Stepan

# Earnings Call Presentation

## First Quarter 2023

April 25, 2023

# 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 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

| | |
|---|---|
| First Quarter Highlights | Scott R. Behrens,<br>*President and Chief Executive Officer* |
| First Quarter Financial Results | Luis E. Rojo,<br>*Vice President and Chief Financial Officer* |
| Strategic Outlook | Scott R. Behrens,<br>*President and Chief Executive Officer* |
| Analyst / Shareholder Questions | |
| Closing Remarks | Scott R. Behrens,<br>*President and Chief Executive Officer* |

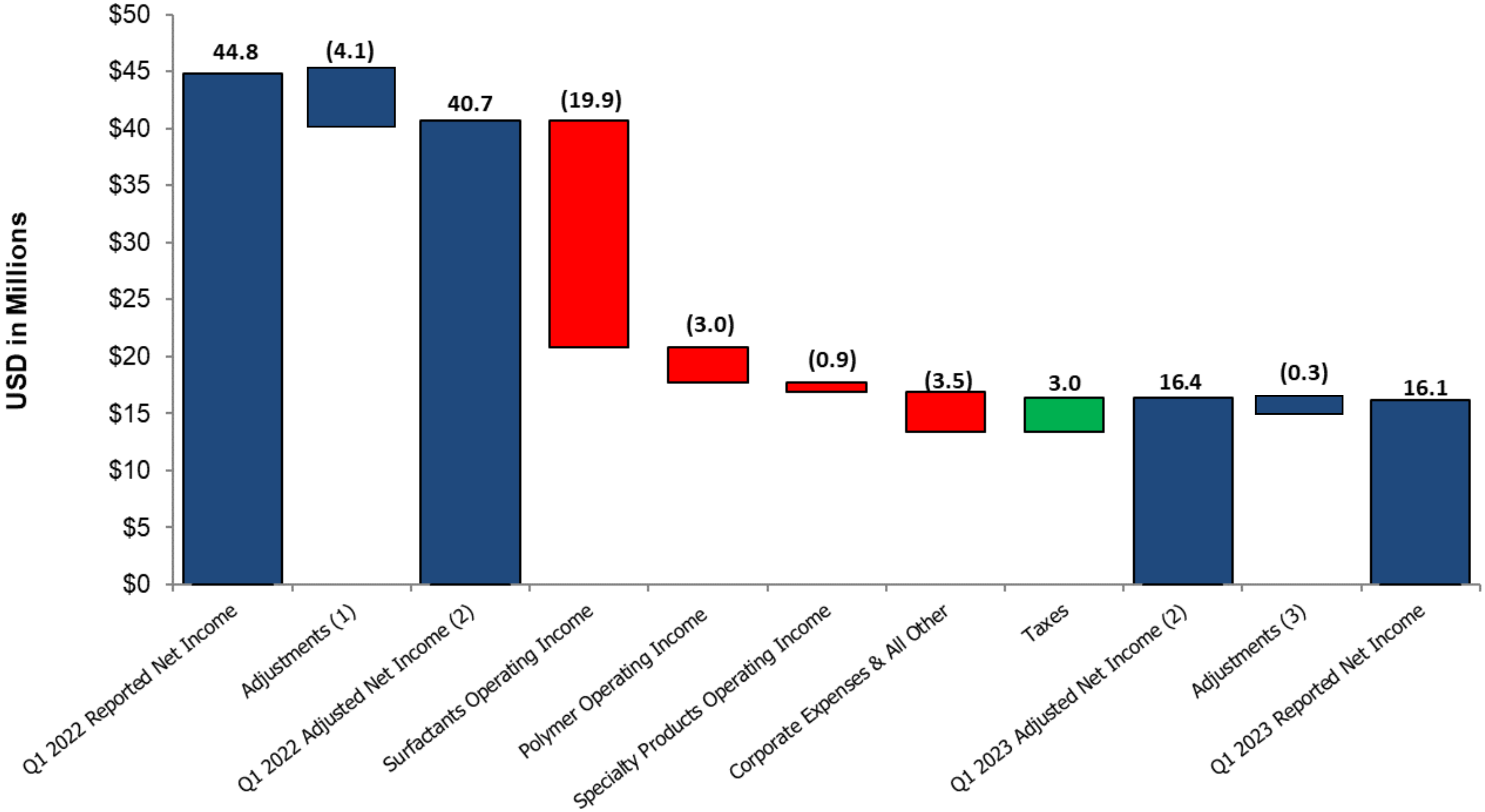
# First Quarter 2023 Financial Recap

- Q1 Reported Net Income was $16.1 million, or $0.70 per diluted share, versus $44.8 million, or $1.93 per diluted share, in Q1 2022.
- Q1 Adjusted Net Income[1] was $16.4 million, or $0.71 per diluted share, versus $40.7 million, or $1.76 per diluted share, in Q1 2022. Adjusted Net Income in Q1 2023 excludes the following non-operational items:
  - Deferred compensation and cash-settled SARs income of $0.1 million, or $0.00 per diluted share.
  - Environmental remediation and business restructuring expense of $0.4 million, or $0.01 per diluted share.
- Surfactant operating income was $27.1 million versus $53.8 million in the prior year. This decrease was primarily due to a 13% decline in global sales volume that was partially offset by improved product and customer mix. The lower sales volume was mostly due to lower global commodity laundry demand, low 1,4 dioxane transition start-up delays and the previously mentioned backward integration by one customer in the third quarter of 2022, lower demand within the North American Personal Care end market and customer inventory destocking. Higher global demand in the Agricultural end market partially offset the above.
- Polymer operating income was $10.0 million versus $14.1 million in the prior year. This decrease was primarily due to an 18% decline in global sales volume, including a 19% volume decline in Rigid Polyols and lower demand in the Specialty Polyols and Phthalic Anhydride businesses. The lower demand reflects customer inventory destocking and lower construction-related activities.
- Specialty Product operating income was $2.5 million versus $3.7 million in the prior year. This decrease was primarily attributable to lower sales volume and margins within the medium chain triglycerides (MCT) product line.
- Total Company EBITDA[2] was $48.3 million during the first quarter of 2023 versus $84.6 million in the prior year. Adjusted EBITDA[2] was $48.7 million versus $79.3 million in the prior year
- The effect of foreign currency translation negatively impacted net income by $0.9 million, or $0.04 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.*
*(2) EBITDA and adjusted EBITDA are non-GAAP measures. See Appendix V for GAAP reconciliations.*

# Net Income Bridge – Q1 2022 to Q1 2023

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




*(1) The adjustments to Reported Net Income in Q1 2022 consisted of deferred compensation expense and cash-settled SARs income of $4.4 million, and environmental remediation expense 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 Q1 2023 consisted of deferred compensation expense and cash settled SARs income of $0.1 million, restructuring expense of $0.1 million and environmental remediation expense of $0.3 million.*

# Surfactants

Lower demand and customer destocking in commodity Laundry, Personal Care and in the Distribution channel. This was partially offset by higher demand in Agricultural end markets.

## Q1 2023 Business Results Highlights

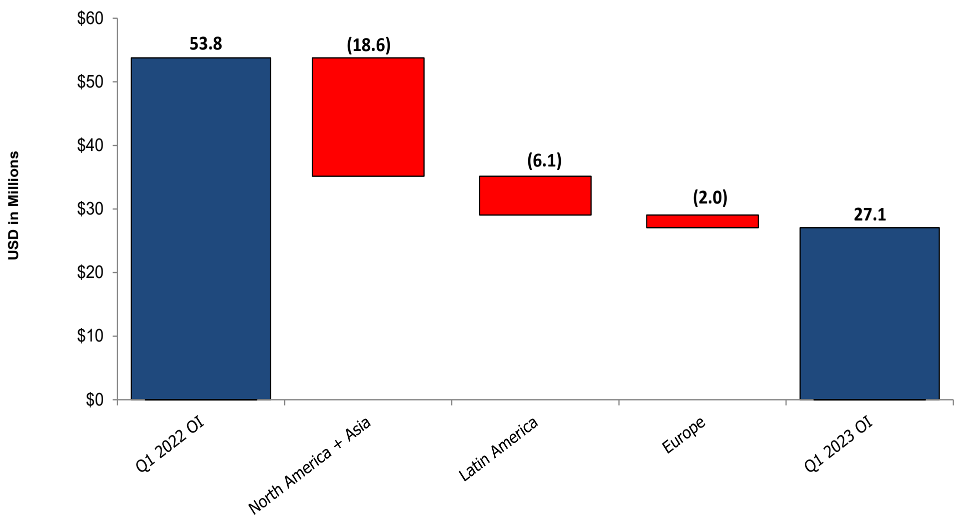
Operating income was $27 MM, a decrease of $27 MM compared to prior year driven by a volume decline of 13%. Selling prices were up 14% mainly due to the pass-through of higher raw material costs as well as improved product and customer mix.

North America results were impacted by lower commodity laundry sales, lower demand within the Personal Care end market, customer inventory destocking, low 1,4 Dx operational delays and the previously disclosed loss in volume associated with the low 1,4 Dx transition. Continued higher demand in the Agricultural end markets partially offset these impacts.

Latin America results were down driven by lower overall demand and pressure from imports.

Europe results decreased mainly as a result of lower overall Consumer Products end market demand, margin shift and lost share, partially offset by higher demand in the Agricultural end market.

| *in millions $* | Q1 2023 | Q1 2022 |
|---|---|---|
| **Net Sales** | $ 467.8 | $ 468.3 |
| **Operating Income** | $ 27.1 | $ 53.8 |

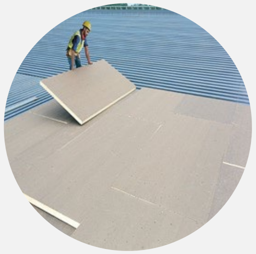



(1) OI = Operating Income

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

# Polymers

## Lower Operating Income attributable to volume driven by lower demand and customer/channel destocking.



### Q1 2023 Business Results Highlights

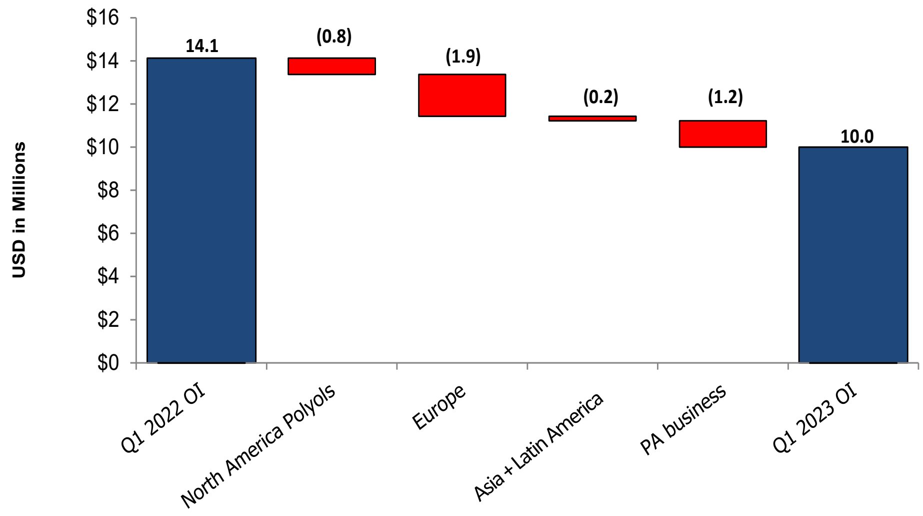
Operating income was $10 MM, a decrease of $4 MM compared to prior year. Selling prices increased 8% mainly due to the pass-through of higher raw material costs. Global volume declined by 18%, primarily due to a 19% volume decline in Rigid Polyol. The decrease was driven by customer inventory destocking and reduced construction industry activity.

North America results were impacted by lower volume in the Rigid Polyols, Specialty Polyols and Pthalic Anhydride business, partially offset by margin recovery efforts and mid-single digit growth in CASE business.

Europe results were down due to lower sales volume in the Rigid Polyol and Specialty Polyol businesses.

Asia results improved on increased demand following the easing of COVID lockdowns and restrictions with the re-opening of China.

| *in millions $* | Q1 2023 | Q1 2022 |
|---|---|---|
| **Net Sales** | $ 161.1 | $ 187.1 |
| **Operating Income** | $ 10.0 | $ 14.1 |



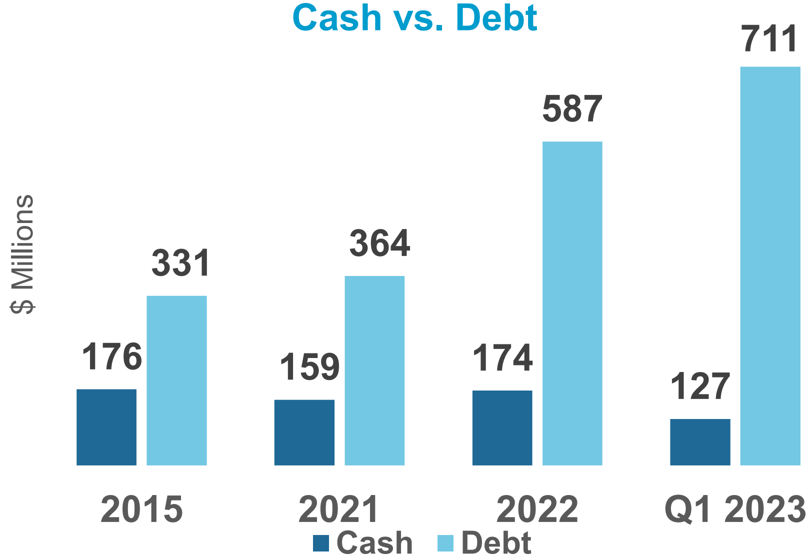



(1) OI = Operating Income

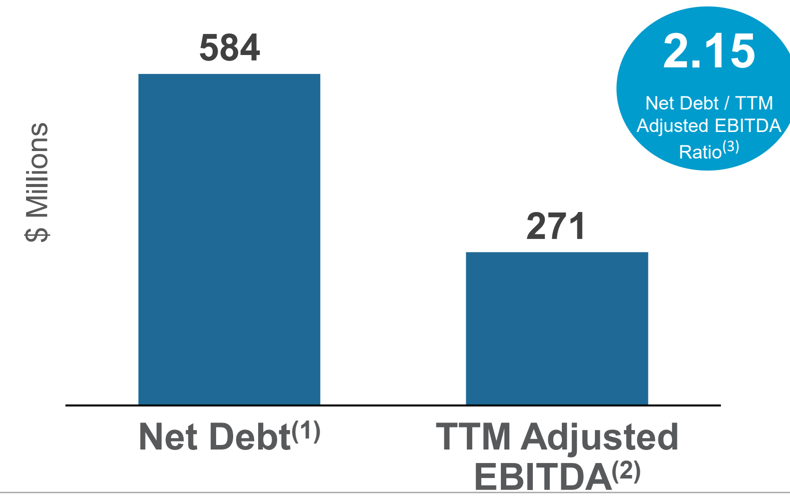
*All amounts are shown on a pre-tax basis (unless noted differently)*

# Balance Sheet remains healthy with Ample Liquidity to Invest for Growth

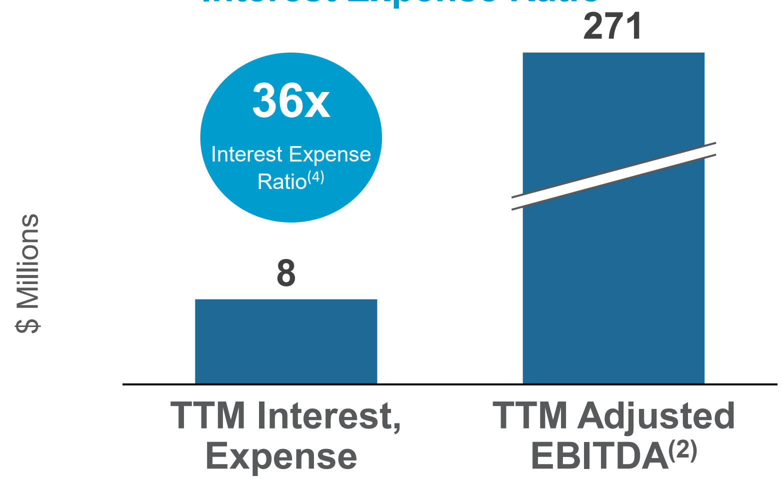
## Cash vs. Debt




## Net Debt / TTM Adjusted EBITDA




## Interest Expense Ratio




## Scheduled Debt Principal Repayments

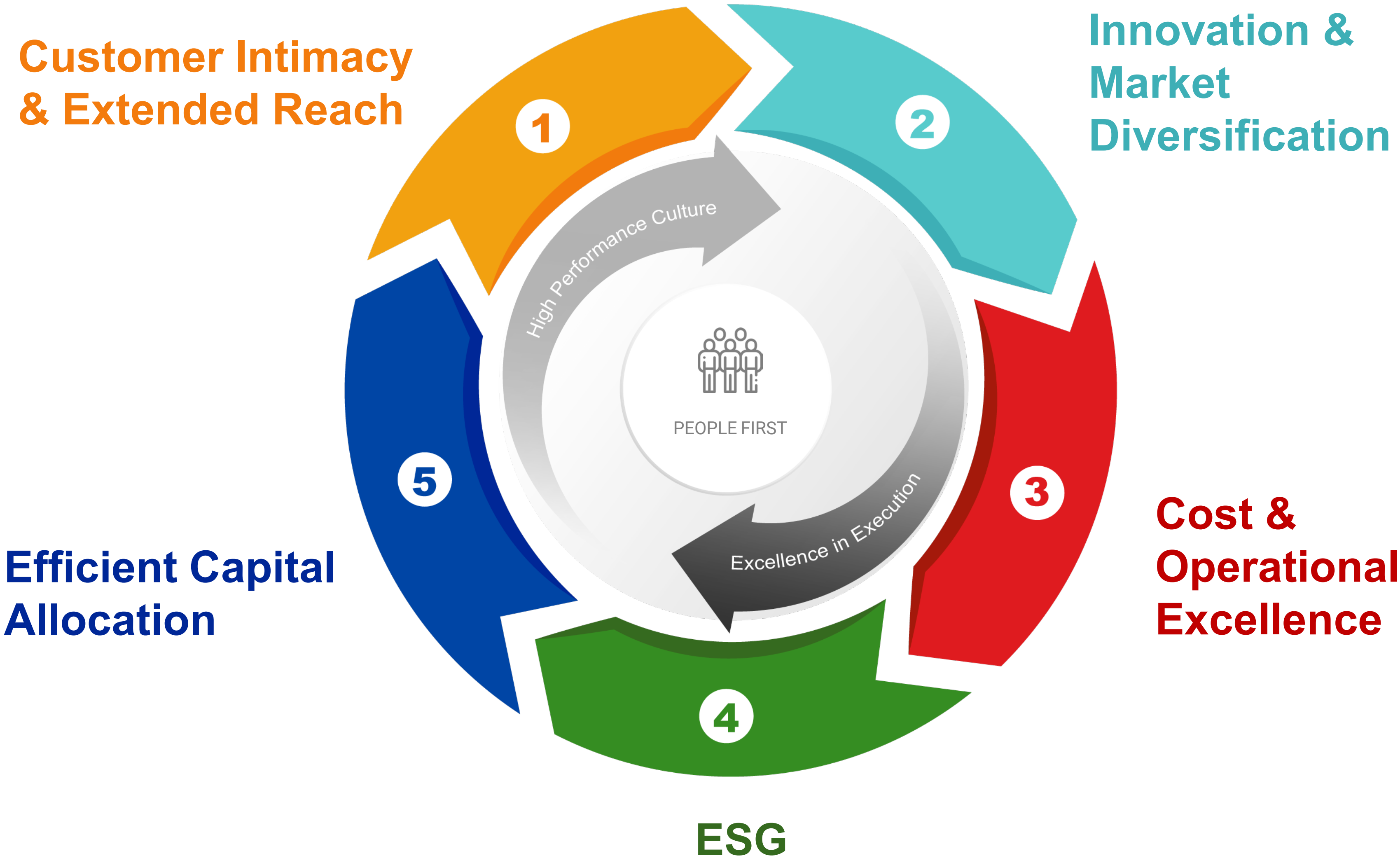
| Year | Amount ($MM) |
|---|---|
| 2023 | 42 |
| 2024 | 54 |
| 2025 | 69 |
| 2026 | 67 |
| 2027 | 136 |
| 2028 | 45 |
| 2029 | 25 |
| 2030 | 25 |
| 2031 | 25 |
| 2032 | 11 |
| Other (Revolver) | 212 |
| **Total** | **711** |

*Debt repayments include the term loan*

*(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

## Shareholder Value Creation



# Stepan 2023 Strategic Priorities

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

1

## Customer Intimacy & Extended Reach

- Diversify and grow our customer base by increasing our reach with Tier 2/3 customers through digitalization
- Continue collaboration and execution of growth programs with our strategic Global Tier 1 customers
- Deliver unmatched responsiveness to customers' technical and service needs
- Engaging with customers on sustainability transition (carbon reduction)

2

## Innovation & Market Diversification

- Focus on growing our Surfactant Functional Business (Agriculture, Oilfield and Construction Additives)
- Drive growth in Specialty Nonionic Surfactants leveraging our Alkoxylation investment in Pasadena, TX
- Develop next generation advanced Rigid Polyol technologies and deliver growth in Spray Foam Market
- Continue to advance development of biobased Fermentation product offerings for core markets

3

## Cost & Operational Excellence

- Control overhead growth to minimize impact of inflation
- Drive manufacturing excellence to achieve productivity gains while improving reliability and lowering costs
- Continue to invest in automation and data analytics to deliver greater efficiencies
- Strengthen and expand continuous improvement mindset/culture

4

## ESG

- Safety remains our top priority: Achieved best safety performance year on record in 2022.
- Partnering with customers, suppliers and green tech providers to innovate products and solutions which support a reduced carbon footprint value chain
- Managing our environmental impact by reducing water use, lowering emissions and diverting waste to useful products
- Committed to TCFD (2022) and intend to set new environmental targets

5

## Efficient Capital Allocation

- Invest in infrastructure and EHS while executing strategic capex projects (Pasadena, Low-1,4 Dioxane)
- Continue returning cash to our shareholders via dividends and share buybacks
- Leverage balance sheet to execute M&A to complement and accelerate our growth strategy
- Allocate financial and human capital toward highest return end-markets and growth programs

# Strategic Capital Investments Update

## Alkoxylation / Specialty Nonionics

*Pasadena, Texas (United States)*

Stepan investing in new alkoxylation capacity at existing Pasadena, Texas facility.

### 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 double digits in 2023 Q1.

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 – 1st Half 2024**

## Low 1,4 Dioxane Capability

*Millsdale, Illinois (United States)*

Stepan investing 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.

Investing in **1,4 dioxane removal technology** will enable Stepan to maintain and grow our North American Sulfonation business. Expecting to grow in back half 2023 due to new contracted business.

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

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

**Network Completion in 1st Half 2023**

Stepan

NYSE: SCL

# 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) | 2020 Actual | 2021 Actual | 2022 Actual | 2023 Forecast |
|---|---|---|---|---|
| Capital Expenditures | 126 | 195 | 301 | 220 - 240 |
| Debt Repayments | 24 | 38 | 38 | 42 |
| Interest Net | 5 | 6 | 10 | 15 |
| Depreciation & Amortization | 82 | 91 | 95 | 110 |
| Effective Tax Rate (%) | 25% | 20% | 22% | 25-27% |

**2023 Capex guidance includes $105-115MM for Pasadena and Low 1,4 Dx projects.**

# 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 2023** | **EPS** | **2022** | **EPS** |
|---|---|---|---|---|
| Net Income Reported | $ 16,142 | $ 0.70 | $ 44,809 | $ 1.93 |
| | | | | |
| Deferred Compensation (Income) Expense | $ (104) | $ - | $ (3,948) | $ (0.17) |
| Business Restructuring Expense | 115 | $ - | 39 | $ - |
| Cash Settled SARs (Income) Expense | (40) | $ - | (402) | $ (0.01) |
| Environmental Remediation Expense | 306 | $ 0.01 | 230 | $ 0.01 |
| Adjusted Net Income | $ 16,419 | $ 0.71 | $ 40,728 | $ 1.76 |

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

| ***($ in thousands, except per share amounts)*** | **Three Months Ended March 31 2023** | **EPS** | **2022** | **EPS** |
|---|---|---|---|---|
| **Pre-Tax Adjustments** | | | | |
| Deferred Compensation (Income) Expense | $ (137) | | $ (5,195) | |
| Business Restructuring Expense | 157 | | 52 | |
| Cash Settled SARs (Income) Expense | (53) | | (529) | |
| Environmental Remediation Expense | 409 | | 303 | |
| Total Pre-Tax Adjustments | $ 376 | | $ (5,369) | |
| Cumulative Tax Effect on Adjustments | $ (99) | | $ 1,288 | |
| After-Tax Adjustments | $ 277 | $ 0.01 | $ (4,081) | $ (0.17) |

# Appendix III

## Foreign Exchange Impact – Q1 2023

| (millions USD) | Surfactants | Polymers | Specialty Products | Consolidated |
|---|---|---|---|---|
| Net Sales | (5.9) | (6.3) | (0.2) | (12.5) |
| Gross Profit | (0.7) | (0.8) | 0.0 | (1.5) |
| Operating Expenses | (0.2) | (0.2) | (0.0) | (0.5) |
| Operating Income | (0.5) | (0.6) | 0.0 | (1.1) |

# Appendix IV

## Net Debt to Total Capitalization Ratio

| (millions USD) | March 31, 2023 | December 31, 2022 | March 31, 2022 | March 31, 2021 | March 31, 2020 | March 31, 2019 |
|---|---|---|---|---|---|---|
| Total Debt | 711.0 | 587.1 | 537.1 | 248.4 | 222.1 | 271.9 |
| Cash | 127.0 | 173.8 | 236.0 | 150.7 | 254.3 | 269.5 |
| Net Debt | 584.0 | 413.3 | 301.1 | 97.7 | (32.2) | 2.4 |
| Equity | 1,189.9 | 1,166.1 | 1,116.7 | 1,002.3 | 866.8 | 831.4 |
| Net Debt + Equity | 1,773.9 | 1,579.4 | 1,417.8 | 1,100.0 | 834.6 | 833.8 |
| Net Debt / (Net Debt + Equity) | 33% | 26% | 21% | 9% | (4%) | 0% |

# Appendix V

## Adjusted EBITDA Reconciliations

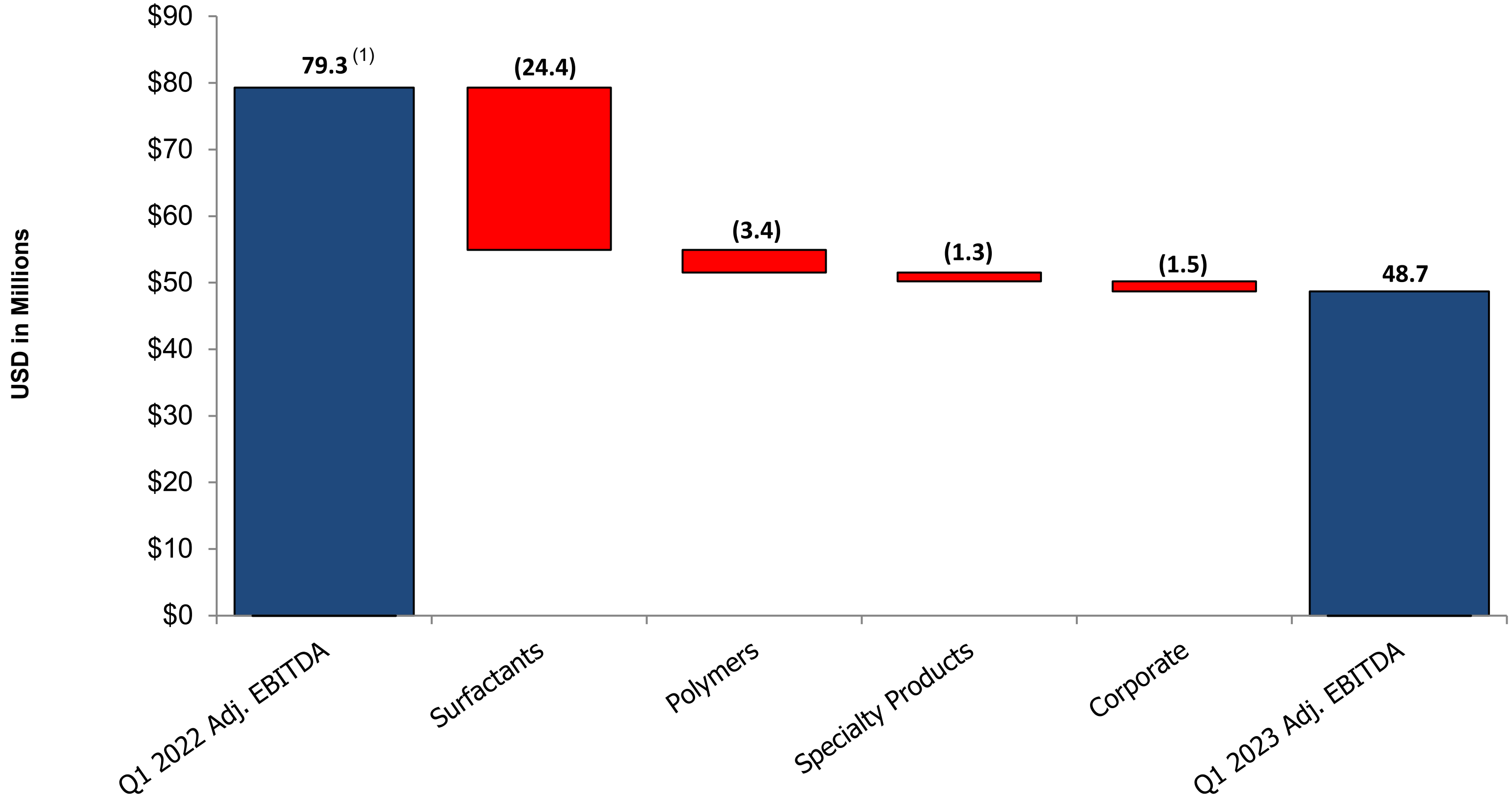
| (millions USD) | Q1 2023 – Quarterly Adjusted EBITDA by Segment | | | | |
|---|---|---|---|---|---|
| | Surfactants | Polymers | Specialty Products | Corporate | Total Stepan |
| Net Sales | 468 | 161 | 22 | - | 651 |
| Reported Operating Income | 27 | 10 | 3 | (19) | 21 |
| Adjustments | 0 | 0 | 0 | 2 | 2 |
| Adjusted Operating Income | 27 | 10 | 3 | (16) | 23 |
| Depreciation & Amortization | 15 | 8 | 1 | 1 | 26 |
| Adjusted EBITDA | 42 | 18 | 4 | (16) | 49 |
| Adjusted EBITDA Margin | 9.1% | 11.3% | 17.6% | n/a | 7.5% |

| | Q1 2023 –Adjusted EBITDA Total Stepan |
|---|---|
| Net Sales | 651 |
| Subtotal Segment Reported Operating Income | 40 |
| Cash Settled SARS | (0) |
| Corporate Expenses | (17) |
| Consolidated Adjusted Operating Income | 23 |
| Depreciation & Amortization | 26 |
| Other | 2 |
| Adjusted EBITDA | 49 |
| *Adjusted EBITDA Margin* | 7.5% |

Interest Expense Ratio = TTM Adjusted EBITDA / Interest Expense = 271/ 7.6 = 36x
Net Debt/TTM Adjusted EBITDA Ratio = 584/271 = 2.15

# Appendix VI

## Adjusted EBITDA Bridge




(1) *EBITDA and adjusted EBITDA are non-GAAP measures. See Appendix V and Appendix VII for GAAP reconciliations.*

# Appendix VII

## Adjusted EBITDA Reconciliations 2022

| (millions USD) | 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 –Adjusted EBITDA Total Stepan |
|---|---|
| Net Sales | 675 |
| Subtotal Segment Reported Operating Income | 72 |
| Cash Settled SARS | (1) |
| Corporate Expenses | (16) |
| Consolidated Adjusted Operating Income | 56 |
| Depreciation & Amortization | 23 |
| Other | (2) |
| Adjusted EBITDA | 79 |
| *Adjusted EBITDA Margin* | 11.7% |

**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