



Earnings Call Presentation

Fourth Quarter 2022

February 16, 2023



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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

2022 Highlights	Scott R. Behrens, <i>President and Chief Executive Officer</i>
Fourth 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>

CEO Remarks – 2022 Highlights

- **RECORD** Reported Net Income in 2022.
- **RECORD** Adjusted Net Income⁽¹⁾ in 2022; 3rd consecutive year of record Adjusted Net Income.
- Despite significant external supply chain challenges and a difficult macro environment, the business was able to deliver another record year. Significant inflation in raw materials, logistics and other expenses were fully offset with pricing actions, mix improvements, and productivity efforts. Revenue growth from Price/Mix increased 30% in 2022 after delivering 22% growth in 2021.
- Surfactants operating income was down slightly primarily due to lower global commodity laundry demand, raw material constraints, and customer inventory destocking. Higher demand for products sold into the Functional Product and Institutional Cleaning end markets partially offset the above.
- Polymer operating income increased 13% versus prior year despite lower global sales volume due to customer and channel inventory destocking, reduced construction industry activity and general economic concerns.
- Specialty Product delivered **RECORD** operating income of \$30 million compared to \$14 million in the prior year driven by improved product and customer mix.
- Unfavorable impact from foreign currency translation negatively impacted net income by \$6 million or \$0.24 per diluted share compared to the prior year. EPS excluding FX grew strong double digits.
- We made significant progress in several strategic investments. Construction on our new Alkoxylation facility in Pasadena, Texas began and is in full swing. In addition, we installed new Low 1,4 Dioxane removal assets in North America. The Company acquired PerformanX Specialty Chemicals' alkoxyates business on September 23, 2022. The acquired business delivered financial results in line with expectations in 2022.

(1) Adjusted Net Income is a non-GAAP measure that excludes certain significant, non-recurring items. See Appendix II for a GAAP reconciliation.

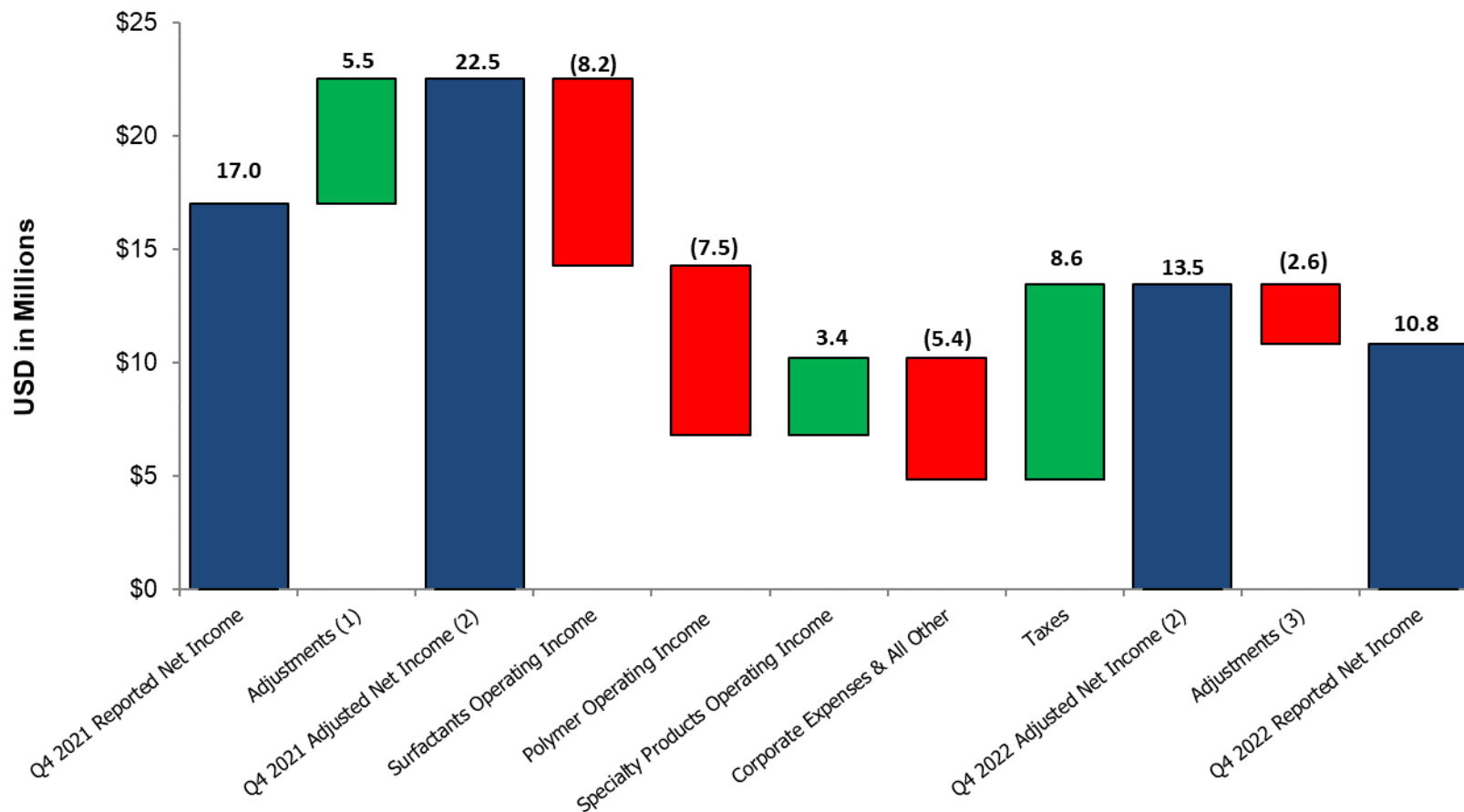
Fourth Quarter 2022 Financial Recap

- Q4 Reported Net Income was \$10.8 million, or \$0.47 per diluted share, versus \$17.0 million, or \$0.73 per diluted share, in Q4 2021.
- Q4 Adjusted Net Income⁽¹⁾ was \$13.5 million, or \$0.59 per diluted share, versus \$22.5 million, or \$0.97 per diluted share, in Q4 2021. Adjusted Net Income in Q4 2022 excludes the following non-operational items:
 - Deferred compensation and cash-settled SARs expense of \$2.2 million, or \$0.10 per diluted share.
 - Environmental remediation expense of \$0.4 million, or \$0.02 per diluted share.
- Surfactant operating income was \$21.8 million versus \$32.4 million in the prior year. This decrease was primarily due to a 15% decline in global sales volume that was partially offset by improved product and customer mix. The lower sales volume was mostly due to reduced global commodity laundry demand, lower demand within the North American Personal Care end market and customer inventory destocking. Higher global demand in the Agricultural and Institutional Cleaning end markets partially offset the above.
- Polymer operating income was \$3.0 million versus \$12.9 million in the prior year. This decrease was primarily due to a 23% decline in global sales volume, including a 21% volume decline in Rigid Polyol and lower demand in the Specialty Polyol and Phthalic Anhydride businesses. The lower demand reflects customer and channel inventory destocking, lower construction related activities and general economic concerns.
- Specialty Product operating income was \$6.6 million versus \$2.1 million in the prior year. This increase was primarily attributable to improved margins and customer mix within the medium chain triglycerides (MCT) product line and order timing differences within the food and flavor business.
- The effect of foreign currency translation negatively impacted net income by \$0.4 million, or \$0.02 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 – Q4 2021 to Q4 2022

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



(1) The adjustments to Reported Net Income in Q4 2021 consisted of deferred compensation expense and cash-settled SARs expense of \$2.4 million, restructuring expenses and the non-cash loss on the sale of the corporate headquarters building of \$2.3 million and environmental remediation of \$0.8 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 Q4 2022 consisted of deferred compensation expense and cash settled SARs expense of \$2.2 million, restructuring expense of \$0.1 million and environmental remediation expense of \$0.4 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 and Institutional Cleaning end markets.



Q4 2022 Business Results Highlights

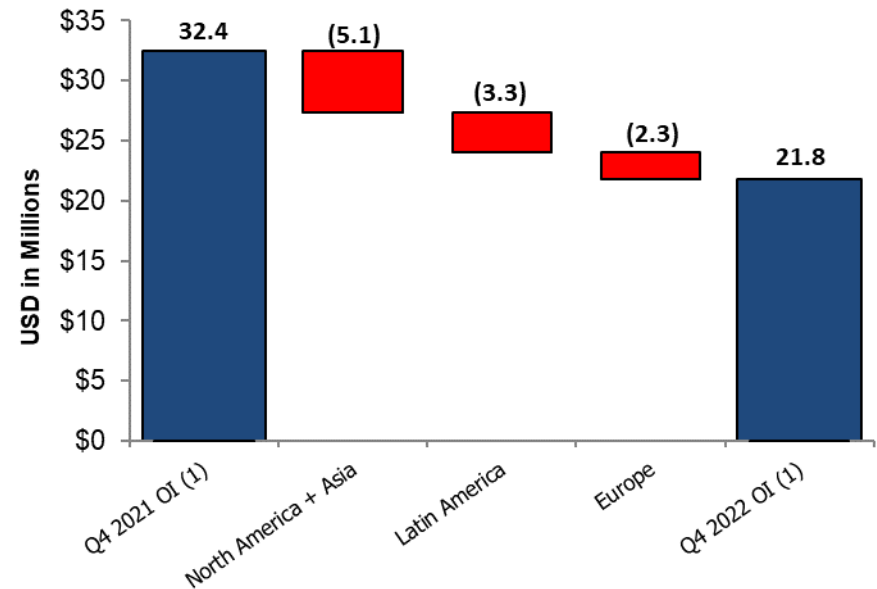
Operating income was \$22 MM, a decrease of \$11 MM compared to prior year driven by a volume decline of 15%. Selling prices were up 26% mainly due to the pass-through of higher raw material and logistics costs as well as improved product and customer mix.

North America results were impacted by lower global commodity laundry sales, lower demand within the Personal Care end market, customer inventory destocking and the known loss in volume from one commodity Laundry customer. Continued higher demand in the Agricultural end market partially offset these.

Latin America results were down driven by lower demand in Commodity Laundry, partially offset by higher demand in Agricultural and Institutional Cleaning end markets.

Europe results decreased mainly as a result of customer destocking and overall lower demand.

<i>in millions \$</i>	Q4 2022	Q4 2021
Net Sales	\$ 454.5	\$ 420.1
Operating Income	\$ 21.8	\$ 32.4

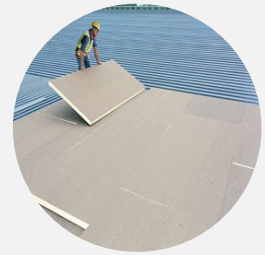


(1) OI = Operating Income

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

Polymers

Lower Operating Income attributable to volume, as a result of lower demand and customer destocking.



Q4 2022 Business Results Highlights

Operating income was \$3 MM, a decrease of \$10 MM compared to prior year. Selling prices increased 14% mainly due to the pass-through of higher raw material costs. Global sales volume declined by 23%, primarily due to a 21% volume decline in Rigid Polyol and lower demand across the Specialty Polyol and Phthalic Anhydride businesses. The decrease was driven by customer inventory destocking, reduced construction industry activity and general economic concerns.

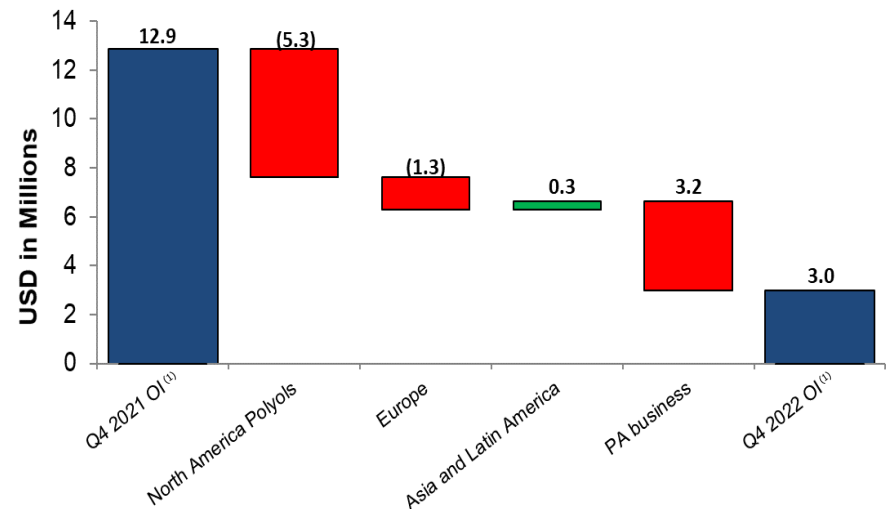
North America results were impacted by lower sales volume in all businesses, partially offset by margin recovery efforts.

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

Asia results improved on increased demand following the easing of COVID lockdowns and restrictions.

in millions \$

	Q4 2022	Q4 2021
Net Sales	\$ 148.3	\$ 173.7
Operating Income	\$ 3.0	\$ 12.9



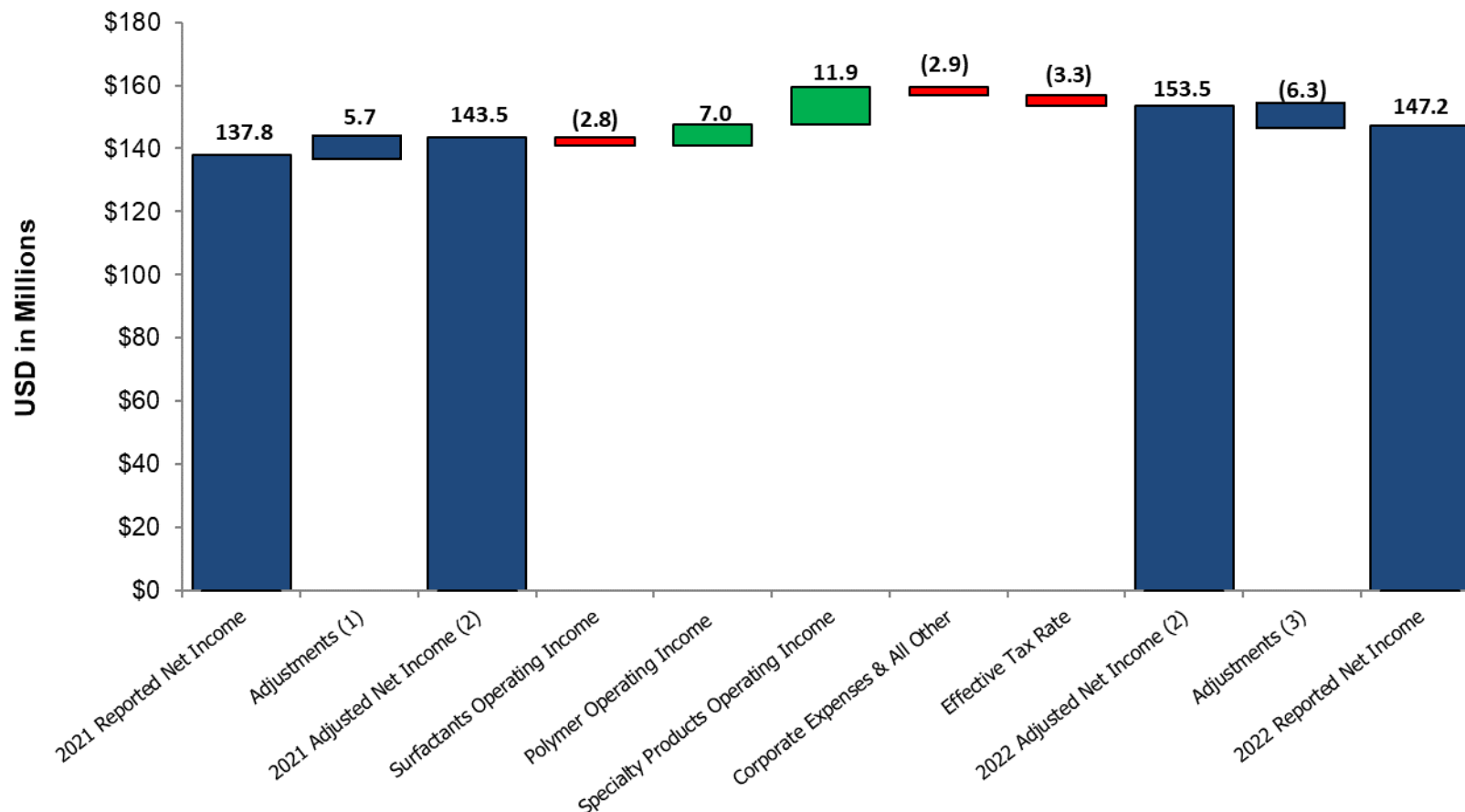
Full Year 2022 Financial Recap

- 2022 Reported Net Income was a **RECORD** \$147.2 million, or \$6.38 per diluted share, a 7% increase versus \$137.8 million, or \$5.92 per diluted share, in 2021. Reported Net Income for 2022 included the following non-operational and/or non-recurring items:
 - Deferred compensation and cash-settled SARS income of \$2.6 million, or \$0.11 per diluted share.
 - Environmental remediation expense of \$8.7 million, or \$0.37 per diluted share.
- Adjusted Net Income⁽¹⁾ was a **RECORD** \$153.5 million, or \$6.65 per diluted share, a 7% increase versus \$143.5 million, or \$6.16 per diluted share, in 2021. Total Company sales volume declined 7% versus the prior year.
- The Surfactant segment delivered operating income of \$162.7 million, down slightly versus the prior year. Surfactant global sales volume was down 6% primarily due to lower global commodity laundry demand, raw material constraints and customer inventory destocking efforts. Higher demand for products sold into the Functional Products and Institutional Cleaning end markets partially offset the above.
- The Polymer segment delivered \$82.9 million of operating income, up 13% versus the prior year. Global Polymer sales volume declined 7% versus the prior year due to customer inventory destocking, and lower construction related activities observed in the second half of the year.
- Specialty Product operating income was a **RECORD** \$29.9 million versus \$14.2 million in the prior year driven by product and customer mix.
- The effect of foreign currency translation negatively impacted net income by \$5.6 million, or \$0.24 per diluted share, versus the prior year. EPS excluding FX grew +12%.

(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 – Full Year 2021 to 2022

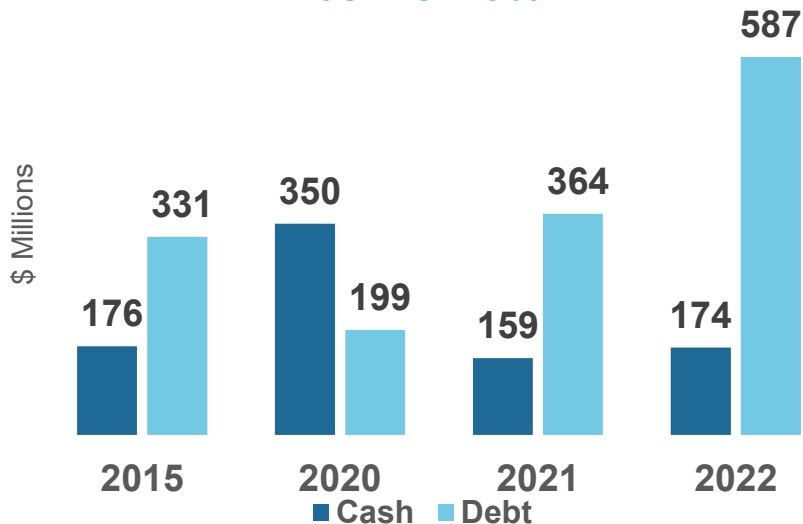
Note: All amounts are in millions of U.S. dollars and are reported after-tax.



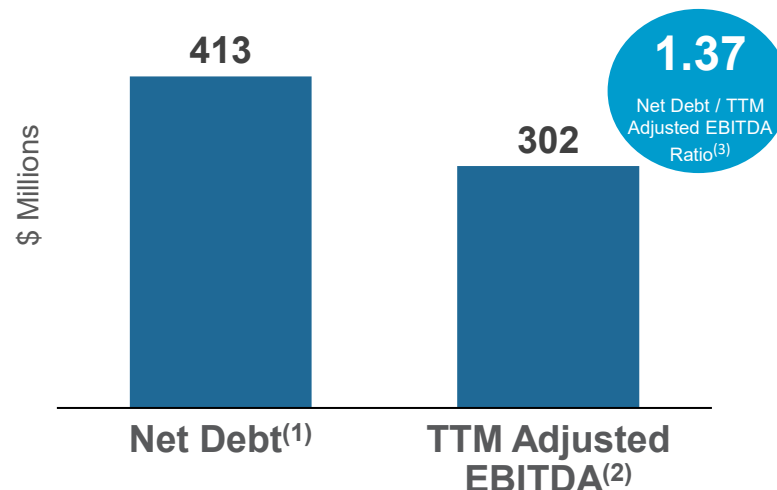
- (1) The adjustments to Reported Net Income in 2021 were related to deferred compensation expense and cash-settled SARS expense of \$1.6 million, restructuring and non-cash loss on the sale of the corporate headquarters building costs of \$2.5 million and environmental remediation expense of \$1.5 million.
- (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 2022 were related to deferred compensation and cash-settled SARS income of \$2.6 million, restructuring costs of \$0.2 million and environmental remediation expense of \$8.7 million.

Strong Balance Sheet and Ample Liquidity to Invest for Growth

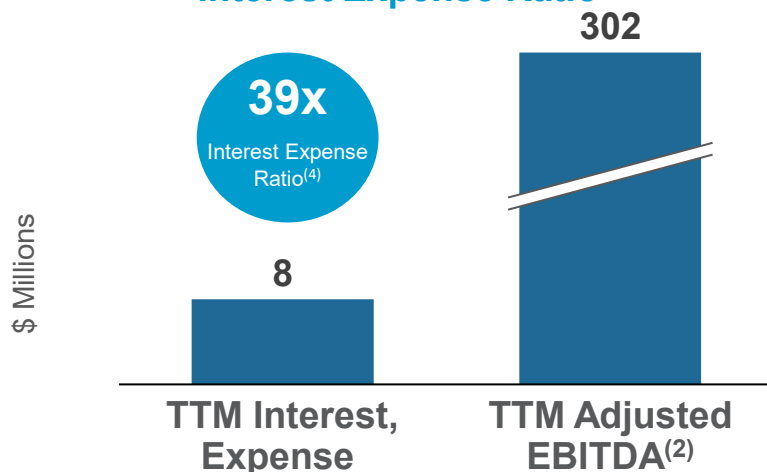
Cash vs. Debt



Net Debt / TTM Adjusted EBITDA



Interest Expense Ratio



Scheduled Debt Principal Repayments

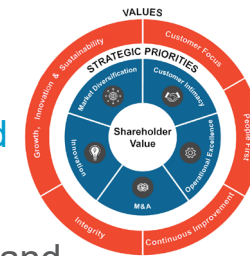
Year	Amount (\$MM)
2023	42
2024	54
2025	69
2026	67
2027	136
2028	45
2029	25
2030	25
2031	25
2032	11
Other (Revolver)	88
Total	587

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

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



Surfactants

- Agricultural volume increased double digits in 2022
- Oilfield outlook remains positive given high commodity prices and demand
- Specialty nonionic growth driven by Functional markets including construction
- Low 1,4 Dx transition remains a key priority and an opportunity
- Continued progress on the construction of the new Pasadena Alkoxylation Site



Polymers

- Focus on developing the next generation advanced Rigid Polyol Technologies
- Continue capturing market growth dynamics driven by energy conservation efforts
- Strong market diversification and growth in the Spray Foam market
- Grow China business post COVID lockdowns and restrictions



Productivity

- Accelerating interventions and investments at our Millsdale site to increase capacity and improve productivity
- Enhance digitalization and analytics to identify and deliver productivity gains
- Drive continuous Improvement program to reduce / eliminate inefficiencies



M&A

- Integration of recently acquired PerformanX business on track
- Leverage strong Balance Sheet to accelerate our growth strategy



ESG

- Achieved best safety performance year on record in 2022
- EcoVadis 2023 Gold Award (sustainability rating). Top 96 Percentile.
- Named Top in Chemicals-Specialty Sector on IBD's 2022 Best ESG Companies List
- Continued progress in our Fermentation program

Strategic Investments

Capital Deployment

Alkoxylation / Specialty Nonionics



Pasadena, Texas (United States)

Stepan investing in new 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 – First Half 2024

Low 1,4 Dioxane Capability



Winder, Georgia (United States)



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.

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

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

Network Completion in First Half 2023

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)	2020 Actual	2021 Actual	2022 Actual	2023 Forecast
Capital Expenditures	126	195	301	240 - 270
Debt Repayments	24	38	38	42
Interest Net	5	6	10	15
Depreciation & Amortization	82	91	95	112
Effective Tax Rate (%)	25%	20%	22%	25-27%

2023 Capex guidance includes \$100-110MM 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 December 31				Twelve Months Ended December 31			
	2022	EPS	2021	EPS	2022	EPS	2021	EPS
Net Income Reported	\$ 10,834	\$ 0.47	\$ 16,995	\$ 0.73	\$ 147,153	\$ 6.38	\$ 137,804	\$ 5.92
Deferred Compensation (Income) Expense	\$ 2,000	\$ 0.09	\$ 2,168	\$ 0.09	\$ (2,369)	\$ (0.10)	\$ 1,484	\$ 0.06
Business Restructuring/Asset Disposition Exp.	\$ 62	\$ 0.00	\$ 2,343	\$ 0.10	\$ 231	\$ 0.01	\$ 2,543	\$ 0.11
Cash-Settled SARs (Income) Expense	\$ 194	\$ 0.01	\$ 203	\$ 0.01	\$ (270)	\$ (0.01)	\$ 165	\$ 0.01
Environmental Remediation Expense	\$ 366	\$ 0.02	\$ 784	\$ 0.04	\$ 8,728	\$ 0.37	\$ 1,503	\$ 0.06
Adjusted Net Income	<u>\$ 13,456</u>	<u>\$ 0.59</u>	<u>\$ 22,493</u>	<u>\$ 0.97</u>	<u>\$ 153,473</u>	<u>\$ 6.65</u>	<u>\$ 143,499</u>	<u>\$ 6.16</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			
	2022	EPS	2021	EPS	2022	EPS	2021	EPS
Pre-Tax Adjustments								
Deferred Compensation (Income) Expense	\$ 2,631		\$ 2,853		\$ (3,117)		\$ 1,952	
Business Restructuring/Asset Disposition Exp.	\$ 83		\$ 3,086		\$ 308		\$ 3,353	
Cash-Settled SARs (Income) Expense	\$ 255		\$ 267		\$ (354)		\$ 217	
Environmental Remediation Expense	\$ 481		\$ 1,031		\$ 11,483		\$ 1,977	
Total Pre-Tax Adjustments	\$ 3,450		\$ 7,237		\$ 8,320		\$ 7,499	
Cumulative Tax Effect on Adjustments	\$ (828)		\$ (1,739)		\$ (2,000)		\$ (1,804)	
After-Tax Adjustments	<u>\$ 2,622</u>	<u>\$ 0.12</u>	<u>\$ 5,498</u>	<u>\$ 0.24</u>	<u>\$ 6,320</u>	<u>\$ 0.27</u>	<u>\$ 5,695</u>	<u>\$ 0.24</u>

Appendix III

Foreign Exchange Impact – Q4 2022

(millions USD)	Surfactants	Polymers	Specialty Products	Consolidated
Net Sales	(11.9)	(10.1)	(0.5)	(22.5)
Gross Profit	(0.5)	(1.1)	0.2	(1.4)
Operating Expenses	(0.5)	(0.2)	(0.0)	(0.7)
Operating Income	(0.0)	(0.9)	0.2	(0.7)

Appendix IV

Net Debt to Total Capitalization Ratio

(millions USD)	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Total Debt	587.1	363.6	198.7	222.1	276.1	290.8
Cash	173.8	159.2	349.9	315.4	300.2	298.9
Net Debt	413.3	204.4	(151.2)	(93.3)	(24.1)	(8.1)
Equity	1,166.1	1,074.2	986.7	891.8	807.4	740.1
Net Debt + Equity	1,579.4	1,278.6	835.5	798.5	783.3	732.0
Net Debt / (Net Debt + Equity)	26%	16%	(18%)	(12%)	(3%)	(1%)

Appendix V

Adjusted EBITDA Reconciliations

	Q4 2022 – Quarterly Adjusted EBITDA by Segment				
	Surfactants	Polymers	Specialty Products	Corporate	Total Stepan
Net Sales	455	148	24	-	627
Reported Operating Income	22	3	7	(20)	12
Adjustments	0	0	0	4	4
Adjusted Operating Income	22	3	7	(16)	16
Depreciation & Amortization	15	8	1	0	24
Adjusted EBITDA	37	11	8	(15)	41
Adjusted EBITDA Margin	8.1%	7.3%	33.3%	n/a	8.9%

	2022 –Adjusted EBITDA Total Stepan
Net Sales	2,773
Subtotal Segment Reported Operating Income	275
Cash Settled SARS	0
Corporate Expenses	(66)
Consolidated Adjusted Operating Income	209
Depreciation & Amortization	95
Other	(3)
Adjusted EBITDA	302
<i>Adjusted EBITDA Margin</i>	10.9%

Interest Expense Ratio = TTM Adjusted EBITDA / Interest Expense = 302/ 7.7 = 39x
 Net Debt/TTM Adjusted EBITDA Ratio = 413/302 = 1.37