	0	-8	-8
Adjusted Operating Income	53	14	4	-8	56
Depreciation & Amortization	13	8	1	1	23
Adjusted EBITDA	67	22	5	-15	79
Adjusted EBITDA Margin	14.2%	11.6%	25.8%	n/a	11.7%

\*Includes \$0.3 million in Cash SARs to Surfactants, \$0.3 million in Environmental Remediation and \$7.6 million in deferred compensation and Cash Settled SARs to Corporate

	Q1 2022 – Trailing Twelve Months Adjusted EBITDA Total Stepan
Net Sales	2,484
Subtotal Segment Reported Operating Income	252
Cash Settled SARS	0
Corporate Expenses	(69)
Consolidated Adjusted Operating Income	182
Depreciation & Amortization	92
Other*	3
Adjusted EBITDA	277
Adjusted EBITDA Margin	11.1%

\*Includes \$3.6 million of Other Income and (\$0.1) million Minority Interest.

Interest Expense Ratio = TTM Adjusted EBITDA / Interest Expense = 277/2.3 = 120x  
 Net Debt/TTM Adjusted EBITDA Ratio = 301/277 = 1.09