



Earnings Call Presentation

Second Quarter 2020

July 22, 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

Second Quarter Financial Highlights	F. Quinn Stepan, Jr., <i>Chairman, President and Chief Executive Officer</i>
Second 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>

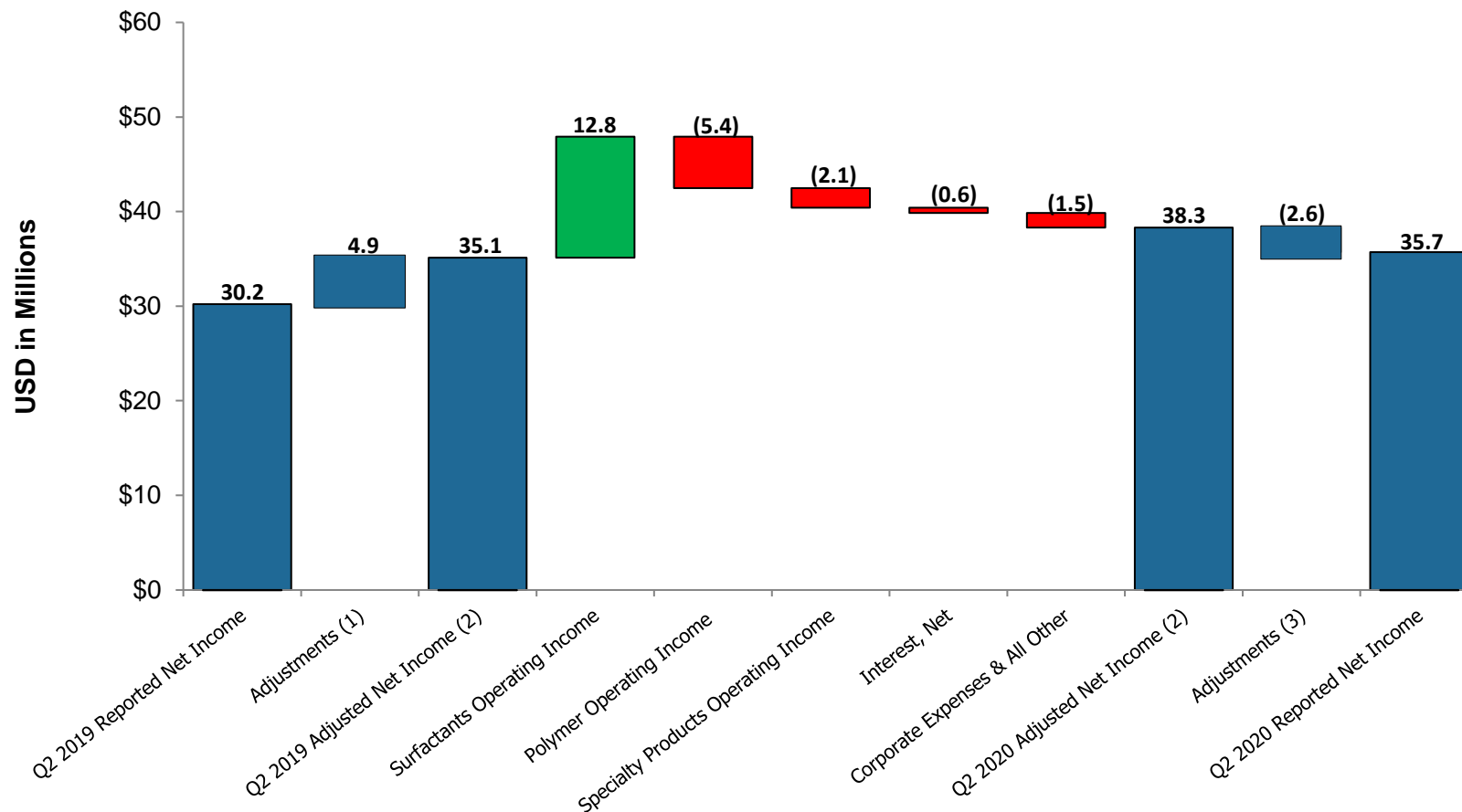
Second Quarter 2020 Financial Recap

- Q2 Reported Net Income was a record \$35.7 million, or \$1.54 per diluted share, an 18% increase versus \$30.2 million, or \$1.30 per diluted share, in Q2 2019.
- Q2 Adjusted Net Income⁽¹⁾ was a record \$38.3 million, or \$1.65 per diluted share, a 9% increase versus \$35.1 million, or \$1.50 per diluted share, in Q2 2019. Adjusted Net Income in Q2 2020 excludes the following non-operational items:
 - Deferred compensation and cash-settled SARs expense of \$2.4 million, or \$0.10 per diluted share.
 - Restructuring expense of \$0.2 million, or \$0.01 per diluted share.
- Reported Surfactant Operating Income was a record \$48.5 million, an increase of \$16.4 million, or 51%, versus Q2 2019. This increase was primarily attributable to a 10% increase in global Surfactant volume and an improved product 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 products as a result of COVID-19, and a \$5.0 million operating income improvement in Mexico. As previously announced, the Company plans to acquire Clariant's anionic surfactant business and sulfonation equipment in Mexico.
- Reported Polymer Operating Income was \$15.5 million, a decrease of \$7.2 million, versus Q2 2019. This decrease was mostly attributable to a 13% decline in sales volume versus prior year quarter. Global rigid polyol sales volume declined 8% driven by Europe and North America, due to COVID-19 construction project delays and cancellations, partially offset by strong growth in China. Lower volume and higher raw material inventory cost within the phthalic anhydride business also contributed to the decline in operating income from the prior year quarter.
- Reported Specialty Product Operating Income was \$3.2 million, a decrease of \$2.8 million versus Q2 2019, primarily attributable to order timing differences within our food and flavor business and lower margins within our medium chain triglyceride (MCT) product line.
- FX impacted Sales by -4% and EPS by -\$0.11.
- The Company had negative net debt at quarter-end as cash balances of \$273 million exceeded total debt of \$208 million. The Company has access to a committed \$350 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 – Q2 2019 to Q2 2020

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



(1) The adjustments to Reported Net Income in Q2 2019 consisted of deferred compensation expense and cash settled SARs expense of \$1.4 million, environmental remediation of \$2.2 million, voluntary debt repayment of \$1.0 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 Q2 2020 consisted of deferred compensation income and cash-settled SARs income of \$2.4 million and restructuring costs of \$0.2 million.

Surfactants – RECORD Quarter

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



Business Results Highlights

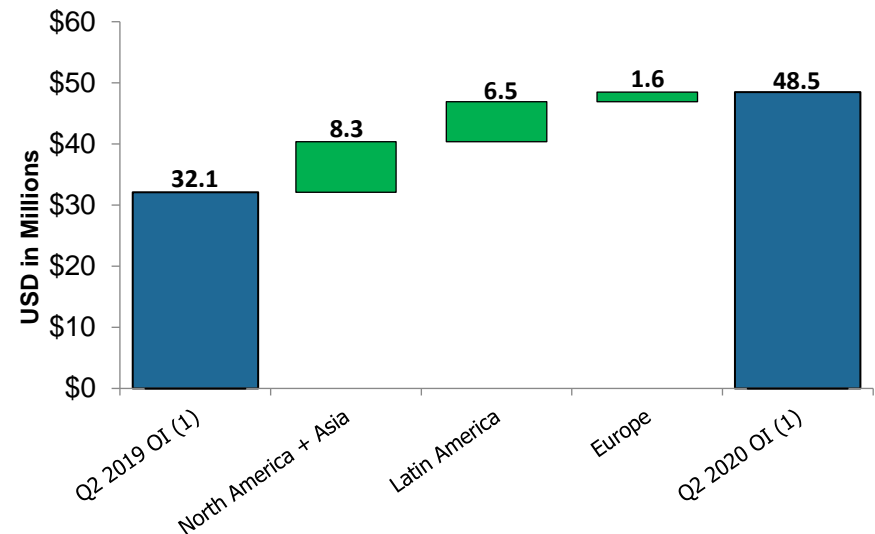
Operating Income was \$48.5 million, an increase of \$16.4 million, or 51%, compared to the prior year. Net sales increased 6% due to higher demand for products sold into the consumer product end markets, driven by increased demand as a result of COVID-19. Foreign exchange negatively impacted Net Sales by 5%.

North America results increased primarily driven by strong demand in the consumer products (cleaning and disinfection) end market driven by COVID-19.

Record quarter in Mexico and in Brazil. Mexico net sales were up \$5.0 million due to Volume +33% and product mix. Brazil Volume +32%.

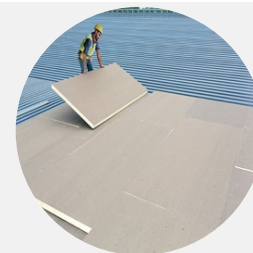
Europe results increased due to higher Consumer Products and Agricultural demand.

<i>in millions \$</i>	Q2 2020	Q2 2019
Net Sales	\$ 332.3	\$ 313.4
Operating Income	\$ 48.5	\$ 32.1



Polymers

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



Business Results Highlights

Operating Income was \$15.5 million, a decrease of \$7.2 million, compared to the prior year. Net sales decreased 20% primarily due to lower North American and European demand for rigid polyols used in rigid foam insulation. This lower demand primarily reflects COVID-19 construction project delays/cancellations.

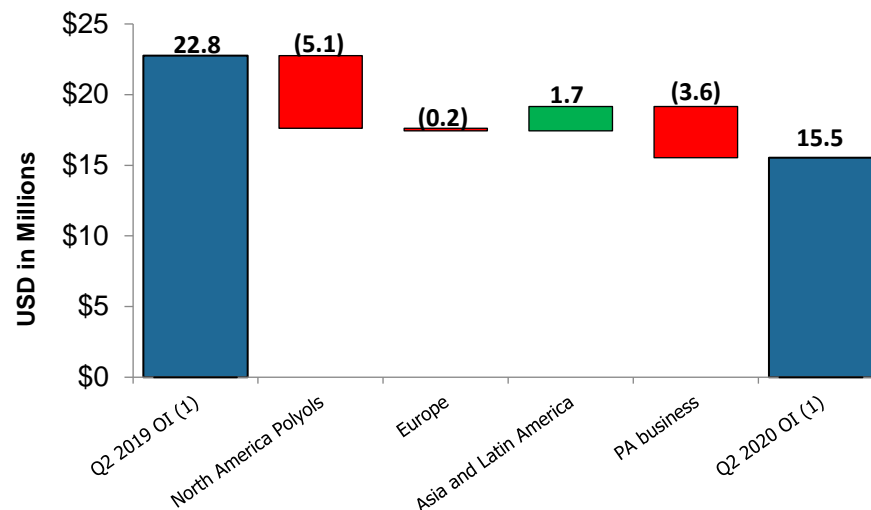
North America Polyol results decreased due to lower volumes and margins. The lower North American margins reflect high cost raw material inventory carried over from the first quarter due to production issues at the Company's Millsdale, IL facility.

Europe results were basically flat with lower Rigid demand due to COVID-19 offset by Specialty Polyol volume growth.

China volume grew 41% driven by strong demand in the growing cold storage and livestock end markets.

Phthalic anhydride (PA) results decreased due to lower volumes and higher raw material cost driven by the Millsdale facility power failure in Q1.

<i>in millions \$</i>	Q2 2020	Q2 2019
Net Sales	\$ 112.4	\$ 140.6
Operating Income	\$ 15.5	\$ 22.8

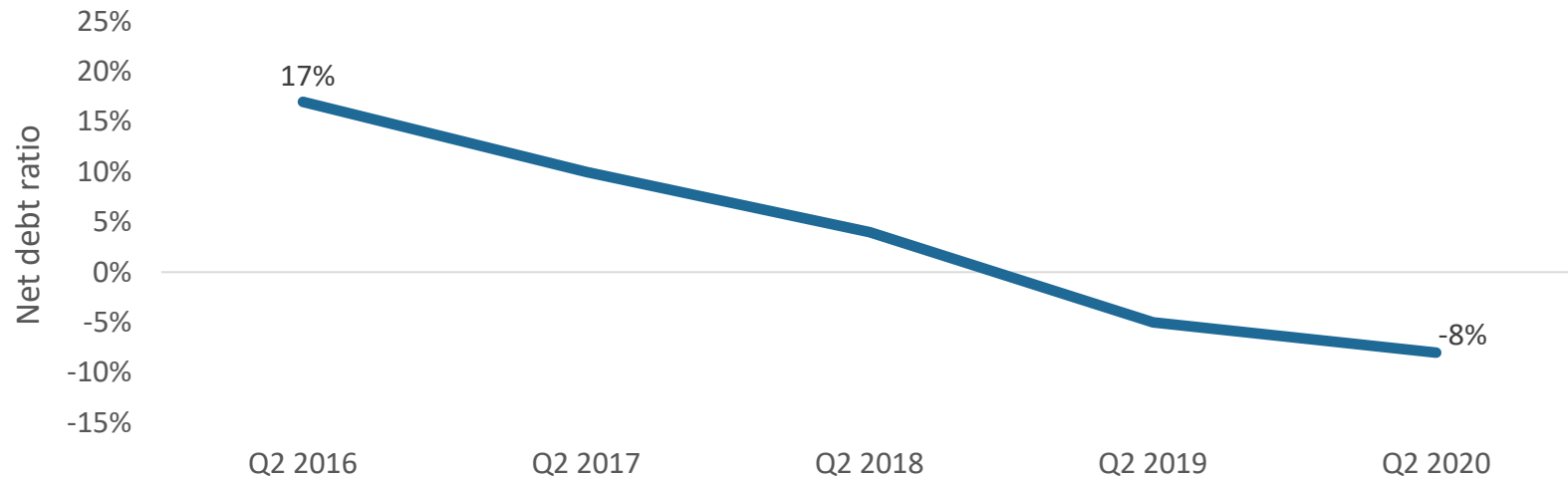


(1) OI = Operating Income

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

Net Debt Ratio / Cash Flows

Historical Net Debt Ratio⁽¹⁾



For the quarter:

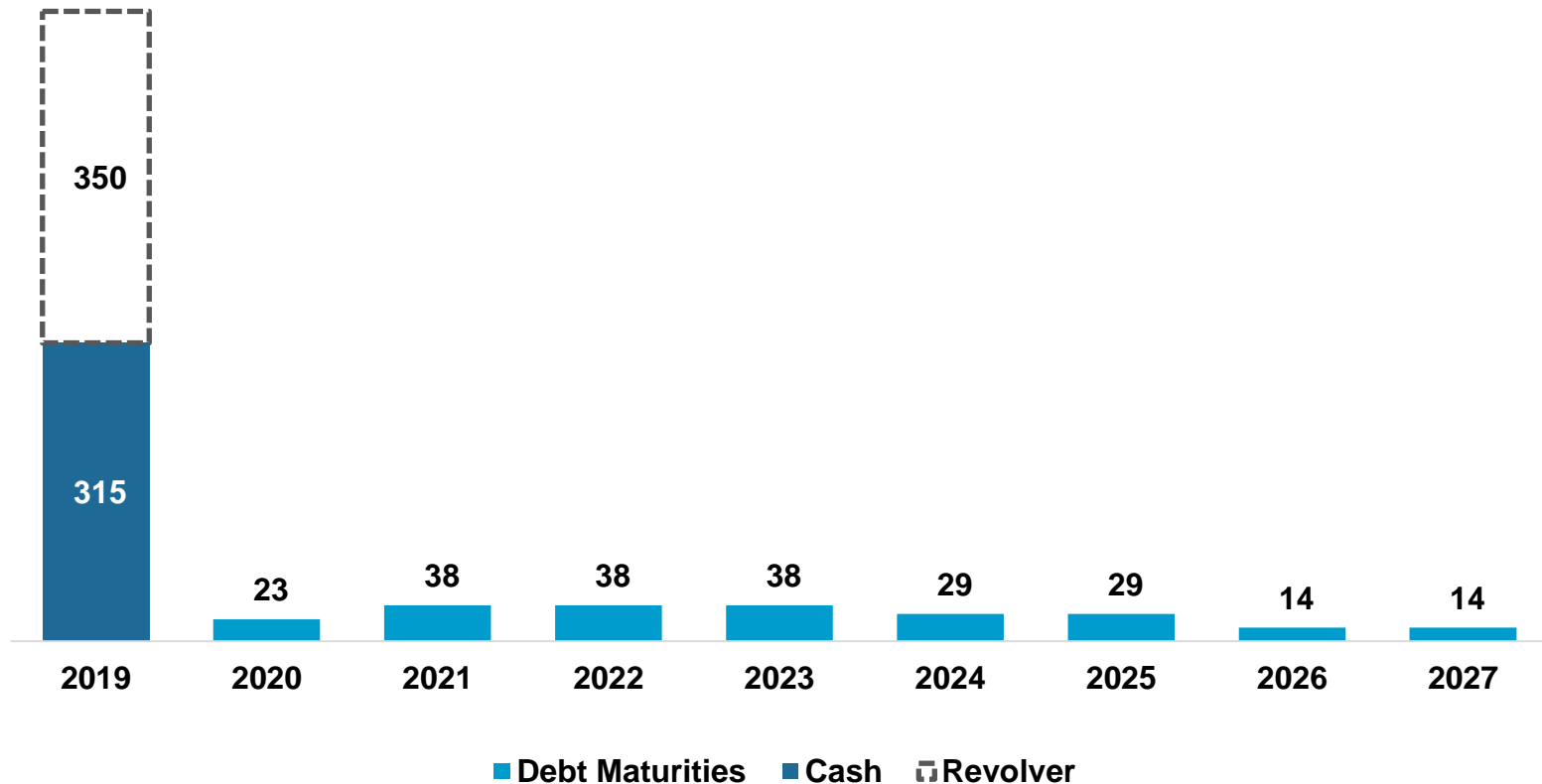
- Cash flow from operations was \$65.0 million.
- Capital expenditures were \$21.5 million.
- We returned \$12.7 million to our shareholders via dividends and share repurchases.

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



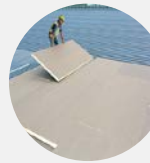
- Enable a healthier world through the supply of surfactants for cleaning, disinfection and personal wash applications.



- Accelerate growth with Local Tier 2/3 Customers, while continue supporting our Global Tier 1 customers.



- Continue Surfactant Diversification Strategy into Functional Markets, including Agricultural and Oilfield Chemicals.



- Capture market growth driven by energy conservation efforts in Rigid Polyols; Accelerate growth in China.


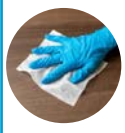

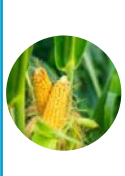






- Deliver productivity and efficiency across all Stepan to improve Margins.



- Leverage our strong Balance Sheet to complement Organic Growth opportunities and add new chemistries and technologies

Strategic Priorities:

Key Priorities	Stepan Opportunities / Actions
 <p>COVID-19</p>	<ul style="list-style-type: none"> • Ensure the health and safety of our employees. Implemented recommended safety procedures and protocols globally. Majority of administrative employees working from home. • Producing and delivering products that help fight the global pandemic. • Preserve the right to operate and compete during and post the COVID-19 crisis.
 <p>Cleaning & Disinfection and Personal Care</p>	<ul style="list-style-type: none"> • Core cleaning and disinfecting product lines drove Surfactant volume growth of +10% during Q2. • Debottleneck and increase capacity in key product lines. Secure critical raw materials for growth. • Record quarter in Mexico and in Brazil due to higher demand in cleaning products.
 <p>Tier 2/3 Customers</p>	<ul style="list-style-type: none"> • Tier 2/3 volume grew significantly. • Increased customer penetration with 443 new customers.
 <p>Agricultural Chemicals</p>	<ul style="list-style-type: none"> • Global Agricultural volume grew +6% in Q2 despite a decrease in North America due to high inventory levels from 2019. • Strong growth in the post patent pesticide segment with 6 new products launched in North and South America. • Dispersant portfolio enhanced with the addition of two new polymeric products generating Sales in Europe and the Americas. • Expanding capacity in Brazil with a new reactor in our Salto site. • Construction of the new Agriculture R&D lab and greenhouse in Winder, GA.
 <p>Oilfield Solutions</p>	<ul style="list-style-type: none"> • Volume down driven by the oil price reduction. • Patent-pending Oilfield chemicals technologies (flowback modifiers and friction reducer boosters) are helping customers meet their business needs to be more productive and cost efficient by improving production yields. • Continue the integration and supply chain planning of the recently acquired KMCO demulsifier portfolio in anticipation of 2021 relaunch.
 <p>Rigid Polyols</p>	<ul style="list-style-type: none"> • Continued the development of next generation of value added Rigid Polyol Technologies. • Carefully and successfully planning all activities around the Mississippi river lock closures to ensure 100% customer supply and satisfaction. • Continue growing the double digit EBITDA Margin and high potential China business.
 <p>Productivity</p>	<ul style="list-style-type: none"> • Germany Sulfonation shutdown on track and Specialty Product restructuring executed and delivering savings in 2020. • Consulting work underway to continue improving our supply chain productivity. • Upgrading our IT platform and several automation projects to improve efficiency and productivity.
 <p>M&A</p>	<ul style="list-style-type: none"> • Signed an agreement with Clariant Mexico to acquire its anionic surfactant business and associated sulfonation equipment. • Record results in Q2 in Mexico and in Brazil, enabled by our previous acquisitions (BASF's Ecatepec site and Tebras). • We plan to continue leveraging our strong B/S and cash position to complement our organic growth projects.

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%	22-25%

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				Six Months Ended June 30			
	2020	EPS	2019	EPS	2020	EPS	2019	EPS
Net Income Reported	\$35,707	\$ 1.54	\$30,218	\$ 1.30	\$63,252	\$ 2.72	\$55,202	\$ 2.37
Deferred Compensation (Income) Expense	\$ 1,938	\$ 0.08	\$ 1,210	\$ 0.05	\$ (920)	\$ (0.04)	\$ 5,090	\$ 0.22
Business Restructuring	\$ 168	\$ 0.01	\$ 325	\$ 0.01	\$ 431	\$ 0.02	\$ 865	\$ 0.04
Cash-Settled SARs	\$ 502	\$ 0.02	\$ 220	\$ 0.01	\$ (290)	\$ (0.01)	\$ 1,451	\$ 0.06
Environmental Remediation	\$ -	\$ -	\$ 2,210	\$ 0.09	\$ -	\$ -	\$ 2,210	\$ 0.09
Voluntary Debt Prepayment	\$ -	\$ -	\$ 948	\$ 0.04	\$ -	\$ -	\$ 948	\$ 0.04
Adjusted Net Income	\$38,315	\$ 1.65	\$35,131	\$ 1.50	\$62,473	\$ 2.69	\$65,766	\$ 2.82

*Amounts are presented after-tax

Reconciliation of Pre-Tax to After-Tax Adjustments

(\$ in thousands, except per share amounts)	Three Months Ended June 30				Six Months Ended June 30			
	2020	EPS	2019	EPS	2020	EPS	2019	EPS
Pre-Tax Adjustments								
Deferred Compensation (Income) Expense	\$ 2,550		\$ 1,592		\$ (1,210)		\$ 6,698	
Business Restructuring	\$ 225		\$ 450		\$ 582		\$ 1,183	
Cash-Settled SARs	\$ 661		\$ 289		\$ (381)		\$ 1,909	
Environmental Remediation			\$ 2,908				\$ 2,908	
Voluntary Debt Prepayment			\$ 1,247				\$ 1,247	
Total Pre-Tax Adjustments	\$ 3,436		\$ 6,486		\$ (1,009)		\$ 13,945	
Cumulative Tax Effect on Adjustments	\$ (828)		\$ (1,573)		\$ 230		\$ (3,381)	
After-Tax Adjustments	\$ 2,608	\$ 0.11	\$ 4,913	\$ 0.21	\$ (779)	\$ (0.03)	\$ 10,564	\$ 0.45

Appendix III

Foreign Exchange Impact – Q2 2020

(millions USD)	Surfactants	Polymers	Specialty Products	Consolidated
Net Sales	(17.2)	(2.9)	0.0	(20.2)
Gross Profit	(3.9)	(0.4)	0.0	(4.4)
Operating Expenses	(0.9)	(0.2)	0.0	(1.1)
Operating Income	(3.0)	(0.3)	0.0	(3.3)

Appendix IV

Net Debt to Total Capitalization Ratio

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