Stepan

# Earnings Call Presentation

## Second Quarter 2021

July 28, 2021

# 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.

There are a number of risks, uncertainties and other important factors, many of which are beyond Stepan Company's control, that could cause actual results to differ materially from the forward-looking statements contained in this presentation. Such risks, uncertainties and other important factors include, among other factors, the risks, uncertainties and factors described in Stepan Company's Form 10-K, Form 10-Q and Form 8-K reports and exhibits to those reports, and include (but are not limited to) risks and uncertainties related to the impact of the COVID-19 pandemic; disruptions in production or accidents at manufacturing facilities; reduced demand due to customer product reformulations or new technologies; our inability to successfully develop or introduce new products; compliance with laws; our ability to make acquisitions of suitable candidates and successfully integrate acquisitions; global competition; volatility of raw material and energy costs and supply; disruptions in transportation or significant changes in transportation costs; downturns in certain industries and general economic downturns; international business risks, including currency exchange rate fluctuations, legal restrictions and taxes; unfavorable resolution of litigation against us; maintaining and protecting intellectual property rights; our ability to access capital markets; global political, military, security or other instability; costs related to expansion or other capital projects; interruption or breaches of information technology systems; our ability to retain its executive management and key personnel; and our debt covenants.

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 | F. Quinn Stepan, Jr.,<br>*Chairman and Chief Executive Officer* |
| Second Quarter Financial Results | Luis E. Rojo,<br>*Vice President and Chief Financial Officer* |
| Strategic Outlook | Scott Behrens,<br>*President and Chief Operating Officer* |
| Analyst / Shareholder Questions | |
| Closing Remarks | F. Quinn Stepan, Jr.,<br>*Chairman and Chief Executive Officer* |

# Second Quarter 2021 Financial Recap

- Reported Q2 Net Income was a **RECORD** $43.3 million, or $1.85 per diluted share, a 21% increase versus $35.7 million, or $1.54 per diluted share, in Q2 2020.

- Adjusted Net Income(1) was a second quarter **RECORD** $42.2 million, or $1.81 per diluted share, a 10% increase versus $38.3 million, or $1.65 per diluted share, in Q2 2020. Adjusted Net Income in Q2 2021 excludes the following non-operational items:
  - Deferred compensation and cash-settled SARs income of $1.1 million, or $0.04 per diluted share.
  - Restructuring expense of $0.1 million, or less than $0.01 per diluted share.

- Reported Surfactant Operating Income was $45.9 million, a decrease of $2.6 million, or 5%, versus Q2 2020. This decrease was largely attributable to higher North American supply chain costs due to inflationary pressures and planned higher maintenance costs. Global Surfactant sales volume decreased 6% but the associated impact was more than offset by improved margins, product and customer mix. Consumer product sales volume was negatively impacted by feedstock supply issues following the first quarter 2021 severe weather in Texas, customer inventory rebalancing efforts and lower demand for cleaning products versus the pandemic peak in 2020. Higher demand for products sold into our institutional cleaning and functional product end markets partially offset the above.

- Reported Polymer Operating Income was $23.0 million, an increase of $7.5 million, versus Q2 2020. This increase was primarily attributable to a 44% increase in global Polymer sales volume. Global rigid polyol volume was up 41% versus the prior year largely due to the INVISTA polyester polyol acquisition. Global rigid polyol volume, excluding the INVISTA acquisition, was up 12% versus the prior year. Higher demand within the phthalic anhydride and specialty polyols businesses also contributed to the sales volume growth.

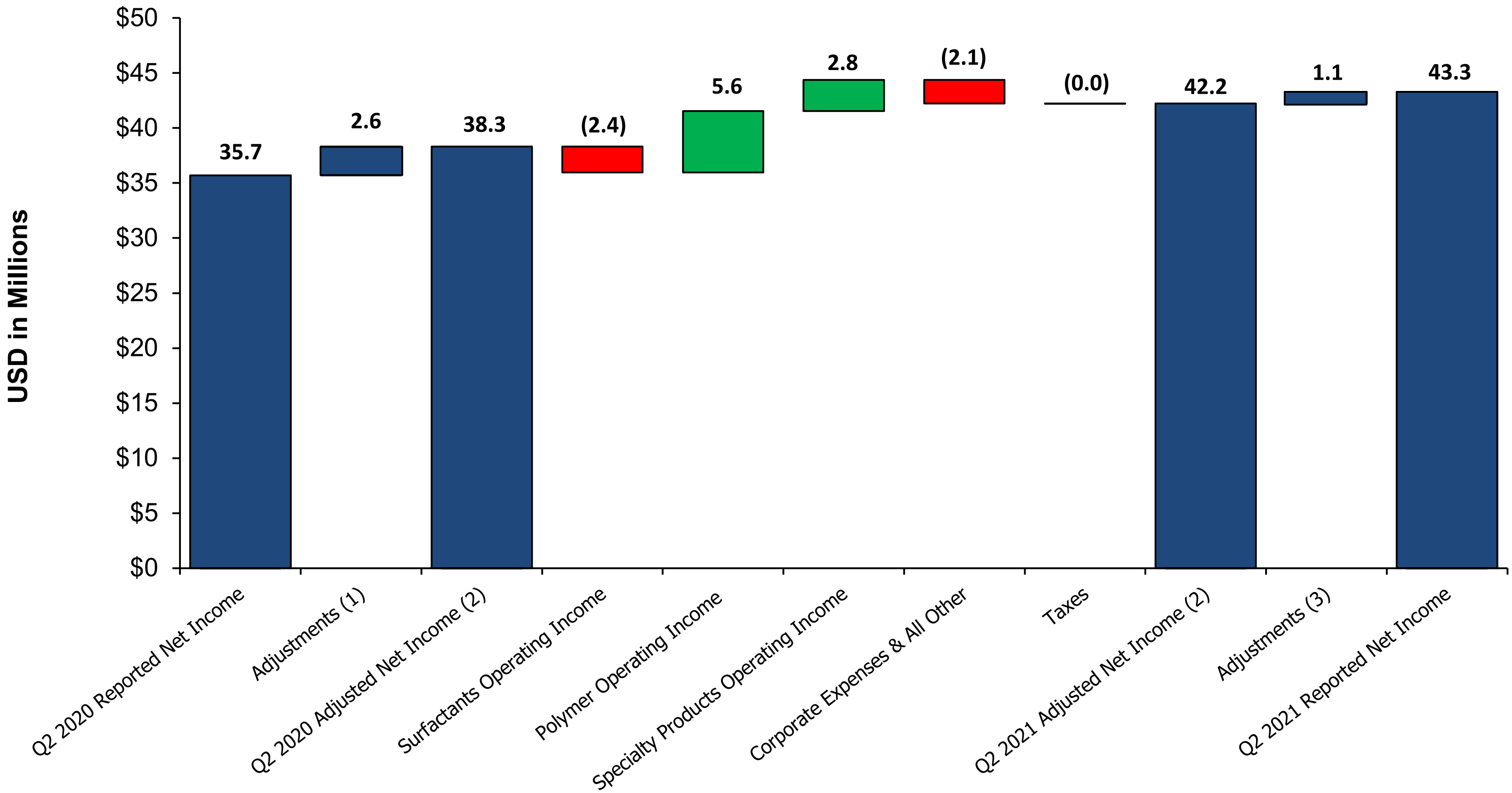
- Specialty Product operating income was $7.0 million versus $3.2 million in the prior year. This increase was primarily attributable to order timing differences within our food and flavor business and improved margins within our medium chain triglycerides (MCT) product line.

- The Company's net debt level increased $14.1 million versus the first quarter of 2021 while the net debt ratio increased from 9% to 10%. The increase in net debt reflects a $23.6 million decrease in cash and a $9.5 million decrease in debt.

*(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 and net debt ratio is a non-GAAP measure. See Appendix IV for a GAAP reconciliation.*

# Net Income Bridge – Q2 2020 to Q2 2021

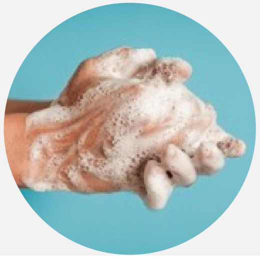
*Note: All amounts are in millions of U.S. dollars and are reported **after-tax**.*




*(1) The adjustments to Reported Net Income in Q2 2020 consisted of deferred compensation expense, cash-settled SARs expense of $2.4 million and restructuring costs of $0.2 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 2021 consisted of deferred compensation income, cash settled SARs income of $1.1 million and restructuring costs of $0.1 million.*

# Surfactants

## Results impacted by higher costs/expenses and lower volumes in consumer products, partially offset by growth in institutional cleaning and functional end markets.



### Q2 2021 Business Results Highlights

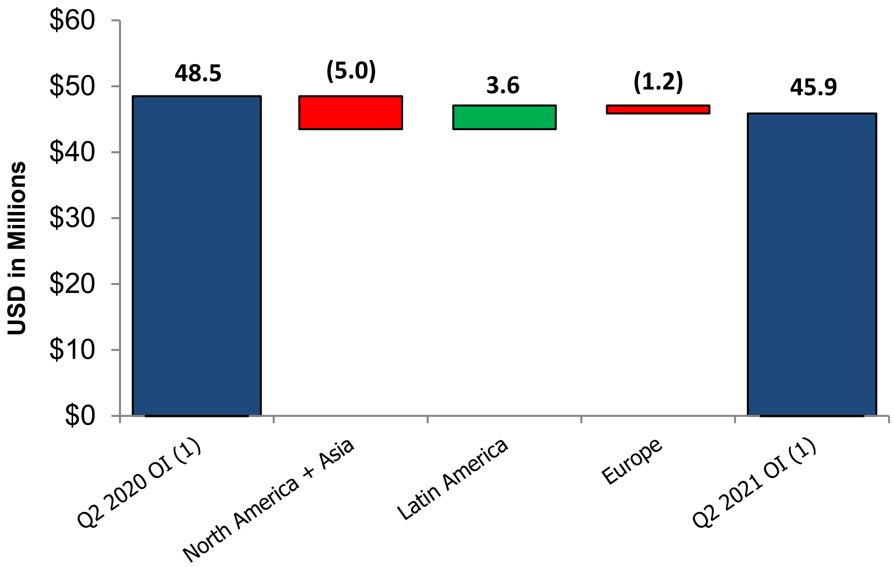
Operating Income was $45.9 million, a decrease of $2.6 million versus prior year due to inflationary pressures and planned higher maintenance costs. This was partially offset by improved margins, product and customer mix.

North America results decreased due to higher supply chain costs caused by inflationary pressures and planned higher maintenance costs. Lower operating income in consumer products, was partially offset by higher operating income in institutional cleaning and functional products. Consumer products was impacted by feedstock supply issues following the Q1 severe weather in Texas, customer inventory rebalancing and lower cleaning products demand in the consumer end market.

Latin American operating results benefited from a VAT tax recovery project ($2.1MM Pre-Tax).

Europe results decreased slightly due to lower demand in consumer products, partially offset by increased demand in functional products.

| *in millions $* | Q2 2021 | Q2 2020 |
|---|---|---|
| **Net Sales** | $ 384.0 | $ 332.3 |
| **Operating Income** | $ 45.9 | $ 48.5 |



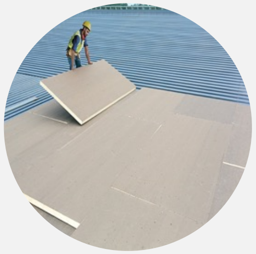

*(1) OI = Operating Income*

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

Stepan

# Polymers

## Higher results primarily driven by the INVISTA acquisition and organic volume growth.



### Q2 2021 Business Results Highlights

Operating income was $23.0 million versus $15.5 million in the prior year, primarily attributable to a 44% increase in global Polymer sales volume. Global rigid polyol volume was up 41% versus the prior year largely due to the INVISTA acquisition. Global rigid polyol volume, excluding the INVISTA acquisition, was up 7% versus the prior year. Higher demand within the phthalic anhydride and specialty polyols businesses also contributed to the sales volume growth.

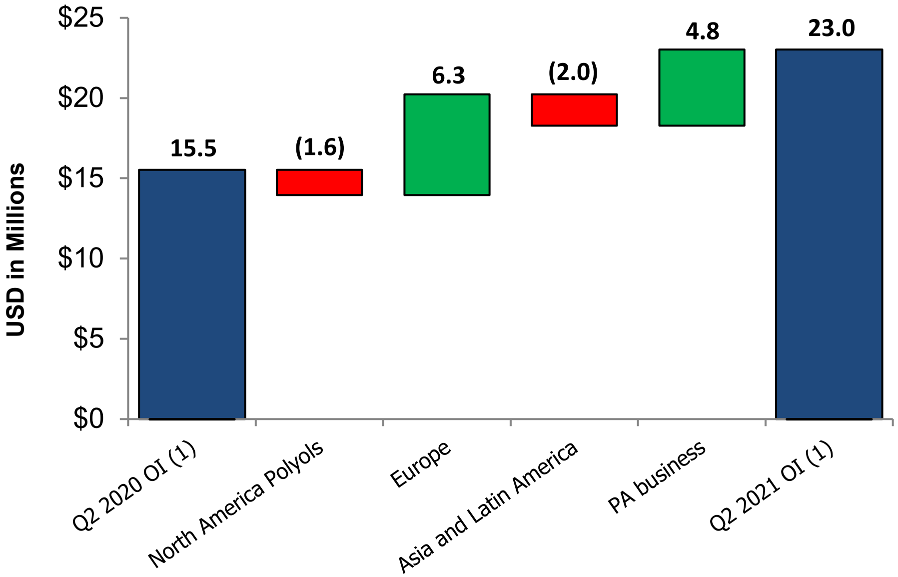
North America polyol results decreased due to rising raw material and manufacturing costs, partially offset by higher volume.

Europe results increased due to double digit volume growth on the base business plus the INVISTA acquisition.

China results decreased due to a one-time benefit in 2020 and lower Q2 volumes. First half volumes in China are up +5%.

Phthalic anhydride (PA) results benefited from recovery of volume lost due to the Q1 2020 Millsdale plant power outage.

| *in millions $* | Q2 2021 | Q2 2020 |
|---|---|---|
| **Net Sales** | $ 190.5 | $ 112.4 |
| **Operating Income** | $ 23.0 | $ 15.5 |

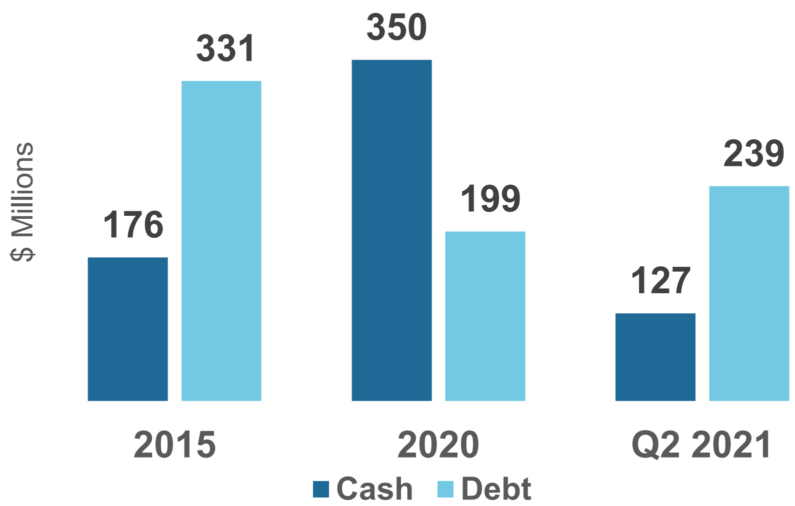



*(1) OI = Operating Income*

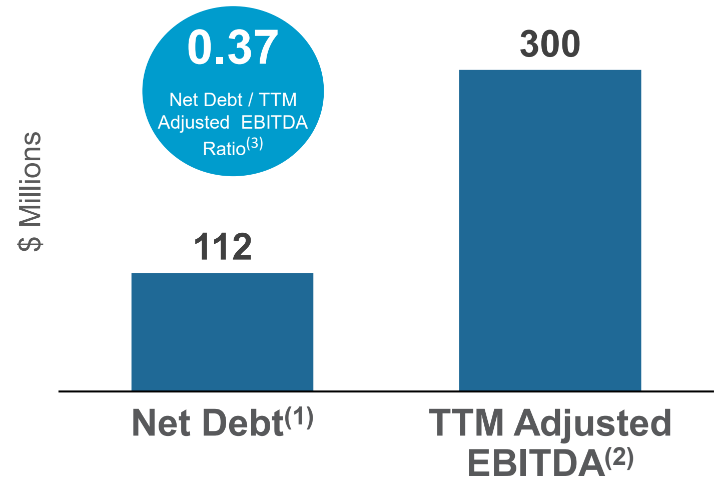
*All amounts are shown on a pre-tax basis (unless noted differently)*

# Strong Balance Sheet and Ample Liquidity to Invest for Growth

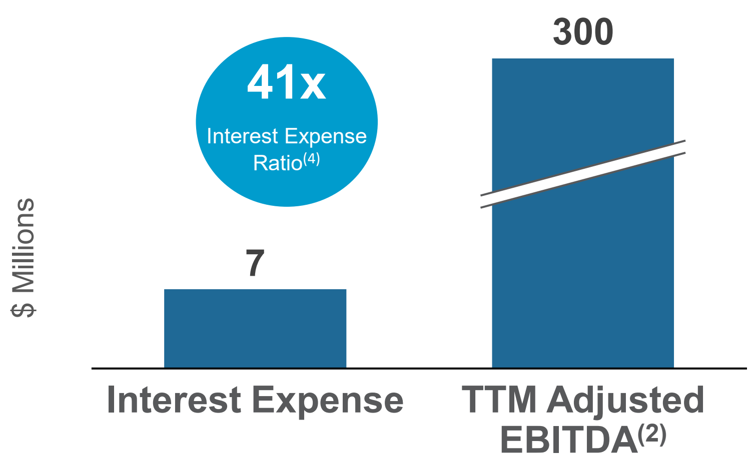
## Cash vs. Debt




## Net Debt / TTM Adjusted EBITDA




## Interest Expense Ratio



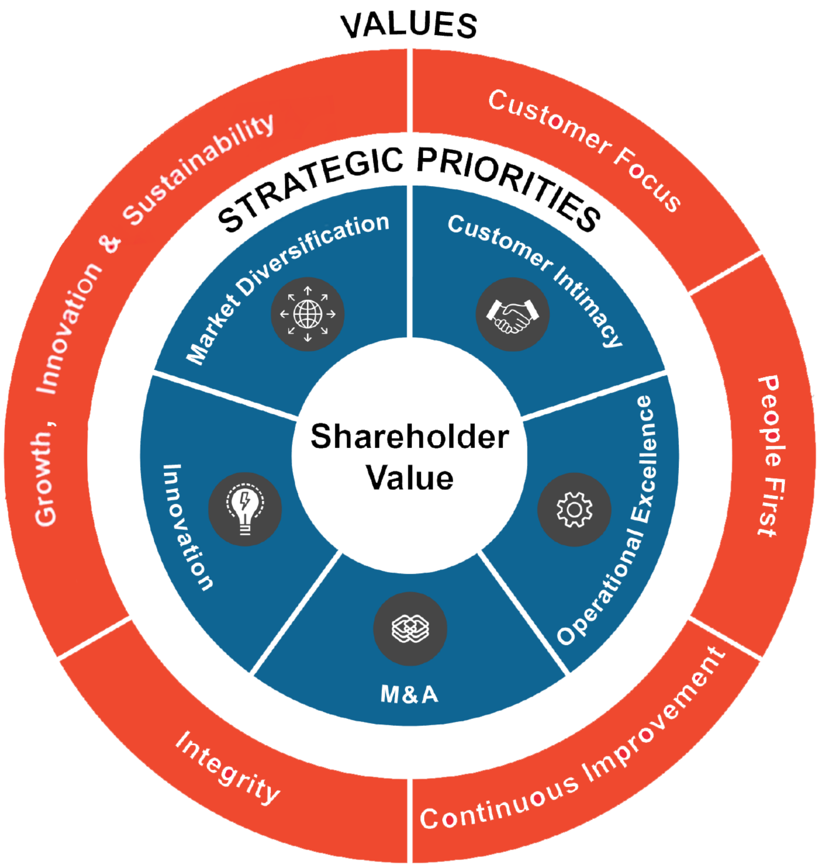

## Debt Principal Payments

| Year | Amount ($MM) |
|---|---|
| 2021 | 28 |
| 2022 | 38 |
| 2023 | 38 |
| 2024 | 39 |
| 2025 | 39 |
| 2026 | 24 |
| 2027 | 24 |
| 2028 | 10 |
| **Total** | **239** |

(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.*

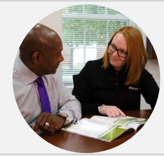
# Stepan Strategic Priorities

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

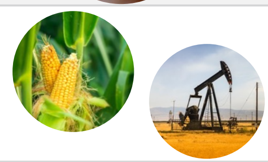



### BUSINESS PRIORITIES

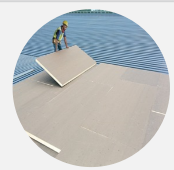
- Enable a healthier world through the supply of surfactants for cleaning, disinfection and personal wash applications.



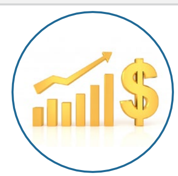
- Accelerate growth with Tier 2/3 customers, while continuing to support our Global Tier 1 customers.



- Continue Surfactant diversification strategy into functional markets, including agricultural and oilfield chemicals.



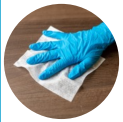
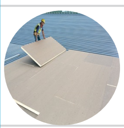
- Capture growth driven by energy conservation efforts in rigid polyols; accelerate growth in China.



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


- Integrate newly acquired Polymer assets and technology into the Stepan network.
- 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 |
|---|---|
|  COVID-19 | • Ensure the health and safety of our employees and preserve the right to operate and compete during and after the COVID-19 crisis.<br>• Produce and deliver products that help fight the global pandemic.<br>• 13 formulations approved by the EPA for on-label claims to kill SARS-CoV-2, the virus that causes COVID-19. |
|  Cleaning & Disinfection and Personal Care | • Lower North American volume in Laundry and Personal Care driven by raw material sourcing disruptions and lower consumer demand was partially offset by volume growth in Institutional & Industrial Cleaning.<br>• Debottleneck and increase capacity in key product lines. Secure critical raw materials for growth.<br>• Increasing North America capability to make low 1,4 Dioxane Sulfates to meet emerging regulatory requirements. |
|  Tier 2/3 Customers | • Tier 2/3 volume (including Functional Products) increased low single digits.<br>• Increased customer penetration with 150 new Tier 2/3 customers in Q2 2021 and +500 for the first half. |
|  Agricultural Chemicals | • Global agricultural volume increased high single digits in the first half of 2021.<br>• High commodity prices for corn and soybeans, coupled with increased planted acreage for the 2021 growing season drove a strong season for crop protection sales in North America.<br>• Strong first half in Asia due to the continued growth in the post-patent herbicide market.<br>• High commodity crop prices and favorable currency impact on exports are driving increased planted areas of major crops in Brazil. |
|  Oilfield Solutions | • Volume growing due to higher oil prices and a depressed base in 2020 due to COVID-19.<br>• Patent-pending oilfield technologies (flowback modifiers and friction reducer boosters) can help customers to be more productive and cost efficient.<br>• Continue the integration and supply chain planning of the KMCO demulsifier portfolio in anticipation of 2021 relaunch. |
|  Rigid Polyols | • Effectively integrating the newly acquired Polymer assets and business into the Stepan network.<br>• Continue the development of next generation of value-added Rigid Polyol Technologies.<br>• Continue growing the Chinese business with 1H Volumes up +5%. |
|  Productivity | • Continued consulting work in Millsdale plant.  Accelerated interventions and investments needed (e.g. maintenance and capex) in our ML plant to increase capacity (de-bottleneck projects) and improve productivity.<br>• Upgrading our IT platform and several automation projects to improve efficiency and productivity; enhance digital marketing. |
|   M&A | • Leveraged our strong B/S and cash position to acquire aromatic polyester polyol business from INVISTA in Q1 2021- Stepan's largest acquisition in 89 years of operation.<br>• Acquired a fermentation plant located in Lake Province, Louisiana in Q1 2021.<br>• Continue working on future potential projects. |

# Growth through M&A

## Q1 2021 Acquisition of Aromatic Polyester Polyol Business from INVISTA

**$100MM**
Annual Revenue

**Background:** Stepan acquired INVISTA's aromatic polyester polyol business and associated assets on January 29, 2021. Included in the transaction were two manufacturing sites, intellectual property, customer relationships, inventory and working capital. The acquisition was financed through cash on-hand.

*Wilmington, NC (United States)*

*Vlissingen (the Netherlands)*

### Benefits of Acquisition

**Financial Performance**

- Expected to be accretive to Stepan's EPS and EBITDA margins in 2021
- This transaction allows us to continue our journey to create a more specialized chemical company
- Expected multiple on a post synergy basis to be between 6.5 and 7.5 times after two years

**Improved Operations/Synergies**

- Available spare capacity, plus debottlenecking opportunities in both plants, expected to allow Stepan to support market growth in a capital efficient way
- New product capabilities
- These two additional locations significantly enhance business continuity for our customers

**Sustainability**

- Energy conservation, which our products support, will continue to be a priority for our world
- 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

**Integration is on track.**

Stepan

NYSE: SCL

# 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 Expectations |
|---|---|---|---|
| Capital Expenditures → | 106 | 126 | 150 - 170 |
| Debt Repayments → | 54 | 24 | 38 |
| Interest Expense → | 6 | 5 | 7+ |
| Effective Tax Rate → | 18% | 25% | 23-26% |

# 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 2021 | EPS | 2020 | EPS | Six Months Ended June 30 2021 | EPS | 2020 | EPS |
|---|---|---|---|---|---|---|---|---|
| Net Income Reported | $ 43,278 | $ 1.85 | $ 35,707 | $ 1.54 | $ 83,889 | $ 3.59 | $ 63,252 | $ 2.72 |
| Deferred Compensation (Income) Expense | $ (1,050) | $ (0.04) | $ 1,938 | $ 0.08 | $ 451 | $ 0.02 | $ (920) | $ (0.04) |
| Business Restructuring Expense | $ 85 | $ 0.00 | $ 168 | $ 0.01 | $ 146 | $ 0.01 | $ 431 | $ 0.02 |
| Cash-Settled SARs (Income) Expense | $ (95) | $ (0.00) | $ 502 | $ 0.02 | $ 103 | $ 0.00 | $ (290) | $ (0.01) |
| Adjusted Net Income | $ 42,218 | $ 1.81 | $ 38,315 | $ 1.65 | $ 84,589 | $ 3.62 | $ 62,473 | $ 2.69 |

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

| *($ in thousands, except per share amounts)* | Three Months Ended June 30 2021 | EPS | 2020 | EPS | Six Months Ended June 30 2021 | EPS | 2020 | EPS |
|---|---|---|---|---|---|---|---|---|
| **Pre-Tax Adjustments** | | | | | | | | |
| Deferred Compensation (Income) Expense | $ (1,381) | | $ 2,550 | | $ 594 | | $ (1,210) | |
| Business Restructuring Expense | $ 114 | | $ 225 | | $ 195 | | $ 582 | |
| Cash-Settled SARs (Income) Expense | $ (125) | | $ 661 | | $ 136 | | $ (381) | |
| Total Pre-Tax Adjustments | $ (1,392) | | $ 3,436 | | $ 925 | | $ (1,009) | |
| Cumulative Tax Effect on Adjustments | $ 332 | | $ (828) | | $ (225) | | $ 230 | |
| After-Tax Adjustments | $ (1,060) | $ (0.04) | $ 2,608 | $ 0.11 | $ 700 | $ 0.03 | $ (779) | $ (0.03) |

# Appendix III

## Foreign Exchange Impact – Q2 2021

| (millions USD) | Surfactants | Polymers | Specialty Products | Consolidated |
|---|---|---|---|---|
| Net Sales | 14.4 | 5.7 | 0.2 | 20.3 |
| Gross Profit | 1.8 | 0.9 | 0.0 | 2.7 |
| Operating Expenses | 0.8 | 0.3 | 0.0 | 1.1 |
| Operating Income | 1.1 | 0.6 | 0.0 | 1.7 |

# Appendix IV

## Net Debt to Total Capitalization Ratio

| (millions USD) | June 30, 2021 | June 30, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 | June 30, 2016 |
|---|---|---|---|---|---|---|
| Total Debt | 238.9 | 207.9 | 232.6 | 286.8 | 304.4 | 321.4 |
| Cash | 127.1 | 272.9 | 275.3 | 256.7 | 223.8 | 190.4 |
| Net Debt | 111.8 | (65.0) | (42.7) | 30.1 | 80.6 | 131.0 |
| Equity | 1,048.8 | 897.4 | 857.7 | 761.2 | 707.3 | 618.9 |
| Net Debt + Equity | 1,160.6 | 832.4 | 815.0 | 791.3 | 788.0 | 749.9 |
| Net Debt / (Net Debt + Equity) | 10% | (8%) | (5%) | 4% | 10% | 17% |

# Appendix V

## Adjusted EBITDA Reconciliations

| ($ in millions) | Q2 2021 – Quarterly Adjusted EBITDA by Segment | | | | |
|---|---|---|---|---|---|
| | Surfactants | Polymers | Specialty Products | Corporate | Total Stepan |
| Net Sales | 384 | 191 | 21 | - | 596 |
| Reported Operating Income | 46 | 23 | 7 | -19 | 57 |
| Adjustments* | 0 | 0 | 0 | 1 | 1 |
| Adjusted Operating Income | 46 | 23 | 7 | -18 | 58 |
| Depreciation & Amortization | 13 | 8 | 2 | 1 | 23 |
| Adjusted EBITDA | 59 | 31 | 8 | -17 | 81 |
| Adjusted EBITDA Margin | 15.3% | 16.2% | 40.4% | n/a | 13.6% |

**Includes $0.1 million in Restructuring, -$0.1 million in Cash SARs to Surfactants, and $1.0 million in deferred compensation to Corporate.*

| ($ in millions) | Q2 2021 – Trailing Twelve Months Adjusted EBITDA Total Stepan |
|---|---|
| Net Sales | 2,092 |
| Subtotal Segment Reported Operating Income | 286 |
| Cash Settled SARS | 1 |
| Corporate Expenses | (73) |
| Consolidated Adjusted Operating Income | 214 |
| Depreciation & Amortization | 87 |
| Other* | (1) |
| Adjusted EBITDA | 300 |
| *Adjusted EBITDA Margin* | 14.3% |

**Includes -$0.1 million of Other Income and -$0.8 million Minority Interest.*

Interest Expense Ratio = TTM Adjusted EBITDA / Interest Expense = 300 / 7.3 = 41x
Net Debt / TTM Adjusted EBITDA Ratio = 111.8 / 300 = 0.37