



# Earnings Call Presentation

Third Quarter 2022

October 19, 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

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

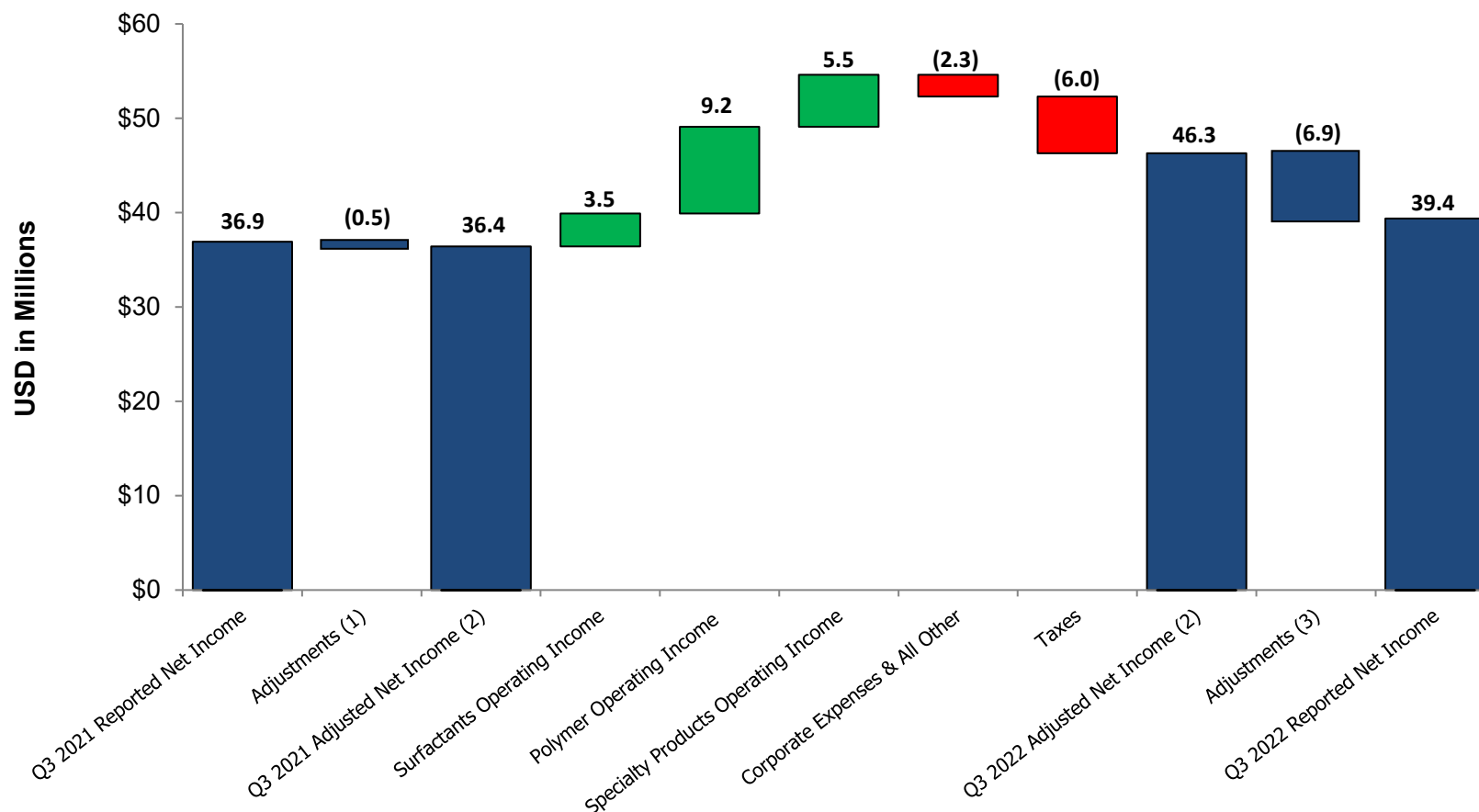
# Third Quarter 2022 Financial Recap

- **RECORD** Q3 Reported Net Income was \$39.4 million, or \$1.71 per diluted share, versus \$36.9 million, or \$1.59 per diluted share, in Q3 2021.
- **RECORD** Q3 Adjusted Net Income<sup>(1)</sup> was \$46.3 million, or \$2.01 per diluted share, versus \$36.4 million, or \$1.57 per diluted share, in Q3 2021. Adjusted Net Income in Q3 2022 excludes the following non-operational items:
  - Deferred compensation and cash-settled SARs income of \$1.1 million, or \$0.05 per diluted share.
  - Environmental remediation expense of \$7.9 million, or \$0.34 per diluted share.
- Surfactant Operating Income was \$39.0 million versus \$34.5 million in the prior year. This increase was primarily driven by improved product and customer mix that was partially offset by an 8% decline in global sales volume. The sales volume decline was primarily due to lower global commodity laundry demand and raw material constraints in North America. Higher demand in the Functional Products and Institutional Cleaning end markets partially offset the above.
- **RECORD** Polymer Operating Income was \$31.9 million versus \$19.8 million in the prior year. This increase was primarily attributable to margin recovery and improved mix that was partially offset by a 10% decrease in global sales volume. The decrease was primarily due to an 8% decline in Rigid Polyol demand driven by declines in Europe and Asia.
- **RECORD** Specialty Product Operating Income was \$9.7 million versus \$2.4 million in the prior year. This increase was primarily attributable to improved margins and customer mix within the medium chain triglycerides (MCTs) product line.
- The effect of foreign currency translation negatively impacted net income by \$2.4 million, or \$0.11 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.*

# Net Income Bridge – Q3 2021 to Q3 2022

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



(1) The adjustments to Reported Net Income in Q3 2021 consisted of deferred compensation income and cash-settled SARs income of \$1.3 million, restructuring costs of \$0.1 million and environmental remediation expense of \$0.7 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 Q3 2022 consisted of environmental remediation of \$7.9 million, deferred compensation income and cash settled SARs income of \$1.1 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 Products and Institutional Cleaning end markets.



## Q3 2022 Business Results Highlights

Operating Income was \$39 million, an increase of \$4.5 million compared to the prior year. Selling prices were up 35% primarily due to the pass-through of higher raw material and logistic costs as well as improved product and customer mix. The unfavorable impact of foreign currency translation negatively impacted net sales by 5%.

North America results were up due to improved product and customer mix with higher demand for Functional Products and Institutional Cleaning Products. This was partially offset by lower commodity Laundry volume demand and raw material constraints.

Latin America results were up driven by improved product and customer mix partially offset by lower demand in commodity Laundry.

Europe results increased due to improved product and customer mix partially offset by lower volumes in commodity Laundry and FX headwinds.

in millions \$

**Net Sales**

**Q3 2022**

**\$ 474.9**

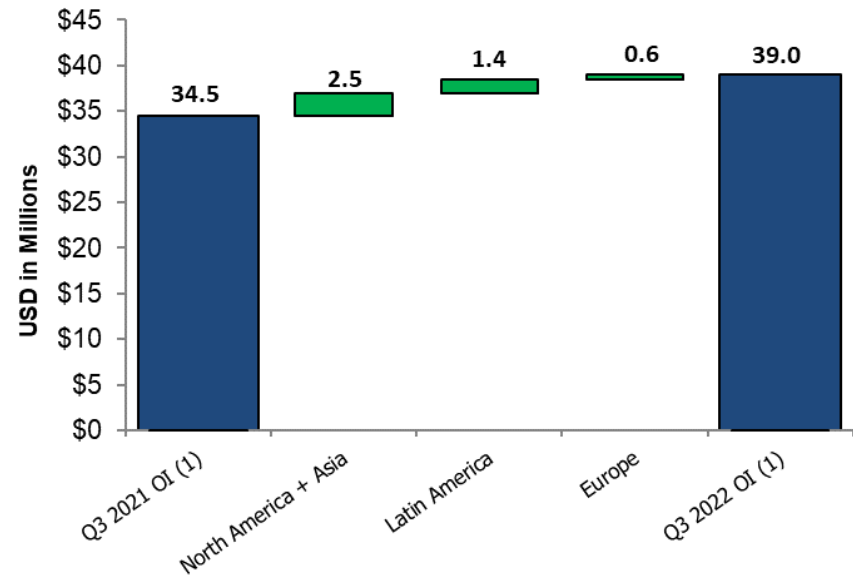
**Q3 2021**

**\$ 387.7**

**Operating Income**

**\$ 39.0**

**\$ 34.5**

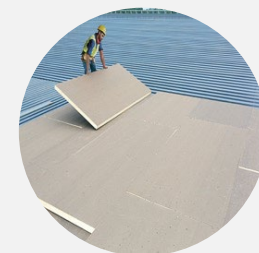


(1) OI = Operating Income

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

# Polymers RECORD Third Quarter

Higher Operating Income primarily attributable to margin recovery and mix improvement.



## Q3 2022 Business Results Highlights

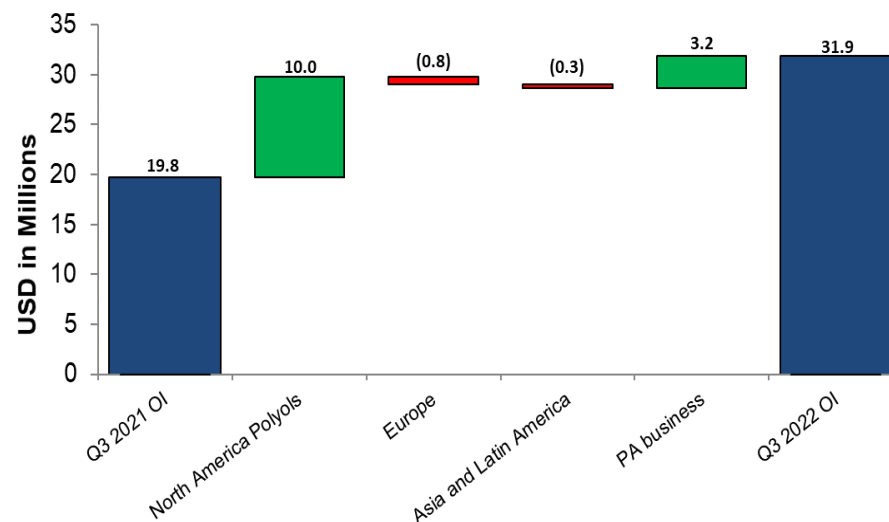
Operating Income was \$31.9 million, an increase of \$12.1 million versus prior year. Selling prices increased 26% primarily due to the pass through of higher raw material and logistic costs and margin recovery. Volume decreased 10% in the quarter primarily due to an 8% decline in Rigid Polyol demand (Europe and China). The translation impact of a stronger U.S. dollar negatively impacted net sales by 8%.

North America Polyol and PA results increased primarily attributable to margin recovery and mix improvement.

The decrease in Europe results was primarily related to FX headwinds. Lower volumes were offset by margin recovery.

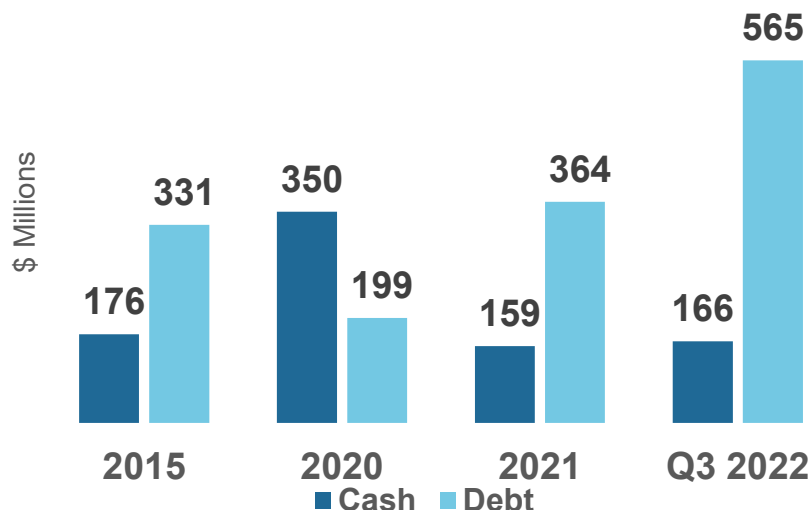
Asia results were slightly down due to lower demand related to COVID lockdowns and restrictions.

<i>in millions \$</i>	Q3 2022	Q3 2021
<b>Net Sales</b>	<b>\$ 214.8</b>	<b>\$ 198.8</b>
<b>Operating Income</b>	<b>\$ 31.9</b>	<b>\$ 19.8</b>

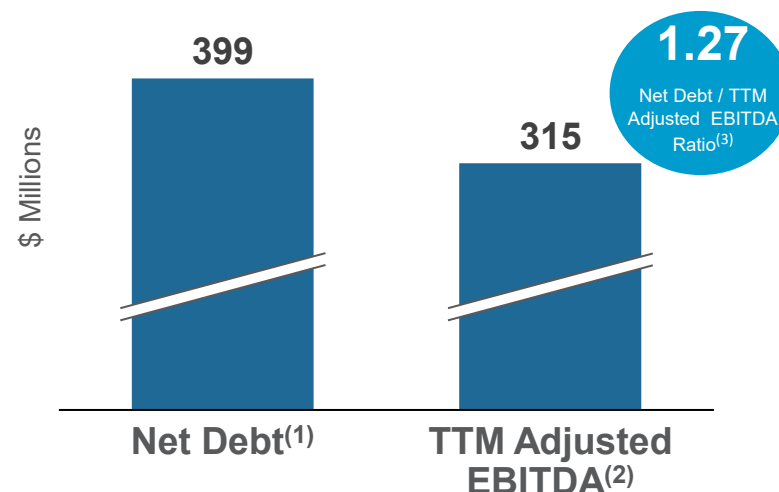


# Strong Balance Sheet and Ample Liquidity to Invest for Growth

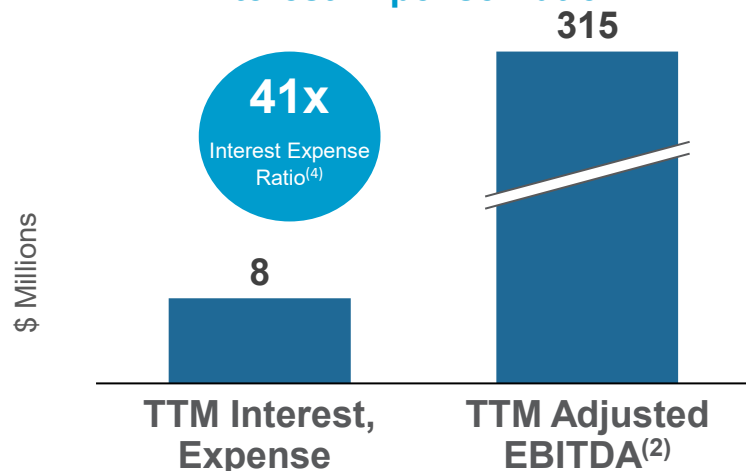
## Cash vs. Debt



## Net Debt / TTM Adjusted EBITDA



## Interest Expense Ratio



## Scheduled Debt Principal Repayments

Year	Amount (\$MM)
2022	9
2023	38
2024	49
2025	63
2026	59
2027	59
2028	45
2029	25
2030	25
2031	25
2032	11
Other (Revolver)	157
<b>Total</b>	<b>565</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



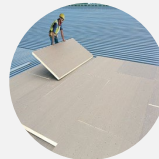
- Enable a healthier world through the supply of Surfactants for cleaning, disinfection and personal wash applications.



- 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.







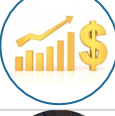



- Deliver productivity and efficiency across all of Stepan to improve margins.



- Integrate the acquired PerformanX business in North America Surfactants.
- 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 Highlights / 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>• In total 25 formulations approved by the EPA for on-label claims to kill SARS-CoV-2 in the United States. 6 approved in Canada.</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 lower global demand and raw material constraints in North America.</li> <li>• Personal Care volume decreased due to the low 1,4 dioxane transition, and some raw material shortages.</li> <li>• Debottleneck and increase capacity in key product lines. Secure critical raw materials for growth. Expanding Capacity for Amphoteric in North America and 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>• Year-to-date Tier 2/3 volume (including Functional Products) is higher versus prior year.</li> <li>• Continued growth in customer base with approximately 100 new Tier 2/3 customers in the third 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 continued to drive 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>• Global Oilfield Volume increased double digits driven by higher commodity prices and strong demand.</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 build out of the KMCO Demulsifier product line.</li> </ul>
 <p><b>Rigid Polyols</b></p>	<ul style="list-style-type: none"> <li>• Continue the development of next generation of value-added and sustainably advantaged Rigid Polyol Technologies.</li> <li>• Continue capturing market growth dynamics behind energy conservation efforts.</li> <li>• Continue growing the Chinese business post COVID restrictions.</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>• Currently Integrating the recent acquired PerformanX business.</li> <li>• Leverage our strong Balance Sheet to continue working on potential projects to complement our portfolio.</li> </ul>

# Strategic Investments

## US Alkoxylation Investments

# \$245 million

Capital Investment



Pasadena, Texas (United States)

Stepan to invest in alkoxylation capacity 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. Business continues growing Volume double digits in 2022.

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 – Early 2024**

# \$20 million

Annual Revenue



Stepan acquired PerformanX's alkoxylation business in September 2022.

### Benefits of Acquisition

"PerformanX is a strong strategic fit within Stepan's Surfactants business and provides attractive market diversification opportunities for our alkoxylation product line."

-Scott R. Behrens, President and Chief Executive Officer

**Financial Performance:** Projected to be accretive to Stepan's EPS and EBITDA margins.

**Acquisition is on track**

# 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	330-350
Debt Repayments	➔	54	24	38	38
Interest Net	➔	6	5	6	11
Effective Tax Rate	➔	18%	25%	20%	23-25%

**2022 Capex guidance includes \$130-150MM 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 September 30				Nine Months Ended September 30			
	2022	EPS	2021	EPS	2022	EPS	2021	EPS
Net Income Reported	\$ 39,384	\$ 1.71	\$ 36,920	\$ 1.59	\$ 136,319	\$ 5.90	\$ 120,809	\$ 5.19
Deferred Compensation (Income) Expense	\$ (938)	\$ (0.04)	\$ (1,135)	\$ (0.05)	\$ (4,369)	\$ (0.19)	\$ (685)	\$ (0.03)
Business Restructuring Expense	\$ 69	\$ -	\$ 54	\$ -	\$ 169	\$ 0.01	\$ 200	\$ 0.01
Cash-Settled SARs (Income) Expense	\$ (117)	\$ -	\$ (141)	\$ -	\$ (464)	\$ (0.02)	\$ (38)	\$ -
Environmental Remediation Expense	\$ 7,883	\$ 0.34	\$ 719	\$ 0.03	\$ 8,362	\$ 0.36	\$ 719	\$ 0.03
<b>Adjusted Net Income</b>	<b>\$ 46,281</b>	<b>\$ 2.01</b>	<b>\$ 36,417</b>	<b>\$ 1.57</b>	<b>\$ 140,017</b>	<b>\$ 6.06</b>	<b>\$ 121,005</b>	<b>\$ 5.20</b>

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

(\$ in thousands, except per share amounts)	Three Months Ended September 30				Nine Months Ended September 30			
	2022	EPS	2021	EPS	2022	EPS	2021	EPS
<b>Pre-Tax Adjustments</b>								
Deferred Compensation (Income) Expense	\$ (1,234)		\$ (1,494)		\$ (5,748)		\$ (901)	
Business Restructuring Expense	\$ 92		\$ 72		\$ 225		\$ 267	
Cash-Settled SARs (Income) Expense	\$ (154)		\$ (186)		\$ (609)		\$ (50)	
Environmental Remediation Expense	\$ 10,372		\$ 946		\$ 11,002		\$ 946	
<b>Total Pre-Tax Adjustments</b>	<b>\$ 9,076</b>		<b>\$ (662)</b>		<b>\$ 4,870</b>		<b>\$ 262</b>	
Cumulative Tax Effect on Adjustments	\$ (2,179)		\$ 159		\$ (1,172)		\$ (66)	
<b>After-Tax Adjustments</b>	<b>\$ 6,897</b>	<b>\$ 0.30</b>	<b>\$ (503)</b>	<b>\$ (0.02)</b>	<b>\$ 3,698</b>	<b>\$ 0.16</b>	<b>\$ 196</b>	<b>\$ 0.01</b>

# Appendix III

## Foreign Exchange Impact – Q3 2022

(millions USD)	Surfactants	Polymers	Specialty Products	Consolidated
Net Sales	(19.3)	(15.6)	(0.8)	(35.7)
Gross Profit	(1.8)	(2.3)	(0.4)	(4.5)
Operating Expenses	(0.9)	(0.6)	(0.0)	(1.5)
Operating Income	(1.0)	(1.7)	(0.4)	(3.1)



# Appendix IV

## Net Debt to Total Capitalization Ratio

(millions USD)	September 30, 2022	September 30, 2021	September 30, 2020	September 30, 2019	September 30, 2018	September 30, 2017
Total Debt	564.9	279.8	207.9	231.9	286.2	304.4
Cash	165.7	105.3	310.4	286.0	274.0	264.1
Net Debt	399.2	174.5	(102.5)	(54.1)	12.2	40.3
Equity	1,130.2	1,057.3	938.2	854.2	777.7	734.9
Net Debt + Equity	1,529.4	1,231.8	835.7	800.1	789.9	775.2
Net Debt / (Net Debt + Equity)	26%	14%	(12%)	(7%)	2%	5%

# Appendix V

## Adjusted EBITDA Reconciliations

	Q3 2022 – Quarterly Adjusted EBITDA by Segment				
	Surfactants	Polymers	Specialty Products	Corporate	Total Stepan
Net Sales	475	215	30	-	719
Reported Operating Income	39	32	10	-26	55
Adjustments*	0	0	0	8	8
Adjusted Operating Income	39	32	10	-18	63
Depreciation & Amortization	14	8	2	1	24
Adjusted EBITDA	53	40	11	-17	85
Adjusted EBITDA Margin	11.1%	18.5%	37.7%	n/a	11.9%

\*Consist of \$10.4 million in environmental remediation expense and \$2.1 million in deferred compensation and Cash Settled SARs income to Corporate

	Q3 2022 – Trailing Twelve Months Adjusted EBITDA Total Stepan
Net Sales	2,756
Subtotal Segment Reported Operating Income	292
Cash Settled SARs	0
Corporate Expenses	(69)
Consolidated Adjusted Operating Income	222
Depreciation & Amortization	93
Other	0
Adjusted EBITDA	315
Adjusted EBITDA Margin	11.4%

Interest Expense Ratio = TTM Adjusted EBITDA / Interest Expense = 315/ 7.7 = 41x  
 Net Debt/TTM Adjusted EBITDA Ratio = 399/315 = 1.27