



Earnings Call Presentation

Fourth Quarter 2023

February 20, 2024



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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

2023 Fourth Quarter and Full Year Highlights	Scott R. Behrens, <i>President and Chief Executive Officer</i>
2023 Fourth Quarter and Full Year 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>

CEO Remarks – 2023 Full Year Highlights

Volume down 11%

- Slow down in demand across most end use markets
- Significant customer and channel inventory destocking

Expense Control

- Proactive headcount and discretionary expense controls offset inflation and incremental expenses associated with Pasadena and Low 1,4 Dioxane investments

Earnings Down

- Net income was \$40.2 million versus \$147.2 million in 2022
- Adjusted EBITDA⁽¹⁾ was \$180.0 million versus \$301.5 million in the prior year
- The decrease in Adjusted EBITDA⁽¹⁾ was largely driven by the 11% reduction in volume and lower fixed cost absorption (volume deleverage)

Cash from Operations up
\$14MM or +9%

- Cash generated from operations was \$174.9 million, up \$14.1 million or 9% versus 2022 while investing for the future
- Reduced inventory by \$137 million compared to December 31, 2022
- Increased and paid cash dividends for 56th consecutive year

Strategic Execution

- Executed strategic capital projects that should position us to capture growth in the next few years
- Executed a productivity program positioning Stepan to deliver EBITDA⁽¹⁾ growth in 2024

Fourth Quarter 2023 Highlights

Volume up 3% vs prior year

- Polymers up 10% driven by a 12% recovery in Global Rigid Polyols
- Surfactants up 1% due to higher demand across Personal Care and Industrial Cleaning end markets, and to our Distribution partners
- Significant customer and channel inventory destocking continued in Agricultural Chemicals

Expense Control

- Proactive headcount and discretionary expense controls, and lower incentive-based compensation accruals offset inflation and incremental expenses associated with Pasadena and Low 1,4 Dioxane investments

Adjusted EBITDA⁽¹⁾ down
\$2.5MM or 6%

- Net loss of \$1.2 million during the fourth quarter versus net income of \$10.8 million in 2022. Adjusted Net Income was \$7.5 million versus \$13.5 million in 2022.
- Adjusted EBITDA⁽¹⁾ was \$37.5 million during the fourth quarter versus \$40.0 million in the prior year
- The 6% decline in Adjusted EBITDA was largely driven by Surfactants and Specialty Products, partially offset by Polymers

Generated Positive Free Cash
Flow (FCF⁽²⁾)

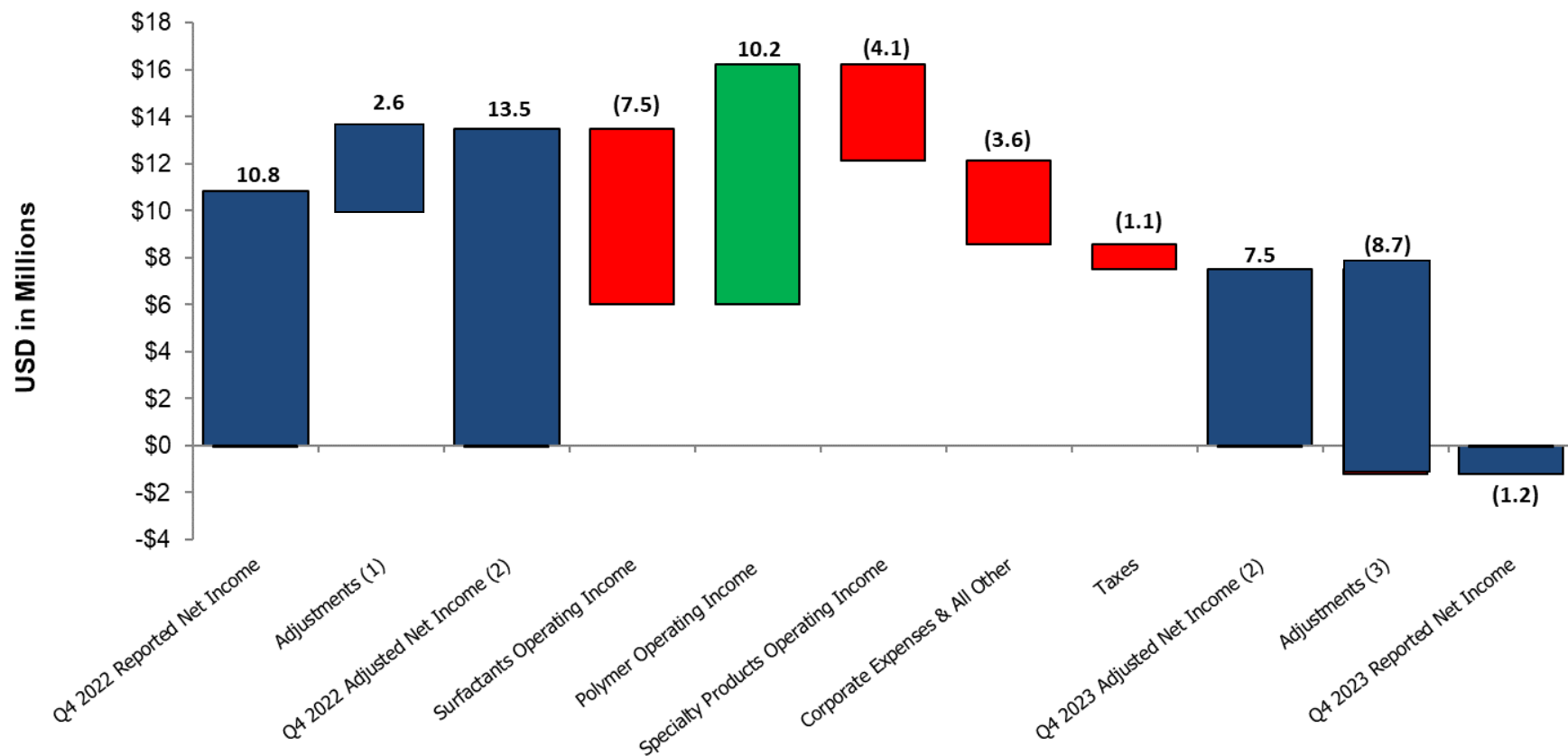
- Delivered positive FCF⁽²⁾ while executing strategic Investments
- FCF⁽²⁾ for the quarter was a positive \$22.3 million
- Reduced inventory from \$285 million to \$266 million quarter-over-quarter

Other Highlights

- 56th consecutive year of increasing and paying cash dividend to stockholders while making strategic long-term investments
- Recorded \$6.0 million of after-tax restructuring due to workforce productivity efforts and non-cash assets/goodwill impairments

Net Income Bridge – Q4 2022 to Q4 2023

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



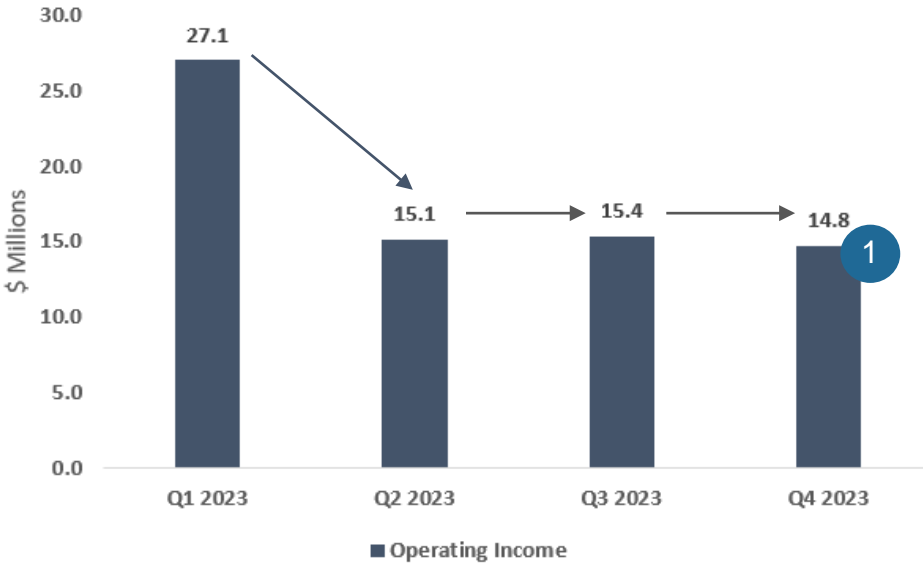
(1) The adjustments to Reported Net Income in Q4 2022 consisted of environmental remediation expense and restructuring costs of \$0.4 million, deferred compensation expense and cash-settled SARs expense of \$2.2 million, and goodwill impairment of \$0.1MM.

(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 Q4 2023 consisted of environmental remediation expense, restructuring costs, deferred compensation expense and cash settled SARs expense, and goodwill impairments.

Global Surfactants

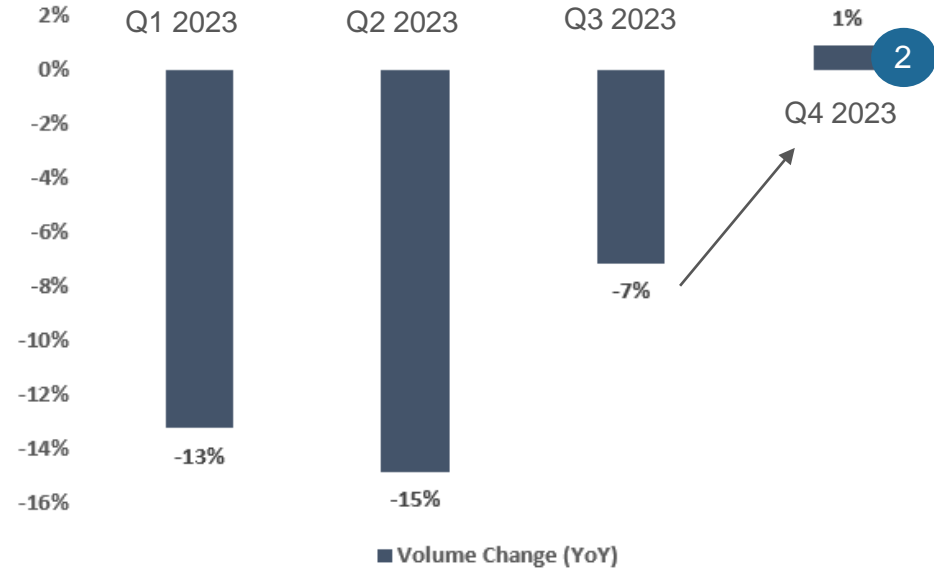
Surfactants Operating Income



1

Fourth quarter Operating Income was \$14.8 million, a decrease of \$0.6 million compared to the third quarter due to seasonally lower volume. Agricultural Chemicals volume remained depressed due to continued destocking.

Surfactants Year-over-Year Volume Change

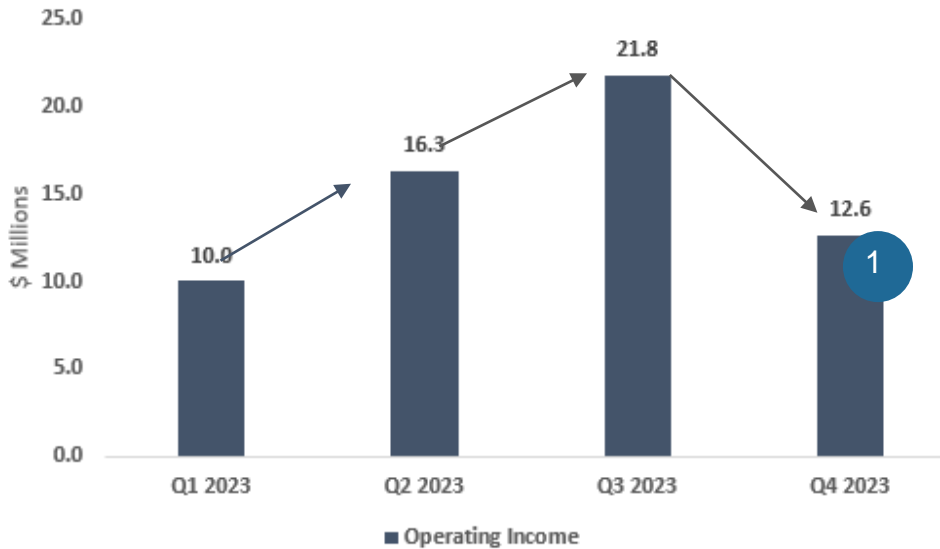


2

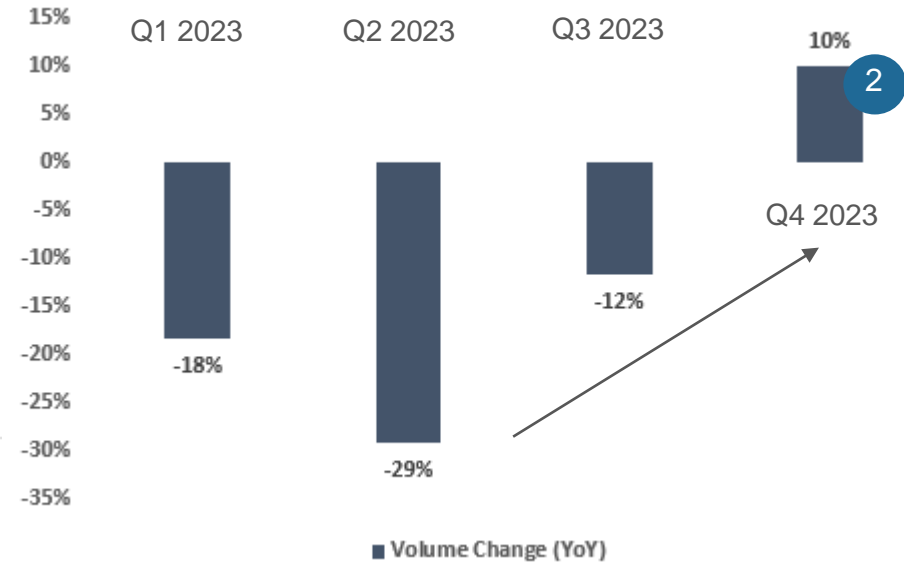
Fourth quarter Volume increased 1% year-over-year driven by double digit growth in Personal Care, growth in Industrial Cleaning and growth with our Distribution partners.

Global Polymers

Polymers Operating Income



Polymers Year-over-Year Volume Change



1

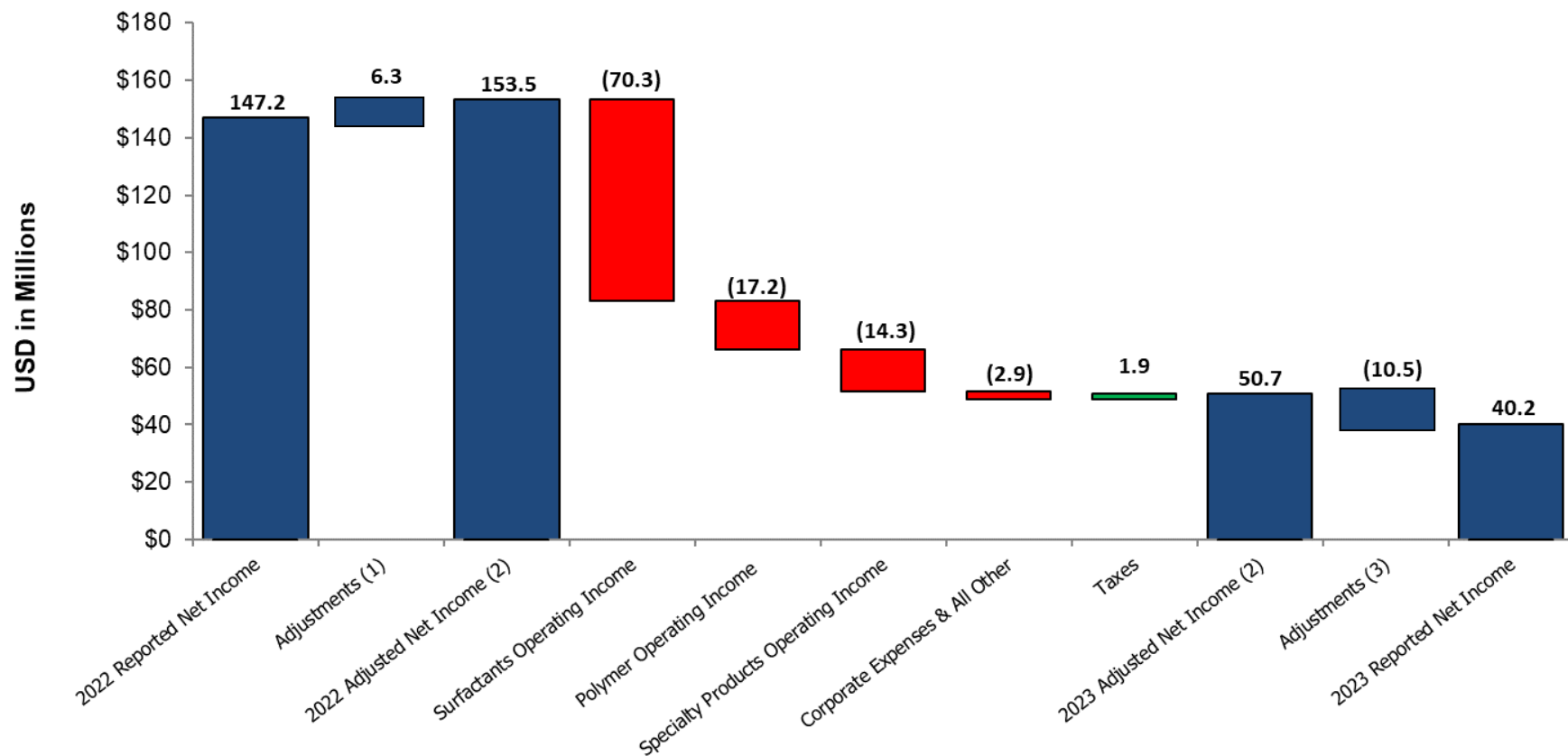
Fourth quarter Operating Income was \$12.6MM, a decrease of \$9.2MM compared to the third quarter driven by lower seasonal volume in Global Rigid Polyol. Operating Income was up 4.2x versus Q4 2022.

2

Fourth quarter Volume increased 10% year-over-year driven by continued recovery in Global Rigid Polyol volume.

Net Income Bridge – Full Year 2022 to 2023

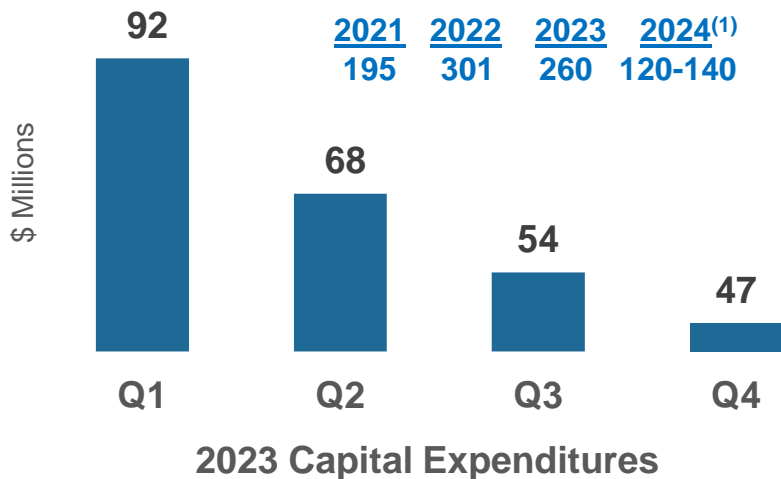
Note: All amounts are in millions of U.S. dollars and are reported after-tax.



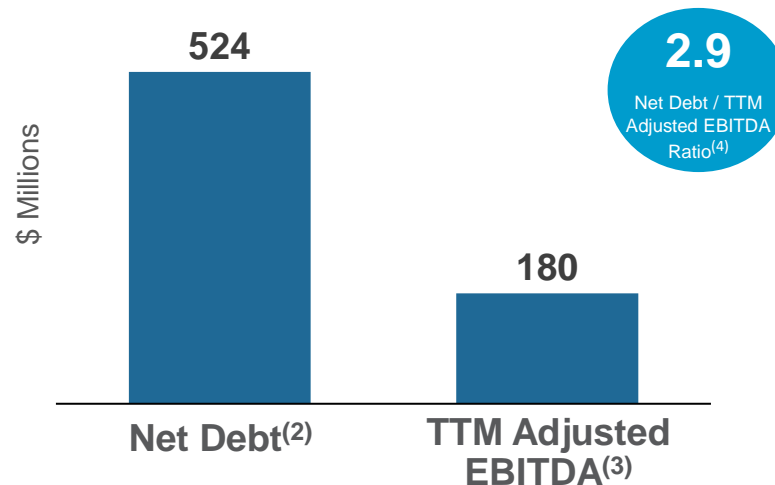
- (1) The adjustments to Reported Net Income in 2022 consisted of environmental remediation expense and restructuring costs of \$9.0 million, deferred compensation income and cash-settled SARs income of \$2.6 million, and goodwill impairment of \$0.2 million.
- (2) Adjusted Net Income is a Non-GAAP measure that excludes certain significant, non-recurring items. See Appendix II for a GAAP reconciliation.
- (3) The adjustments to Reported Net Income in 2023 consisted of environmental remediation expense, restructuring costs, deferred compensation income and cash settled SARs income, and goodwill impairment.

Cash Flow Improving with lower Capex and Inventories

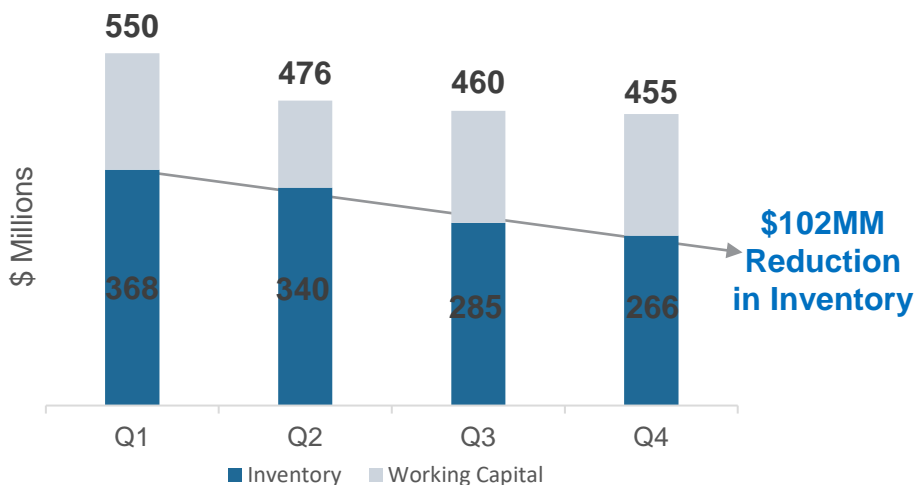
Capital Expenditures



Net Debt / TTM Adjusted EBITDA



2023 Working Capital⁽⁵⁾



Scheduled Debt Principal Repayments

Year	Amount (\$MM)
2024	54
2025	69
2026	67
2027	136
2028	45
2029	25
2030	25
2031	25
2032	11
Other (Revolver)	199
Total	654

Debt repayments include the term loan

⁽¹⁾ Represents expected amounts

⁽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.

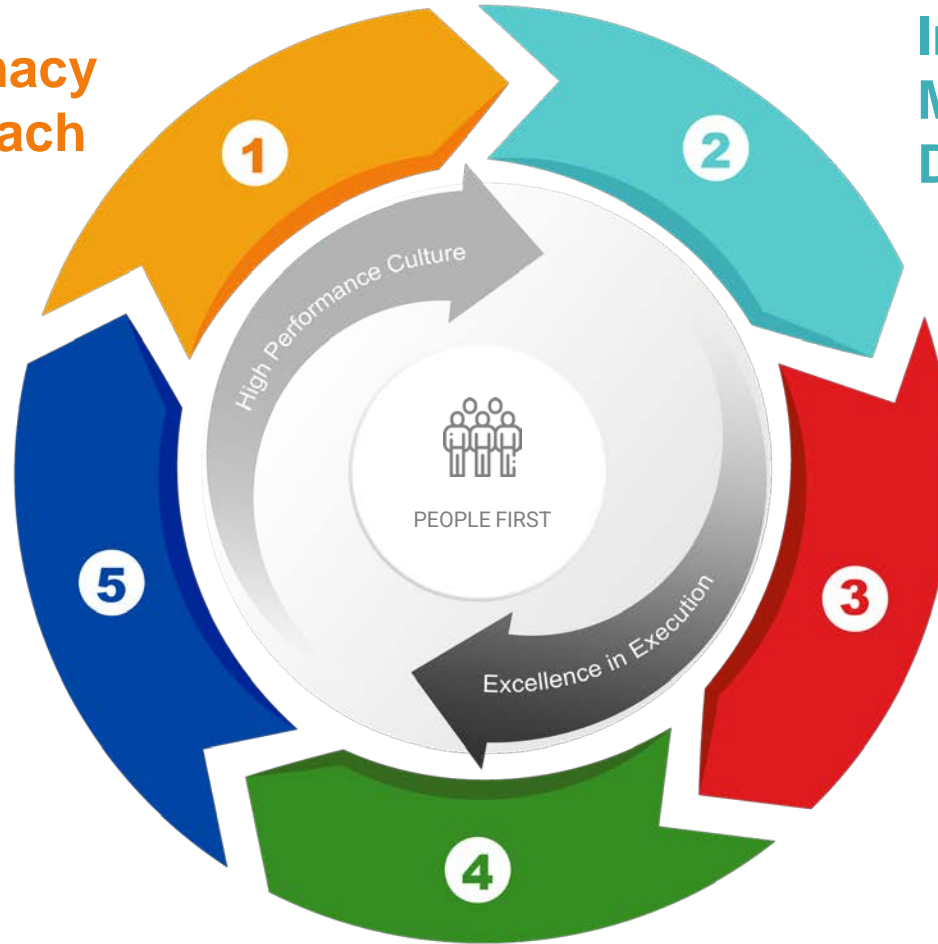
⁽⁵⁾ Includes the following components of Working Capital: accounts receivables, inventory, accounts payables

Stepan Strategic Priorities

Shareholder Value Creation

**Customer Intimacy
& Extended Reach**

**Innovation &
Market
Diversification**



**Cost &
Operational
Excellence**

**Efficient Capital
Allocation**

Sustainability

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 in 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 Q3 2024

Low 1,4 Dioxane Capability



Millsdale, Illinois (United States)

Stepan invested 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.

Investment in **1,4 dioxane removal technology** enables Stepan to maintain and grow our North American Sulfonation business. New contracted business started during the second half of 2023.

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

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

Project complete, contracted volume started

CEO Remarks – 2024 Outlook

Expected Volume and Margin Growth

- Continued recovery in Rigid Polyols demand
- North America Surfactant volume growth driven by new contracted low 1,4 Dioxane business
- Latin America Surfactant volume growth due to new contracted business
- Recovery of Agricultural business in the second half of the year
- Margin improvement due to improved mix and lower raw material costs versus 2023

Expense Control

- Plan to deliver \$50 million in pre-tax cost savings that will help offset overall inflation, incremental Pasadena and Low 1,4 Dioxane operational expenses, and higher incentive-based compensation expenses

Adjusted EBITDA⁽¹⁾ and Cash Projections

- Expecting to grow Adjusted EBITDA⁽¹⁾
- Capex investments back to normal levels
- Capex for Pasadena and Low 1,4 Dioxane investments at \$20+MM
- Projecting positive Free Cash Flow⁽²⁾
- Focusing on cash and leveraging tools such as Bonus Depreciation to accelerate return on our Capex Investments

Volatile External Environment

- Health of the global consumer and the demand of cleaning and personal care products
- Interest rate impact on consumer spending and construction activity for Polymers
- Geopolitical risks and disruption in Supply Chains and Raw Materials
- Energy cost volatility and the impact on Raw Material prices

Thank You

Luis E. Rojo

VP and CFO

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WORKING TOGETHER FOR A SAFER, CLEANER WORLD

APPENDIX

Financials and GAAP Reconciliations

Appendix I

Update on Certain Expectations

(millions USD)	2021 Actual	2022 Actual	2023 Actual	2024 Forecast
Capital Expenditures	195	301	260	120 - 140
Debt Repayments	38	38	38	54
Interest Net	6	10	12	21 - 23
Depreciation & Amortization	91	95	105	128 - 132
Effective Tax Rate (%)	20%	22%	17%	36 - 38% ^(*)

(*) Higher Effective Tax Rate due to the anticipated disallowance of the GILTI deduction and Foreign Tax Credits resulting from the expected election of Bonus Depreciation for our Pasadena capital investment. Projected cash payment for Federal U.S. Taxes is zero.

Appendix II

Reconciliation of Non-GAAP Adjusted Net Income and Earnings Per Diluted Share

(\$ in thousands, except per share amounts)	Three Months Ended December 31,				Twelve Months Ended December 31,			
	2023	EPS	2022	EPS	2023	EPS	2022	EPS
Net Income Reported	\$ (1,193)	\$ (0.05)	\$ 10,834	\$ 0.47	\$ 40,204	\$ 1.75	\$ 147,153	\$ 6.38
Deferred Compensation (Income) Expense	\$ 2,243	\$ 0.10	\$ 2,000	\$ 0.09	\$ (551)	\$ (0.02)	\$ (2,369)	\$ (0.10)
Business Restructuring and Asset Impairment Expense	\$ 4,564	\$ 0.20	\$ 62	\$ -	\$ 8,929	\$ 0.39	\$ 231	\$ 0.01
Goodwill and Other Intangibles Impairment Expense	\$ 1,422	\$ 0.06	\$ -	\$ -	\$ 1,422	\$ 0.06	\$ -	\$ -
Cash-Settled SARs (Income) Expense	\$ 71	\$ 0.00	\$ 194	\$ 0.01	\$ (74)	\$ -	\$ (270)	\$ (0.01)
Environmental Remediation Expense	\$ 378	\$ 0.02	\$ 366	\$ 0.02	\$ 762	\$ 0.03	\$ 8,728	\$ 0.37
Adjusted Net Income	<u>\$ 7,485</u>	<u>\$ 0.33</u>	<u>\$ 13,456</u>	<u>\$ 0.59</u>	<u>\$ 50,692</u>	<u>\$ 2.21</u>	<u>\$ 153,473</u>	<u>\$ 6.65</u>

Reconciliation of Pre-Tax to After-Tax Adjustments

(\$ in thousands, except per share amounts)	Three Months Ended December 31,				Twelve Months Ended December 31,			
	2023	EPS	2022	EPS	2023	EPS	2022	EPS
Pre-Tax Adjustments								
Deferred Compensation (Income) Expense	\$ 2,991		\$ 2,631		\$ (735)		\$ (3,117)	
Business Restructuring and Asset Impairment Expense	\$ 6,141		\$ 83		\$ 11,968		\$ 308	
Goodwill and Other Intangibles Impairment Expense	\$ 2,038		\$ -		\$ 2,038		\$ -	
Cash-Settled SARs (Income) Expense	\$ 95		\$ 255		\$ (98)		\$ (354)	
Environmental Remediation Expense	\$ 504		\$ 481		\$ 1,017		\$ 11,483	
Total Pre-Tax Adjustments	\$ 11,769		\$ 3,450		\$ 14,190		\$ 8,320	
Cumulative Tax Effect on Adjustments	\$ (3,091)		\$ (828)		\$ (3,702)		\$ (2,000)	
After-Tax Adjustments	<u>\$ 8,678</u>	<u>\$ 0.38</u>	<u>\$ 2,622</u>	<u>\$ 0.12</u>	<u>\$ 10,488</u>	<u>\$ 0.46</u>	<u>\$ 6,320</u>	<u>\$ 0.27</u>

Appendix III

Foreign Exchange Impact – Q4 2023

(millions USD)	Surfactants	Polymers	Specialty Products	Consolidated
Net Sales	10.5	5.5	0.1	16.0
Gross Profit	0.6	0.7	0.2	1.4
Operating Expenses	0.6	0.2	0.0	0.8
Operating Income	(0.0)	0.4	0.2	0.6

Appendix IV

Net Debt to Total Capitalization Ratio

(millions USD)	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
Total Debt	654.1	587.1	363.6	198.7	222.1	276.1
Cash	129.8	173.8	159.2	349.9	315.4	300.2
Net Debt	524.3	413.3	204.4	(151.2)	(93.3)	(24.1)
Equity	1,216.5	1,166.1	1,074.2	986.7	891.8	807.4
Net Debt + Equity	1,740.8	1,579.4	1,278.6	835.5	798.5	783.3
Net Debt / (Net Debt + Equity)	30%	26%	16%	(18%)	(12%)	(3%)

Appendix V

Adjusted EBITDA and EBITDA Reconciliations Q4 2023

(millions USD)	Q4 2023 – Quarterly Adjusted EBITDA by Segment				
	Surfactants	Polymers	Specialty Products	Corporate	Total Stepan
Net Sales	369.5	147.3	15.4	-	532.1
Reported Operating Income	14.8	12.6	2.8	(30.0)	0.2
Adjustments	0.1	0.0	0.0	10.1	10.2
Adjusted Operating Income	14.9	12.6	2.8	(19.9)	10.4
Depreciation & Amortization	16.7	7.9	1.5	1.0	27.1
Adjusted EBITDA	31.6	20.5	4.3	(18.9)	37.5
Adjusted EBITDA Margin	8.6%	13.9%	27.9%	n/a	7.0%

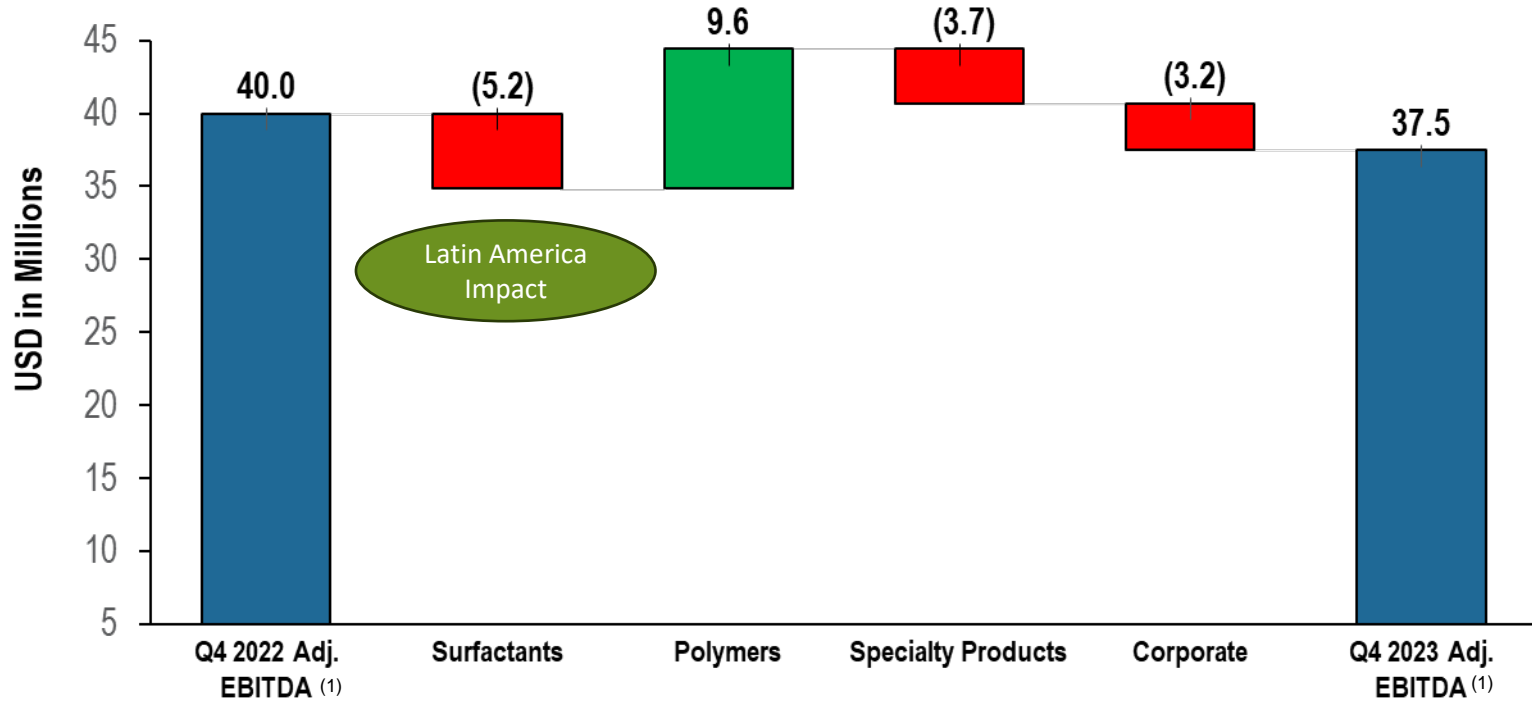
	Q4 2023 – Adjusted EBITDA Total Stepan
Net Sales	532.1
Subtotal Segment Reported Operating Income	30.2
Cash Settled SARS	0.1
Corporate Expenses	(19.9)
Consolidated Adjusted Operating Income	10.4
Depreciation & Amortization	27.1
Adjusted EBITDA	37.5
<i>Adjusted EBITDA Margin</i>	7.0%

(millions USD)	Q4 2023 – Quarterly EBITDA by Segment				
	Surfactants	Polymers	Specialty Products	Corporate	Total Stepan
Reported Operating Income	14.8	12.6	2.8	(30.0)	0.2
Depreciation & Amortization	16.7	7.9	1.5	1.0	27.1
Other Net Income (Expense)	0.0	0.0	0.0	(1.5)	(1.5)
EBITDA	31.5	20.5	4.3	(30.5)	25.8
EBITDA Margin	8.5%	13.9%	27.9%	n/a	4.8%

Appendix VI

Adjusted EBITDA Bridge⁽¹⁾

STEPAN CONSOLIDATED – Q4 Adj. EBITDA 2023 Actual vs PY



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

Appendix VII

Adjusted EBITDA and EBITDA Reconciliations Q4 2022

(millions USD)	Q4 2022 – Quarterly Adjusted EBITDA by Segment				
	Surfactants	Polymers	Specialty Products	Corporate	Total Stepan
Net Sales	454.5	148.3	24.3	-	627.2
Reported Operating Income	21.8	3.0	6.6	(19.7)	11.7
Adjustments	0.2	0.0	0.0	3.4	3.6
Adjusted Operating Income	22.0	3.0	6.6	(16.3)	15.3
Depreciation & Amortization	14.8	7.9	1.4	0.6	24.7
Adjusted EBITDA	36.8	10.9	8.0	(15.7)	40.0
Adjusted EBITDA Margin	8.1%	7.3%	32.9%	n/a	6.3%

	Q4 2022 – Adjusted EBITDA
Net Sales	627.2
Subtotal Segment Reported Operating Income	31.4
Cash-Settled SARS	0.2
Corporate Expenses	(16.3)
Consolidated Adjusted Operating Income	15.3
Depreciation & Amortization	24.7
Adjusted EBITDA	40.0
<i>Adjusted EBITDA Margin</i>	6.3%

(millions USD)	Q4 2022 – Quarterly EBITDA by Segment				
	Surfactants	Polymers	Specialty Products	Corporate	Total Stepan
Reported Operating Income	21.8	3.0	6.6	(19.7)	11.7
Depreciation & Amortization	14.8	7.9	1.4	0.6	24.7
Other Net Income (Expense)	0.0	0.0	0.0	0.2	0.2
EBITDA	36.6	10.9	8.0	(18.9)	36.6
EBITDA Margin	8.0%	7.3%	32.9%	n/a	5.8%

Appendix VIII

Trailing Twelve Months Adjusted EBITDA Reconciliation

	12/31/2023 TTM – Adjusted EBITDA
Reported Operating Income	58.6
Depreciation & Amortization	105.3
Other Net Income (Expense)	1.9
EBITDA	165.8
Deferred Compensation	(0.7)
Cash Settled SARS	(0.1)
Goodwill and Other Intangibles Impairment Expense	2.0
Business Restructuring & Asset Impairment Expense	12.0
Environmental Remediation Expense	1.0
Adjusted EBITDA	180.0

Appendix IX

Free Cash Flow (FCF) Reconciliation

\$ Millions

	Q4		YTD	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Cash Flow from Operations	69.0	85.8	174.9	160.8
Capital Expenditures	(46.7)	(96.2)	(260.3)	(301.6)
Free Cash Flow	<u>22.3</u>	<u>(10.4)</u>	<u>(85.4)</u>	<u>(140.8)</u>

Appendix X - Surfactants

Operating Income impacted by unfavorable mix and competitive pressures in Latin America. This was partially offset by higher volumes. Agricultural Chemicals impacted by continued customer and channel destocking.



Q4 2023 Business Results Highlights

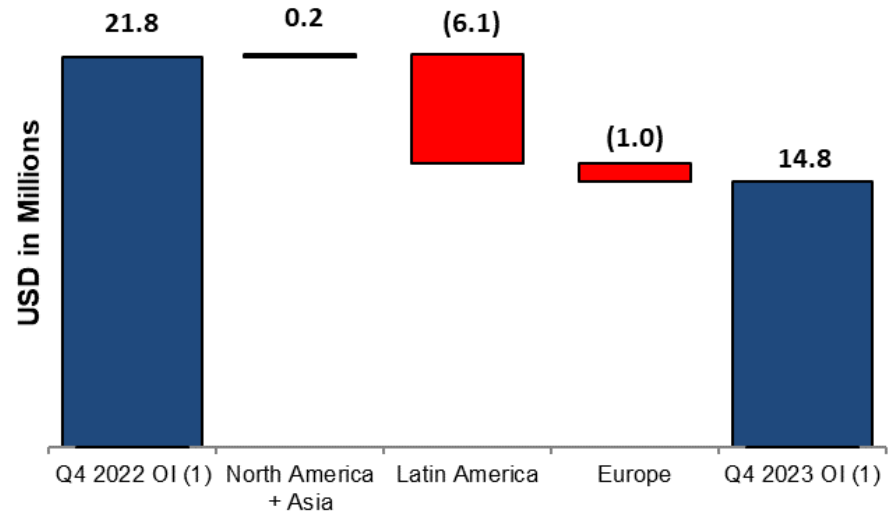
Operating income was \$14.8MM, a decrease of \$6.9MM compared to prior year driven by unfavorable product mix, which was partially offset by sales volume growth of 1%. Selling prices were down 22% mainly due to the pass-through of lower raw material costs, less favorable product and customer mix, and competitive pressure in Latin America.

North America results benefitted from improved margins and higher Personal Care end market demand, which includes Low 1,4 Dioxane products. This was offset by continued customer and channel destocking in Agricultural Chemicals and overall lower demand in commodity Laundry end markets. Higher expenses related to our Pasadena facility and Low 1,4 Dioxane investments created additional headwinds.

Latin America results were impacted by continued customer and channel destocking in Agricultural Chemicals and competitive pressure, partially offset by higher demand within the Consumer Product end markets.

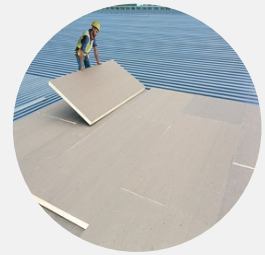
Europe results decreased driven by lower overall commodity Laundry end market demand and competitive pressure.

<i>in millions \$</i>	Q4 2023	Q4 2022
Net Sales	\$ 369.5	\$ 454.5
Operating Income	\$ 14.8	\$ 21.8



Appendix XI - Polymers

Higher Operating Income due to volume recovery driven by increased construction-related activity



Q4 2023 Business Results Highlights

Operating income was \$12.6MM, an increase of \$9.6MM compared to prior year. Selling prices decreased 15% mainly due to the pass-through of lower raw material costs. Global volume increased by 10% driven by a 12% volume recovery in Rigid Polyol and higher demand in Specialty Polyols. The increase was driven by increased construction industry activity as well as lower customer and channel inventory destocking. Growth in China sales volume supplemented these drivers.

North America results were driven by higher volume in the Rigid Polyol and Specialty Polyol businesses and small improvements in margins.

Europe results benefitted from higher sales volume in the Rigid Polyol and Specialty Polyol businesses.

Asia results were flat year-over-year as mid single digits volume growth was offset by higher supply chain expenses.

in millions \$

	Q4 2023	Q4 2022
Net Sales	\$ 147.3	\$ 148.3
Operating Income	\$ 12.6	\$ 3.0

