

RESEARCH UPDATE
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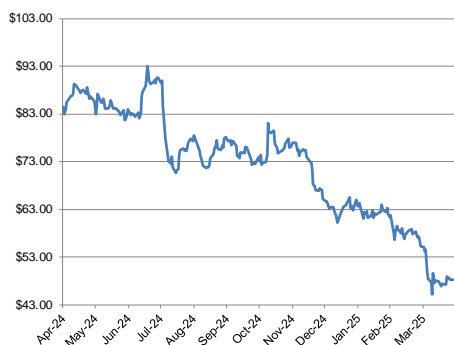
MARKET STATISTICS

Price	\$48.19
52-Week Range	\$44.23 - \$94.77
Daily Vol. (3 Month Avg.)	142,219
Market Cap (\$M)	\$ 1,086.9
Enterprise Value (\$M)	\$ 1,685.3
Shares Outstanding (M)	22.5
Float (M)	21.3

FINANCIAL SUMMARY

Equity (M)	\$1,200.5
BV/S	\$ 53.35
Cash (M)	\$ 107.5
Debt (M)	\$ 659.3
Net Debt/Cap	31%

FYE: Dec	2024	2025E	2026E
<i>(in \$M)</i>			
Rev	\$2,180.3	\$2,347.6	\$2,503.6
Chng%	-6%	8%	7%
EBITDA	\$ 186.9	\$ 235.1	\$ 274.0
EPS	\$ 2.20	\$ 3.00	\$ 3.97
EV/R	0.8x	0.7x	0.7x
EV/EBITDA	9.0x	7.2x	6.2x
P/E	21.9x	16.0x	12.1x


COMPANY DESCRIPTION

Stepan Company, together with its subsidiaries, produces and sells specialty and intermediate chemicals to other manufacturers for use in various end products in North America, Europe, Latin America, and Asia. The company operates through three segments: Surfactants, Polymers, and Specialty Products. Stepan Company was founded in 1932 and is headquartered in Northfield, Illinois.

STEPAN COMPANY (NYSE: SCL)
Company Updates

Stepan's 1Q25 results reflected broad-based operational improvements and earnings growth across its core businesses. Net sales rose 8% y/y to \$593.3M, driven by a 4% increase in global sales volumes and a 7% increase in selling prices, partially offset by a 3% negative impact from foreign currency translation. These gains were partially offset by softer demand in commodity Consumer Products markets. Improved product and customer mix, along with the pass-through of higher raw material costs, contributed to a 12% increase in average selling prices. Notably, specialty products delivered strong results with net sales increasing 11% y/y due to higher selling prices and margin recovery within the Medium Chain Triglycerides (MCT) product line. Looking ahead, management expects continued growth across key strategic end markets and volume acceleration supported by the newly operational Pasadena, Texas alkoxylation facility, which is anticipated to drive additional supply chain savings and support margin expansion through the balance of 2025.

Quarterly Results – SCL reported revenue, adj EBITDA, and adj EPS of \$593.3M, \$57.5M, and \$0.84, respectively. This compares to our/consensus estimates of \$569.6M/\$562.3M, \$61.6M/\$55.1M, and \$0.77/\$0.60, respectively. Volumes in Surfactant and Polymer end markets showed solid improvement during the quarter. GPM was 130bps below our expectations.

Surfactant Maintains Growth– Surfactant revenue rose 10% y/y to \$430.3M. This growth was driven by a 12% increase in selling prices, reflecting improved product and customer mix as well as the pass-through of higher raw material costs. Sales volume rose 3% compared to the prior year, with notable double-digit growth in the Agricultural and Oilfield end markets and strong demand from distribution partners. Foreign currency translation had a (5%) impact on sales. Segment operating income increased 11% y/y to \$28.9M, while adj. EBITDA improved 10% to \$48.3M. Performance was bolstered by favorable mix shifts, volume growth, and improved operational reliability. Management remains encouraged by growth in key strategic end markets and expects continued strength in Agricultural and Oilfield demand as the year progresses.

Polymers Showed Recovery– The Polymers segment posted flat revenue y/y at \$146.1M, as a 7% increase in volume was offset by a 7% decline in selling prices. The lower selling prices reflected the pass-through of lower raw material costs and heightened competitive pressures across the market. Volume growth was driven by increases in North American and European Rigid Polyols, Specialty Polyols, and commodity Phthalic Anhydride sales. Despite solid volume gains, operating income fell 4% y/y to \$8.0M, while adj. EBITDA decreased 2% to \$16.1M. Margins were negatively impacted by an unfavorable product mix and high-cost inventory carryover from 2024. Although near-term pressures persist, management anticipates improvement in Polymer performance in the second half of 2025 as market certainty improves and strategic growth initiatives take hold.

Valuation – We use both a DCF and a comparable analysis for our valuation. Our DCF analysis relies on a range of discount rates between 9.0% and 10.0% with a midpoint of 9.5%. This arrives at a valuation range of \$75.99 to \$92.58 with a mid-point of \$83.48. Currently SCL is trading at a FY26 EV/EBITDA of 6.2x compared to comps at an average of 9.7x. Using our F26 expected EBITDA, and an EV/EBITDA range of 8.8x to 9.3x with a midpoint of 9.00x. This arrives at a valuation range of \$82.01 to \$88.09 with a mid-point of \$85.05.

Summary

Exhibit 1: Quarterly Results Comparison to Model

(in millions, except per she)	1Q25 results		Notes
	Reported	Modeled	
Revenues	\$ 593.3	\$ 569.6	Strong volumes and price/mix performance fueled outperformance
Cost of sales	517.8	489.9	
Gross profit	75.5	79.7	Double digit gross margins remain following strong volume results
Gross margin	12.7%	14.0%	
Selling	12.1	12.5	
Administrative	21.4	23.6	
R&D and technical services	14.6	14.0	
Deferred compensations	(1.0)	0.6	
Total opex	47.2	50.7	
Operating inc	28.3	29.0	Operating margins slightly below our model
Operating margin	4.8%	5.1%	
EBITDA	58.0	61.5	Margins remain strong in the quarter
Margin	9.8%	10.8%	
EBITDA -adj	57.5	61.6	Margins remain strong in the quarter
Margin	9.7%	10.8%	
Net income (loss)- adj	19.3	17.6	
EPS - adj	\$ 0.84	\$0.77	
EPS - GAAP	\$ 0.15	\$0.76	

Source: Company Reports; Stonegate Capital Markets, Inc.

INVESTMENT FACTORS

Stepan produces specialty and intermediate chemicals and is one of the world's largest producers of surfactants (cleaning agent in soaps, detergents, etc.). The Company has been in business for almost 90 years and has a history of delivering EPS growth, strong cashflow generation, and delivering consistent return of cash to shareholders via dividends and share buybacks. We believe, Stepan is well positioned to show growth driven by (1) its leading position in the surfactants market that is seeing a resurgence in growth driven by the coronavirus pandemic, and its strategic initiatives to increase tier 2/3 customers; (2) its leading position in the rigid polymers market that has solid end market growth drivers due to global sustainability efforts; (3) M&A opportunities to accelerate growth; and (4) a solid balance sheet and cash flow generation to support its initiatives.

Investment Positives

Global leader in surfactants – Stepan is one of the world's largest producers of surfactants. While historically the segment has seen modest organic growth, the coronavirus pandemic has spurred an increased demand in cleaning and disinfecting. Additionally, Stepan is targeting specific strategic initiatives to drive organic growth and improve margins. While the Company has numerous sizable Tier 1 customer that have been doing business with Stepan for decades, Stepan is currently expanding its Tier 2 and Tier 3 customer base that typically need more support which creates a stickier customer and are less price sensitive leading to better margins. Next, market diversification efforts are targeted by growing its share in agriculture and oilfield chemicals. Both markets command higher growth rates than consumer products.

And its rigid polyol product segment has solid growth opportunities – Stepan is also a leader in the manufacturer of polyester polyols that are used in rigid foam insulation. Global energy conservation efforts and regulatory requirements are major drivers in the market. The global building insulation market is estimated at \$28B with a 5-year CAGR of 4-5%. Stepan's rigid polymer products have a higher average R-value vs. other insulation materials, giving it an advantage in fulfilling both the US' and Europe's efforts of "greening" buildings. In China, cold storage (think increasing demand for fresh food and produce) is driving demand for Stepan's products. Growth rates are expected to exceed 10% per year over the next five+ years. Importantly, this segment has higher margins (mid-teens) than the surfactants business.

M&A should add additional growth opportunities – Stepan has a long history of using M&A to expand its product portfolio and enter new markets. In fact, a significant portion of Stepan's historical growth comes through its M&A activities. Its strategy has typically focused on smaller tuck-in type acquisitions. However, the Company's \$100M acquisition of INVISTA in January 2021 was its largest in its history. The \$165M acquisition increased its polyester polyols business by adding \$100M in annual revenue and was accretive to EPS and EBITDA in 2021. Most recently, in September of 2022, SCL acquired PerformanX's alkoxyates business. This was a strategic tuck in that was accretive to EPS and EBITDA margins.

Solid balance sheet and cash flows to support initiatives - As of year-end 2023, Stepan reported cash and debt of \$129.8M and \$654.1M, respectively leading to a net debt/TTM adj EBITDA ratio of 2.9x. Additionally, Stepan has a long history of reporting free cash flow attributed to a stable customer base. We believe this financial performance helps support Stepan's strategic initiatives along with continuing its track record of returning cash to shareholders via dividends and share repurchases.

Investment Challenges / Risks

Mature end-markets and economic sensitivity

Stepan's markets are impacted by macroeconomic activity. While many of its customer's personal home care products receive consistent demand, economic cyclicality remains. Additionally, construction, agriculture, and energy end markets are economically sensitive industries.

Intense competition

The Company faces several significant competitors both domestically and abroad, several with long operating histories as well as regional competitors. There is also the risk that Stepan's customers will expand its own capabilities and opt to internally manufacture its own product(s) in the future.

International business risk

Stepan operates multiple manufacturing sites with operations in 12 countries. International business risks include, among others, fluctuations in currency exchange rates, legal restrictions, taxes, transportation, logistics, regulations, access to labor, and government actions. Additionally, Stepan is exposed to emerging market risks as well.

Dependence on large customers

While the Company did not report any customers making up more than 10% of revenue in 2022, Stepan does have several sizable global companies that contribute significant amounts of revenue. Additionally, many of these customers are significantly larger and have higher bargaining power. Furthermore, the larger Tier 1 customers in the surfactants business typically have in-house capabilities. Should any of Stepan's customers decide to switch suppliers or move manufacturing in-house, financial results could be materially impacted.

Raw material exposures and supply chain disruptions

Principal raw materials used include petroleum or plant-based materials. The Company is also dependent on natural gas and electricity. Though the Company is not dependent on any one supplier, raw material volatility can be rapid and significant. While Stepan attempts to pass on these cost increases to customers, there is typically a lag and market pressures may not allow Stepan to pass on increased costs. Additionally, Stepan relies on third-party transportation to deliver raw materials and ship products to customers.

Access to capital

As part of its growth strategy, Stepan seeks M&A opportunities to expand into new markets or to further penetrate current ones. Historically the Company has used current cash as well as debt to fund these activities. As such, any change to Stepan's access to capital may negatively impact the Company's strategy.

VALUATION SUMMARY

We use a DCF and comparison analysis to frame valuation.

DCF Analysis

We are assuming Stepan can grow revenues in the mid-single digit range driven by its efforts to increase penetration with Tier 2/3 customers, increased efforts to drive growth in the agriculture and oilfield end markets for surfactants, along with increased demand and traction in the polymers segment. We also assume Stepan can drive additional manufacturing and operational efficiencies that increase margins over our analysis period. We make no assumptions for acquisition growth.

For our sensitivity analysis, we used discount rates between 9.0% and 10.0% and terminal growth rates between 1.0% and 3.0%. Given the company's historical cash flow performance, its strong balance sheet, and history of returning value to shareholders, we believe our discount rate range is appropriate. This arrives at a valuation range of \$75.99 to \$92.58 with a mid-point of \$83.48.

Sensitivity Analysis:

		Terminal Growth Rates				
		1.0%	1.5%	2.0%	2.5%	3.0%
Discount Rate	9.00%	\$82.83	\$87.04	\$91.86	\$97.41	\$103.89
	9.25%	\$79.24	\$83.12	\$87.52	\$92.58	\$98.45
	9.50%	\$75.87	\$79.44	\$83.48	\$88.11	\$93.44
	9.75%	\$72.70	\$75.99	\$79.71	\$83.95	\$88.81
	10.00%	\$69.70	\$72.75	\$76.18	\$80.07	\$84.51

Comparison Analysis

Based on our FY26 estimates, Stepan is trading at 6.2x EV/EBITDA multiple compared to comps at an average at 9.7x.

Comparative Analysis

Stepan Company (NYSE:SCL)

(all figures in \$M except per share information)

Name	Ticker	Price (1)	Sh	Mrkt Cap	EV	EV/S (2)			EV/EBITDA (2)			P/E (2)		
						TTM	2025 E	2026 E	TTM	2025 E	2026 E	TTM	2025 E	2026 E
DuPont de Nemours, Inc.	DD	\$ 65.67	418.0	\$ 27,453.3	\$ 33,652.8	2.7x	2.6x	2.5x	11.0x	10.2x	9.6x	39.2x	15.4x	14.1x
LyondellBasell Industries N.V.	LYB	\$ 58.72	321.4	\$ 18,872.6	\$ 29,917.6	0.8x	1.0x	1.0x	8.4x	9.1x	7.1x	18.0x	13.2x	9.3x
Croda International Plc	CRDA	\$ 40.13	139.6	\$ 1,183.8	\$ 1,184.8	3.1x	2.8x	2.6x	18.1x	15.3x	13.8x	35.4x	27.1x	23.6x
Clariant AG	CLN	\$ 11.71	328.3	\$ 4,274.6	\$ 6,321.4	1.2x	1.1x	1.1x	10.1x	7.8x	7.3x	15.8x	14.4x	11.8x
Huntsman Corporation	HUN	\$ 13.39	173.0	\$ 2,575.7	\$ 4,923.4	0.7x	0.7x	0.7x	12.2x	10.2x	7.9x	nm	125.2x	20.1x
Sensient Technologies Corporation	SXT	\$ 90.07	42.2	\$ 4,226.4	\$ 4,994.7	2.9x	2.8x	2.6x	17.1x	16.0x	14.5x	29.8x	26.9x	23.6x
Innospec Inc.	IOSP	\$ 89.80	25.0	\$ 2,492.4	\$ 2,242.2	1.1x	1.1x	1.0x	26.6x	8.9x	8.0x	63.2x	15.3x	13.3x
Average						1.8x	1.7x	1.6x	14.8x	11.1x	9.7x	33.6x	33.9x	16.5x
Median						1.2x	1.1x	1.1x	12.2x	10.2x	8.0x	32.6x	15.4x	14.1x
Stepan Company	SCL	\$48.19	22.5	\$ 1,086.9	\$ 1,685.3	0.8x	0.7x	0.7x	9.2x	7.2x	6.2x	21.9x	16.0x	12.1x

(1) Previous day's closing price

(2) Estimates are from Capital IQ except those for SCL which are Stonegate estimates

Source: Company Reports; CapitalIQ; Stonegate Capital Markets

For our EV/EBITDA range we are using a range of 8.8x to 9.3x with a midpoint of 9.00x. Given current and historical comp multiples, combined with the expectation that 2026 will be a more normal year for specialty chemical companies, we believe it is reasonable for the Company to trade closer to comps. As a result, we arrive at a valuation range of \$82.01 to \$88.09 with a mid-point of \$85.05.

We see the following important catalysts for the stock:

- Continued penetration of Tier 2/3 customers F25+
- New acquisitions announced F25+
- Full Impact of Pasadena Plant 2H25

DCF Model

Stepan Company													
Discounted Cash Flow Model (in millions \$, except per share amounts)													
Estimates:	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	20232E	2033E	2034E	Terminal Value
Revenues	2,325.8	2,180.3	2,347.6	2,503.6	2,628.8	2,747.1	2,862.4	2,974.1	3,087.1	3,204.4	3,319.7	3,439.3	
Operating Income	58.6	70.5	108.6	142.8	165.6	178.6	191.8	217.1	243.9	253.1	268.9	292.3	
Less: Taxes (benefit)	8.2	10.1	21.3	30.5	41.4	44.6	47.9	54.3	61.0	63.3	67.2	73.1	
NOPAT	50.4	60.4	87.2	112.3	124.2	133.9	143.8	162.8	182.9	189.9	201.7	219.3	
Plus: Depreciation & Amortization	105.4	112.2	126.2	130.8	131.4	133.2	131.7	132.3	131.8	133.0	137.8	142.7	
Plus: Changes in WC	130.2	10.9	47.0	25.0	13.1	-	(8.6)	(8.9)	(9.3)	(9.6)	(10.0)	(10.3)	
Less: Capex	(260.0)	(123.0)	(130.0)	(125.0)	(120.0)	(115.0)	(115.0)	(115.0)	(110.0)	(110.0)	(110.0)	(110.0)	
Free Cash Flow	26.0	60.6	130.3	143.2	148.8	152.2	151.9	171.3	195.5	203.2	219.5	241.7	3286.6
Discount period - months			9	21	33	45	57	69	81	93	105	117	
Discount period - years			0.8	1.8	2.8	3.8	4.8	5.8	6.8	7.8	8.8	9.8	
Discount factor			0.93	0.85	0.78	0.71	0.65	0.59	0.54	0.49	0.45	0.41	
PV of FCF			121.8	122.1	115.9	108.3	98.7	101.6	105.9	100.6	99.2	99.8	1,356.6
Growth rate assumptions:													
Revenue		-6.3%	7.7%	6.6%	5.0%	4.5%	4.2%	3.9%	3.8%	3.8%	3.6%	3.6%	
Operating Income		20.2%	54.0%	31.5%	16.0%	7.8%	7.4%	13.2%	12.3%	3.8%	6.2%	8.7%	
EBITDA		11.4%	28.5%	16.6%	8.6%	5.0%	3.7%	8.0%	7.5%	2.8%	5.3%	7.0%	
Free Cash Flow		133.2%	115.2%	9.8%	3.9%	2.3%	-0.2%	12.7%	14.1%	4.0%	8.0%	10.1%	
Margin assumptions:													
Operating margin	2.5%	3.2%	4.6%	5.7%	6.3%	6.5%	6.7%	7.3%	7.9%	7.9%	8.1%	8.5%	
Depr as a % of sales	4.5%	5.1%	5.4%	5.2%	5.0%	4.9%	4.6%	4.5%	4.3%	4.2%	4.2%	4.2%	
EBITDA	7.0%	8.4%	10.0%	10.9%	11.3%	11.4%	11.3%	11.8%	12.2%	12.1%	12.3%	12.7%	
Taxes	14.0%	14.3%	19.7%	21.3%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	
Changes in WC	5.6%	0.5%	2.0%	1.0%	0.5%	0.0%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	
Capex as a % of sales	-11.2%	-5.6%	-5.5%	-5.0%	-4.6%	-4.2%	-4.0%	-3.9%	-3.6%	-3.4%	-3.3%	-3.2%	
Valuation:													
Shares outstanding	22.5												
PV of FCF	1,073.9												
PV of Terminal Value	1,356.6												
Enterprise Value	2430.5												
less: Net Debt	551.8												
Estimated Total Value:	1,878.7												
Est Equity Value/share:	\$83.48												
Price	\$48.19												

		Sensitivity Analysis:				
		Terminal Growth Rates				
		1.0%	1.5%	2.0%	2.5%	3.0%
Discount Rate	9.00%	\$82.83	\$87.04	\$91.86	\$97.41	\$103.89
	9.25%	\$79.24	\$83.12	\$87.52	\$92.58	\$98.45
	9.50%	\$75.87	\$79.44	\$83.48	\$88.11	\$93.44
	9.75%	\$72.70	\$75.99	\$79.71	\$83.95	\$88.81
	10.00%	\$69.70	\$72.75	\$76.18	\$80.07	\$84.51

Source: Company Reports, Stonegate Capital Markets estimates

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