



# Earnings Call Presentation

Third Quarter 2020

October 21, 2020



# 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

Third Quarter Financial Highlights	F. Quinn Stepan, Jr., <i>Chairman, President and Chief Executive Officer</i>
Third Quarter Results	Luis E. Rojo, <i>Vice President and Chief Financial Officer</i>
Financial and Strategic Outlook	F. Quinn Stepan, Jr., <i>Chairman, President and Chief Executive Officer</i>
Analyst / Shareholder Questions	
Closing Remarks	F. Quinn Stepan, Jr., <i>Chairman, President and Chief Executive Officer</i>

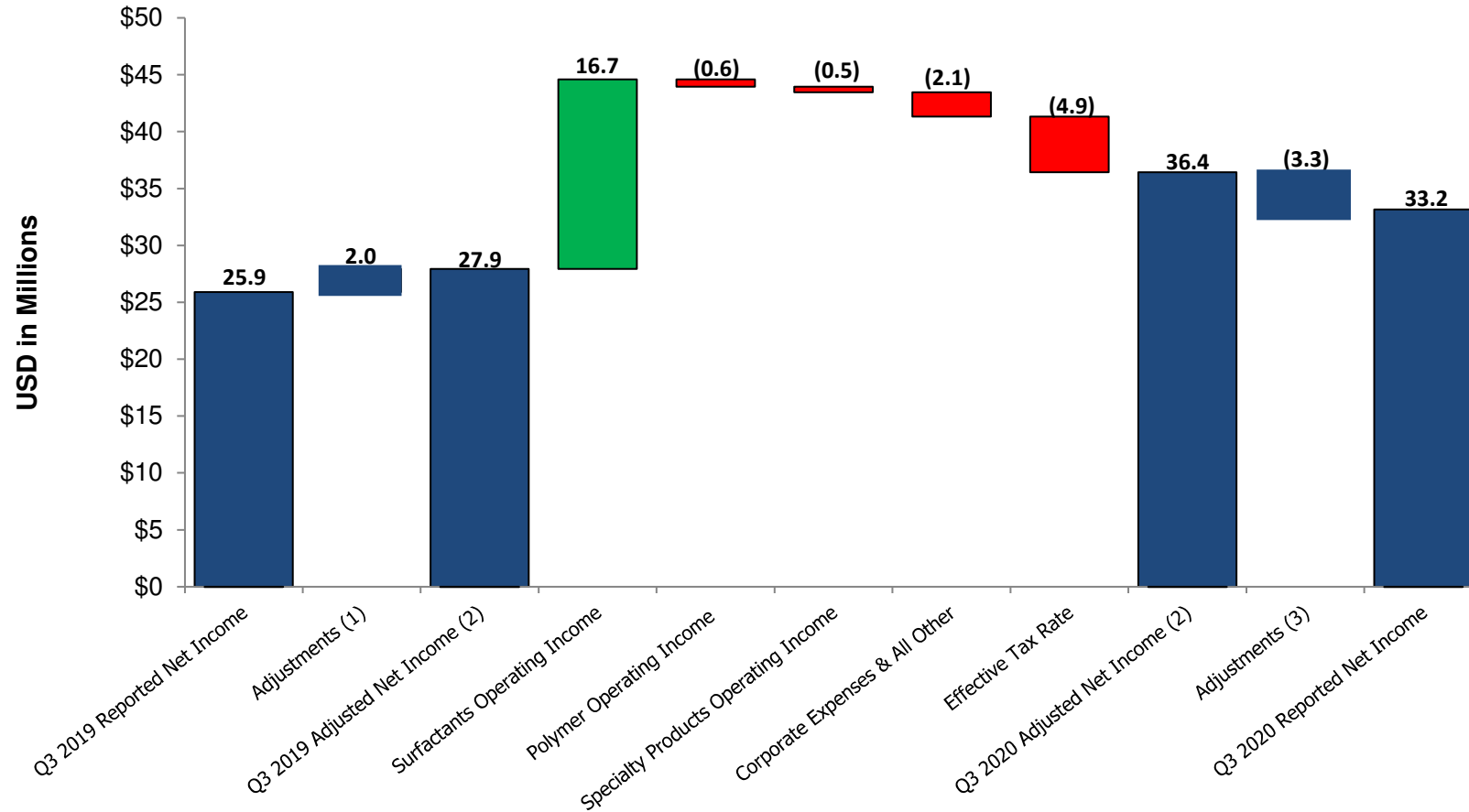
# Third Quarter 2020 Financial Recap

- Q3 Reported Net Income was a \$33.2 million, or \$1.43 per diluted share, a 28% increase versus \$25.9 million, or \$1.11 per diluted share, in Q3 2019.
- Q3 Adjusted Net Income<sup>(1)</sup> was \$36.4 million, or \$1.56 per diluted share, a 30% increase versus \$27.9 million, or \$1.20 per diluted share, in Q3 2019. Adjusted Net Income in Q3 2020 excludes the following non-operational items:
  - Deferred compensation and cash-settled SARs expense of \$3.2 million, or \$0.13 per diluted share.
  - Restructuring expense of \$0.1 million, or less than \$0.01 per diluted share.
- Reported Surfactant Operating Income was \$41.2 million, an increase of \$21.5 million, or 109%, versus Q3 2019. This increase was primarily attributable to an 8% increase in global Surfactant volume and an improved product and customer mix. The sales volume growth was principally due to higher demand in the global consumer product end markets driven by increased demand for cleaning and disinfection as well as personal wash products, all as a result of COVID-19. Quarterly operating results also benefited from a \$3.9 million operating improvement in Mexico. As previously announced, the Company closed on its agreement to acquire Clariant's anionic surfactant business and associated sulfonation equipment in Mexico.
- Reported Polymer Operating Income was \$22.4 million, a decrease of \$0.9 million, versus Q3 2019. This decrease was mostly attributable to a 5% decline in sales volume versus prior year quarter. North American rigid polyol sales volume declined 8% while European volume was up slightly. The lower North American volume reflects construction project delays and cancellations due to COVID-19. Lower demand within the phthalic anhydride business also contributed to the sales volume decline.
- The Company recognized \$5.0 million pre-tax of partial insurance recovery related to the first quarter 2020 Millsdale, IL plant power outage. Surfactant and Polymer operating income benefited \$2.2 million and \$2.8 million, respectively, in the quarter. The Company continues to work with its insurance provider on the remainder of the claim.
- Reported Specialty Product Operating Income was \$1.6 million, a decrease of \$0.7 million versus Q3 2019, primarily attributable to lower margins within our medium chain triglycerides (MCT) product line and order timing differences in our food and flavor business.
- FX impacted Sales by -2% and EPS by -\$0.07.
- The Company had negative net debt at quarter-end as cash balances of \$310.4 million exceeded total debt of \$207.9 million. The Company has access to a committed \$350.0 million revolving credit agreement and has only \$9.3 million of remaining debt maturing in 2020.

(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 2019 to Q3 2020

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



- (1) The adjustments to Reported Net Income in Q3 2019 consisted of deferred compensation expense and cash settled SARs expense of \$1.7 million and restructuring costs of \$0.3 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 2020 consisted of deferred compensation expense and cash settled SARs expense of \$3.2 million and restructuring costs of \$0.1 million.

# Surfactants

Strong demand for cleaning and disinfection, as well as, personal wash products, due to COVID-19.



## Business Results Highlights

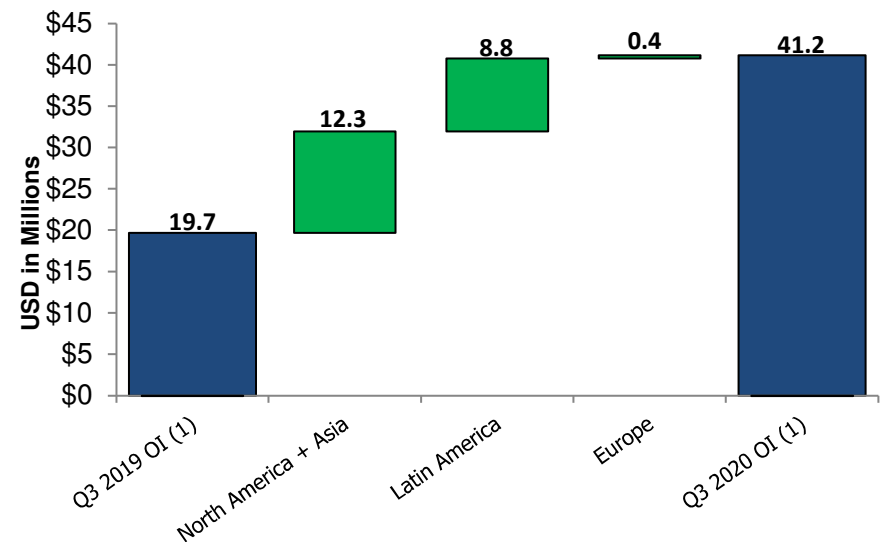
Operating Income was \$41.2 million, an increase of \$21.5 million, or 109%, compared to the prior year. Net sales increased 11% due to higher demand for products sold into the consumer product end markets, driven by increased demand as a result of COVID-19. Foreign exchange negatively impacted Net Sales by 4%.

North America results increased primarily due to strong demand in the consumer products end market driven by COVID-19.

Record quarter in Mexico and in Brazil driven by strong Volume growth in both markets. Mexico was up +22% and Brazil was up +12%.

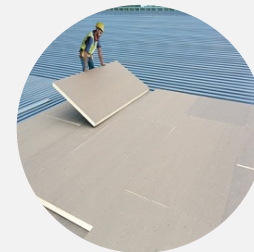
Europe results increased slightly due to higher consumer products demand.

<i>in millions \$</i>	Q3 2020	Q3 2019
<b>Net Sales</b>	<b>\$ 333.8</b>	<b>\$ 299.7</b>
<b>Operating Income</b>	<b>\$ 41.2</b>	<b>\$ 19.7</b>



# Polymers

Lower results primarily driven by COVID-19 construction project delays and cancellations.



## Business Results Highlights

Operating Income was \$22.4 million, a decrease of \$0.9 million, compared to the prior year. Net sales decreased 14% due to lower Phthalic anhydride (PA) sales and lower North American demand for rigid polyols used in rigid foam insulation. This lower demand primarily reflects COVID-19 construction project delays/cancellations.

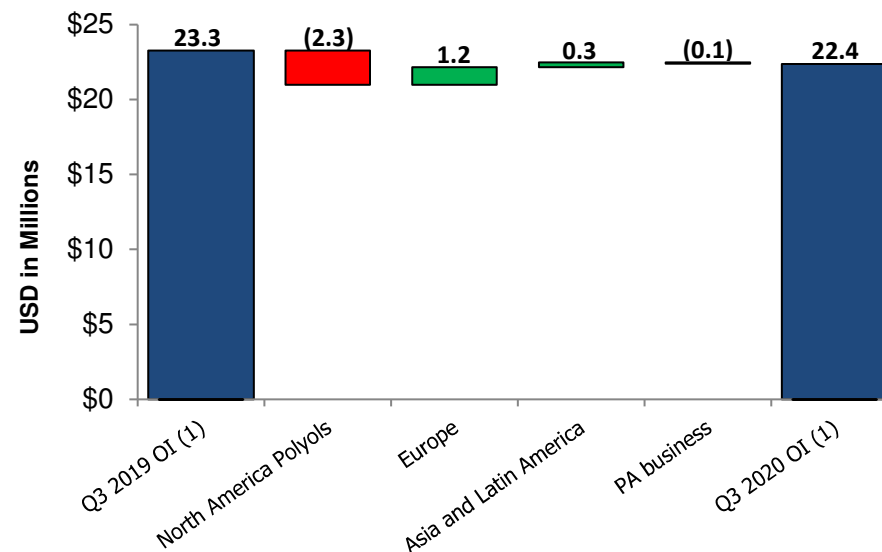
North America Polyol results decreased due to lower volumes and margins. The lower North American margins reflect incremental raw material cost as a result of the previously disclosed Illinois River lock closures.

Europe results increased due to modest Rigid Polyol growth and Strong Specialty Polyol volume growth of +9%.

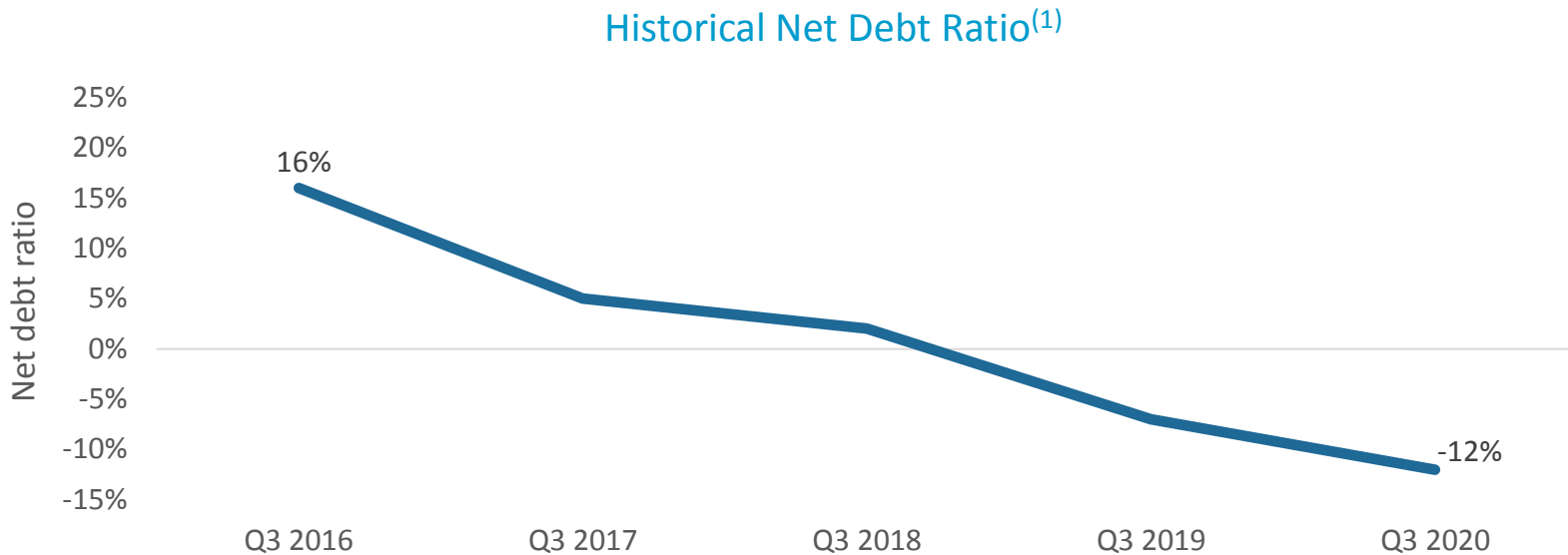
Asia and Latin America results were essentially flat versus prior year.

Phthalic anhydride (PA) results were lower based on decreased demand. Operating income during the current year quarter benefited from a partial insurance recovery for the first quarter 2020 incident at the Millsdale, IL facility.

<i>in millions \$</i>	Q3 2020	Q3 2019
<b>Net Sales</b>	<b>\$ 116.7</b>	<b>\$ 135.1</b>
<b>Operating Income</b>	<b>\$ 22.4</b>	<b>\$ 23.3</b>



# Net Debt Ratio / Cash Flows



For the quarter:

- Cash flow from operations was \$83.2 million, up +54% versus Q3 2019.
- Capital expenditures were \$30.2 million.
- We returned \$6.2 million to our shareholders via dividends.

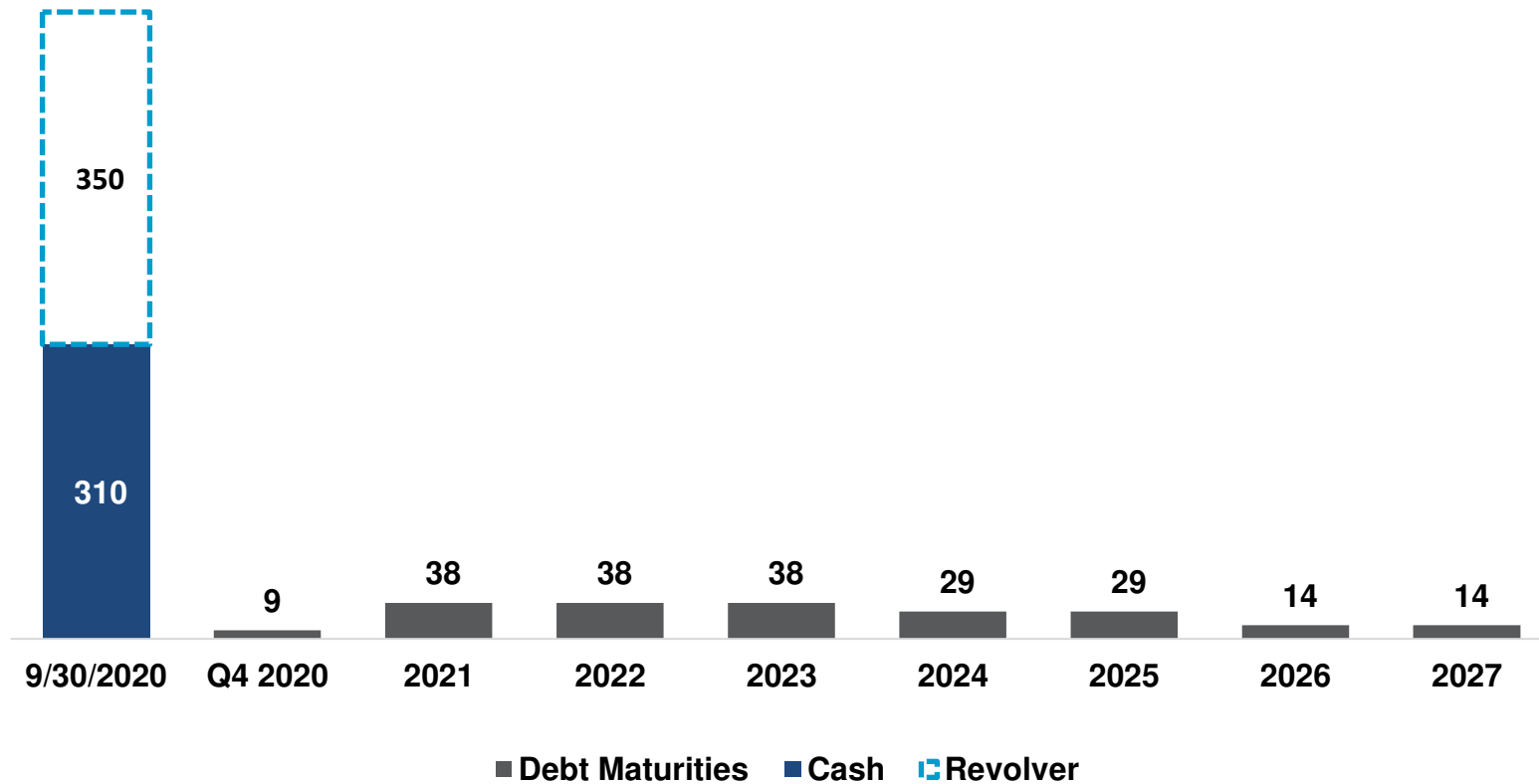
**Financial strength to enable growth.**

(1) The net debt to total capitalization ratio is defined as total debt minus cash (i.e., net debt) divided by net debt plus equity. The net debt to total capitalization ratio is a non-GAAP measure. See Appendix IV for a GAAP reconciliation.



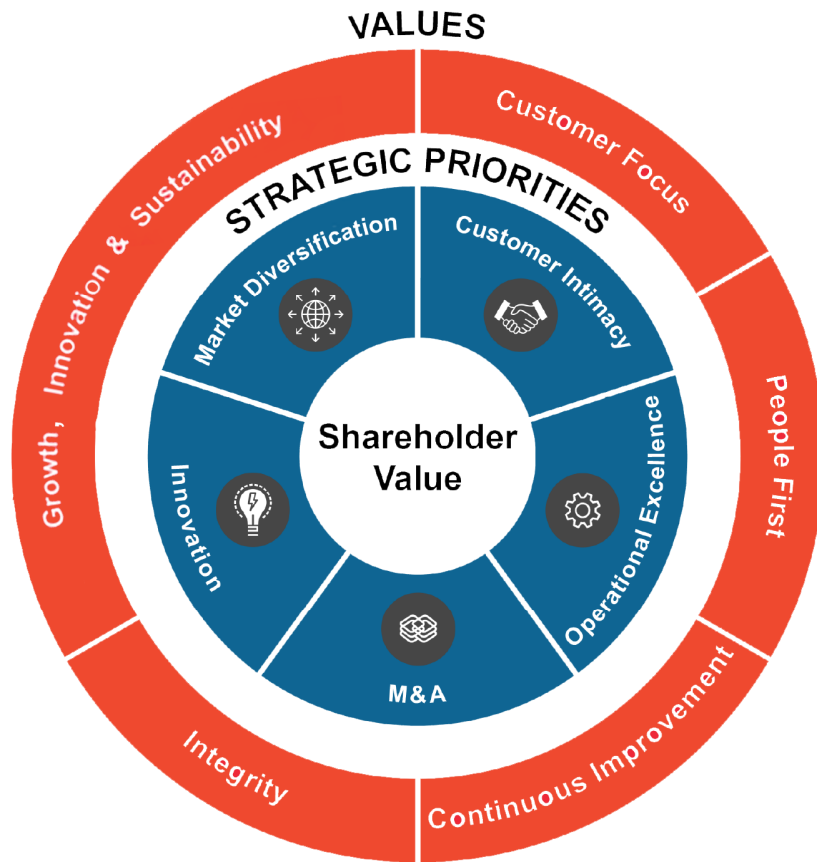
# Ample Liquidity to Maneuver the 2020 Challenge

## Debt Maturity Profile (in MMs USD)



# Stepan Strategic Priorities

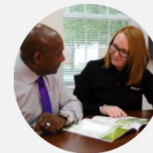
Our Vision: Innovative Chemical Solutions for a Cleaner, Healthier, More Energy Efficient World



## BUSINESS PRIORITIES



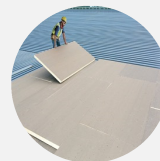
- Enable a healthier world through the supply of surfactants for cleaning, disinfection and personal wash applications.



- 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.







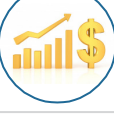



- Deliver productivity and efficiency across all of Stepan to improve margins.



- 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. Implemented recommended safety procedures and protocols globally. Majority of administrative employees working from home.</li> <li>• Producing and delivering products that help fight the global pandemic.</li> <li>• 6 Formulations approved by the EPA for on label claims to kill SARS-CoV-2, the virus that causes COVID-19.</li> <li>• Preserve the right to operate and compete during and post the COVID-19 crisis.</li> </ul>
 <p><b>Cleaning &amp; Disinfection and Personal Care</b></p>	<ul style="list-style-type: none"> <li>• Core cleaning and disinfecting product lines drove Surfactant volume growth of +8% during Q3.</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 emerging regulatory requirements.</li> <li>• Record quarter in Mexico and in Brazil due to higher demand in cleaning products.</li> </ul>
 <p><b>Tier 2/3 Customers</b></p>	<ul style="list-style-type: none"> <li>• Tier 2/3 volume grew significantly.</li> <li>• Increased customer penetration with 201 new customers in Q3.</li> </ul>
 <p><b>Agricultural Chemicals</b></p>	<ul style="list-style-type: none"> <li>• Global Agricultural volume grew +5% in Q3.</li> <li>• Strong growth in the post patent pesticide segment with 6 new products launched in North and South America.</li> <li>• Dispersant portfolio enhanced with the addition of two new polymeric products generating Sales in Europe and the Americas.</li> <li>• Expanding capacity in Brazil with a new reactor in our Salto site.</li> <li>• Construction of the new Agriculture R&amp;D lab and greenhouse in Winder, GA.</li> </ul>
 <p><b>Oilfield Solutions</b></p>	<ul style="list-style-type: none"> <li>• Volume down driven by lower oil prices.</li> <li>• Patent-pending Oilfield technologies (flowback modifiers and friction reducer boosters) are helping customers to be more productive and cost efficient by improving production yields.</li> <li>• Continue the integration and supply chain planning of the recently acquired KMCO demulsifier portfolio in anticipation of 2021 relaunch.</li> </ul>
 <p><b>Rigid Polyols</b></p>	<ul style="list-style-type: none"> <li>• Continued the development of next generation of value-added Rigid Polyol Technologies.</li> <li>• The Illinois River lock closure work is on track and expected to finish at the end of October.</li> <li>• Continue growing the double-digit EBITDA Margin and high potential China business.</li> </ul>
 <p><b>Productivity</b></p>	<ul style="list-style-type: none"> <li>• Germany Sulfonation shutdown on track and Specialty Product restructuring executed and delivering savings in 2020.</li> <li>• Consulting work reprioritized due to COVID-19 market opportunities.</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>• Acquired the anionic surfactant business and associated sulfonation equipment from Clariant Mexico.</li> <li>• Record results in Q3 in Mexico and in Brazil, enabled by our previous acquisitions (BASF's Ecatepec site and Tebras).</li> <li>• We plan to continue leveraging our strong B/S and cash position to complement our organic growth projects.</li> </ul>

**Thank You**

**Luis E. Rojo**

VP and CFO

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**CHEMISTRY THAT CONNECTS US**

# APPENDIX

Financials and GAAP Reconciliations

# Appendix I

## Update on Certain Expectations

	2018 Actual	2019 Actual	2020 Expected
Capital expenditures →	\$87 million	\$106 million	\$100-120 million
Debt repayments →	\$21 million	\$54 million	\$23 million
Interest expense →	\$11 million	\$6 million	\$6 million
Effective tax rate →	19%	18%	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 September 30				Nine Months Ended September 30			
	2020	EPS	2019	EPS	2020	EPS	2019	EPS
Net Income Reported	\$33,168	\$ 1.43	\$25,889	\$ 1.11	\$96,420	\$ 4.15	\$81,091	\$ 3.48
Deferred Compensation (Income) Expense	\$ 2,612	\$ 0.11	\$ 1,392	\$ 0.06	\$ 1,692	\$ 0.07	\$ 6,482	\$ 0.28
Business Restructuring	\$ 95	\$ 0.00	\$ 334	\$ 0.02	\$ 526	\$ 0.02	\$ 1,199	\$ 0.05
Cash-Settled SARs	\$ 546	\$ 0.02	\$ 314	\$ 0.01	\$ 256	\$ 0.01	\$ 1,765	\$ 0.08
Environmental Remediation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,210	\$ 0.09
Voluntary Debt Prepayment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 948	\$ 0.04
Adjusted Net Income	<u>\$36,421</u>	<u>\$ 1.56</u>	<u>\$27,929</u>	<u>\$ 1.20</u>	<u>\$98,894</u>	<u>\$ 4.25</u>	<u>\$93,695</u>	<u>\$ 4.02</u>

\*Amounts are presented after-tax

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

(\$ in thousands, except per share amounts)	Three Months Ended September 30				Nine Months Ended September 30			
	2020	EPS	2019	EPS	2020	EPS	2019	EPS
<b>Pre-Tax Adjustments</b>								
Deferred Compensation (Income) Expense	\$ 3,437		\$ 1,831		\$ 2,227		\$ 8,529	
Business Restructuring Expense	\$ 126		\$ 459		\$ 708		\$ 1,642	
Cash-Settled SARs (Income) Expense	\$ 718		\$ 413		\$ 337		\$ 2,322	
Environmental Remediation Expense	\$ -		\$ -		\$ -		\$ 2,908	
Voluntary Debt Prepayment Expense	\$ -		\$ -		\$ -		\$ 1,247	
Total Pre-Tax Adjustments	\$ 4,281		\$ 2,703		\$ 3,272		\$ 16,648	
Cumulative Tax Effect on Adjustments	\$ (1,028)		\$ (663)		\$ (798)		\$ (4,044)	
After-Tax Adjustments	<u>\$ 3,253</u>	<u>\$ 0.13</u>	<u>\$ 2,040</u>	<u>\$ 0.09</u>	<u>\$ 2,474</u>	<u>\$ 0.10</u>	<u>\$12,604</u>	<u>\$ 0.54</u>

## Appendix III

### Foreign Exchange Impact – Q3 2020

(millions USD)	Surfactants	Polymers	Specialty Products	Consolidated
Net Sales	(10.6)	0.8	0.1	(9.7)
Gross Profit	(2.9)	0.2	0.0	(2.7)
Operating Expenses	(0.5)	0.0	0.0	(0.5)
Operating Income	(2.4)	0.2	0.0	(2.2)



# Appendix IV

## Net Debt to Total Capitalization Ratio

(millions USD)	September 30, 2020	September 30, 2019	September 30, 2018	September 30, 2017	September 30, 2016
Total Debt	207.9	231.9	286.2	304.4	326.1
Cash	310.4	286.0	274.0	264.1	207.0
Net Debt	(102.5)	(54.1)	12.2	40.3	119.1
Equity	938.2	854.2	777.7	734.9	638.4
Net Debt + Equity	835.7	800.1	789.9	775.2	757.5
Net Debt / (Net Debt + Equity)	(12%)	(7%)	2%	5%	16%