



Stepan Co. (SCL)

Updated November 17th, 2025, by Josh Arnold

Key Metrics

| | | | | | |
|-----------------------------|------|--|-----------|----------------------------------|------------|
| Current Price: | \$44 | 5 Year CAGR Estimate: | 22.5% | Market Cap: | \$1 B |
| Fair Value Price: | \$45 | 5 Year Growth Estimate: | 20.0% | Ex-Dividend Date: | 10/28/2025 |
| % Fair Value: | 98% | 5 Year Valuation Multiple Estimate: | 0.5% | Dividend Payment Date: | 12/15/2025 |
| Dividend Yield: | 3.6% | 5 Year Price Target | \$112 | Years Of Dividend Growth: | 58 |
| Dividend Risk Score: | A | Sector: | Materials | Rating: | Buy |

Overview & Current Events

Stepan Co. was founded in 1932 and at the outset, it sold only one product: a chemical to keep dust down on Illinois' country roads. Since that time, it has grown to manufacture basic and intermediate chemicals, with surfactants making up most of its revenue. It has a market capitalization of \$1 billion and should do about \$2.3 billion in revenue this year. Stepan is also a Dividend King, having increased its payout for 58 consecutive years.

Stepan posted third quarter earnings on October 29th, 2025, and results were quite weak. Adjusted earnings-per-share came to 48 cents, but that missed estimates widely by 13 cents. Revenue was up 8% year-over-year to \$590 million, but also missed by \$3.5 million.

Surfactants net sales were \$422 million, a 10% increase from the year-ago period. Adjusted EBITDA fell \$6.2 million, or 14%, due to volume contraction, higher startup expenses, and rising raw material prices.

Polymers net sales were \$144 million, a 4% decline year-over-year. Volume was up 8%, while adjusted EBITDA was down 4%, or \$1 million, due to lower unit margins and unfavorable mix.

Consolidated adjusted EBITDA was up \$3.1 million, or 6%, year-over-year. Cash from operations was \$69.8 million, while free cash flow was \$40.2 million driven by reductions in working capital.

The dividend was raised by 2.6%, Stepan's 58th consecutive annual increase. We now see just \$2.25 in adjusted earnings-per-share for this year after another weak quarter, but believe Stepan should see a sharp rebound in earnings in the years to come.

Growth on a Per-Share Basis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$3.32 | \$3.73 | \$3.92 | \$4.88 | \$5.12 | \$5.68 | \$6.16 | \$6.65 | \$2.21 | \$2.20 | \$2.25 | \$5.60 |
| DPS | \$0.73 | \$0.78 | \$0.86 | \$0.93 | \$1.03 | \$1.13 | \$1.27 | \$1.37 | \$1.47 | \$1.51 | \$1.58 | \$2.11 |
| Shares¹ | 22 | 22 | 23 | 23 | 23 | 23 | 23 | 23 | 22 | 23 | 23 | 24 |

Stepan's earnings have been somewhat inconsistent, but over time have grown at decent rates. The company is beholden to the world's manufacturers, so any sort of economic weakness can have severe consequences on earnings. It does boast a wide and deep array of customers, so concentration is not a problem, but as we've seen in the past, weakness in just one business line can cause Stepan's results to vary widely from one year to another. Stepan was in the right place at the right time with its surfactant business, capturing additional demand for 2020 and into 2021, although that tailwind dissipated in 2022. Global sales volumes have been weak continuously since 2022 and we see no reason that should improve so far in 2025. Volume is showing signs of weakness, and one wonders how long raw material pass-throughs can persist.

We are forecasting a five-year average earnings-per-share growth rate of 20%, consisting of highly volatile sales growth and likely margin expansion. The company's cost-saving program has been in place for some time and has yielded operating margin gains. Margins were volatile on a year-over-year basis in 2023 given supply chain issues, which also

¹ Share count in millions

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caused margin problems in 2021 and 2022. So long as this condition persists, Stepan's margins are at risk. We have a high estimate of growth because of the low base for 2025, not because we think Stepan is better positioned than it was. The company's dividend has grown steadily in the past decade, and the stock now yields 3.6%, which is extremely high based upon its historical norms. We expect the payout will rise by ~6% annually as the company has used its extra cash to fund dividend increases.

Valuation Analysis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now | 2030 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 14.0 | 16.3 | 19.1 | 16.5 | 18.0 | 18.4 | 20.0 | 16.1 | 42.8 | 29.4 | 19.6 | 20.0 |
| Avg. Yld. | 1.6% | 1.3% | 1.2% | 1.1% | 1.1% | 1.1% | 1.0% | 1.3% | 1.6% | 2.3% | 3.6% | 1.9% |

Stepan's price-to-earnings multiple has come well off its highs. The stock is lower than our estimate of fair value, which we peg at 20 times earnings. We think the company is going to see easing of supply chain disruptions in the coming months, and sales volumes were okay into Q3. Cost savings should help support earnings, but we don't see cause to raise the fair value multiple without big improvements in volume and margins.

We see the yield declining over time as the share price should grow much more quickly than the dividend.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 21% | 21% | 22% | 19% | 20% | 20% | 20% | 21% | 67% | 69% | 70% | 38% |

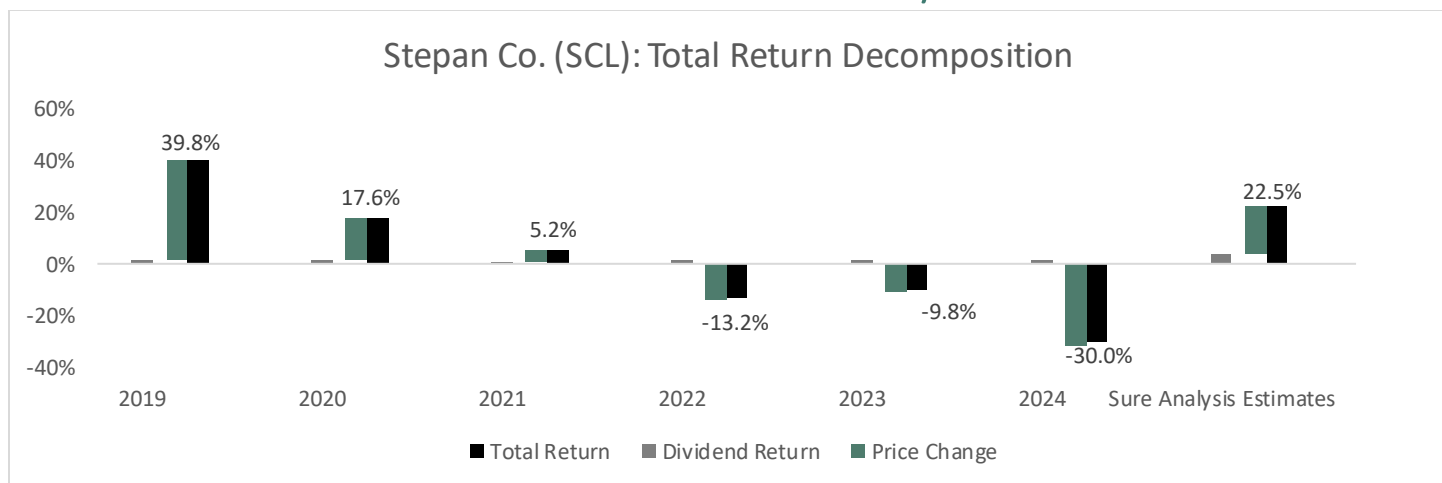
Stepan's payout ratio is about 70% of earnings, and we see it declining markedly should the forecast growth in earnings come to fruition. Recent struggles with earnings growth is likely to keep management slightly more cautious in the near term in raising the dividend.

The company's competitive advantage is in its diverse, global customer base and many decades of engineering experience. Stepan's competitors cannot easily supplant its position with existing customers given the often-custom nature of what Stepan engineers for them. However, Stepan is certainly not immune to economic weakness and as we've seen, its earnings-per-share history shows that results can bounce around from one year to another.

Final Thoughts & Recommendation

We are forecasting total annual returns for the next five years of 22.5%, comprised of the 3.6% current yield, 20% earnings-per-share growth and a 0.5% tailwind from the valuation. Given this, we're reiterating the stock at a buy rating following Q3 earnings, but note there's a fair amount of uncertainty surrounding Stepan's outlook.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 1,776 | 1,766 | 1,925 | 1,994 | 1,859 | 1,870 | 2,346 | 2,773 | 2,326 | 2,180 |
| Gross Profit | 308 | 339 | 346 | 339 | 340 | 384 | 396 | 427 | 278 | 272 |
| Gross Margin | 17.4% | 19.2% | 18.0% | 17.0% | 18.3% | 20.5% | 16.9% | 15.4% | 12.0% | 12.5% |
| SG&A Exp. | 138 | 149 | 135 | 133 | 155 | 143 | 159 | 152 | 146 | 144 |
| D&A Exp. | 67 | 75 | 79 | 81 | 79 | 82 | 91 | 95 | 105 | 112 |
| Operating Profit | 120 | 135 | 158 | 152 | 129 | 173 | 175 | 209 | 73 | 70 |
| Operating Margin | 6.8% | 7.6% | 8.2% | 7.6% | 7.0% | 9.2% | 7.5% | 7.5% | 3.1% | 3.2% |
| Net Profit | 76 | 86 | 101 | 111 | 103 | 127 | 138 | 147 | 40 | 50 |
| Net Margin | 4.3% | 4.9% | 5.2% | 5.6% | 5.5% | 6.8% | 5.9% | 5.3% | 1.7% | 2.3% |
| Free Cash Flow | 64 | 109 | 120 | 84 | 113 | 109 | (122) | (141) | (85) | 39 |
| Income Tax | 27 | 28 | 46 | 27 | 23 | 43 | 35 | 42 | 8 | 10 |

Balance Sheet Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 1,238 | 1,354 | 1,471 | 1,515 | 1,579 | 1,752 | 2,066 | 2,433 | 2,363 | 2,305 |
| Cash & Equivalents | 176 | 226 | 299 | 300 | 315 | 350 | 159 | 174 | 130 | 100 |
| Accounts Receivable | 250 | 263 | 294 | 280 | 277 | 301 | 420 | 437 | 422 | 388 |
| Inventories | 170 | 174 | 173 | 232 | 204 | 219 | 306 | 403 | 266 | 289 |
| Goodwill & Int. Ass. | 29 | 48 | 44 | 37 | 41 | 52 | 158 | 154 | 150 | 134 |
| Total Liabilities | 680 | 718 | 730 | 706 | 687 | 764 | 991 | 1,267 | 1,147 | 1,135 |
| Accounts Payable | 129 | 158 | 205 | 206 | 194 | 237 | 323 | 376 | 233 | 259 |
| Long-Term Debt | 331 | 317 | 291 | 276 | 222 | 199 | 364 | 455 | 654 | 333 |
| Shareholder's Equity | 557 | 635 | 740 | 807 | 892 | 987 | 1,074 | 1,166 | 1,216 | 1,170 |
| LTD/E Ratio | 0.59 | 0.50 | 0.39 | 0.34 | 0.25 | 0.20 | 0.34 | 0.39 | 0.54 | 0.28 |

Profitability & Per Share Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------|-------|-------|-------|-------|-------|-------|--------|--------|--------|-------|
| Return on Assets | 6.3% | 6.6% | 7.1% | 7.4% | 6.7% | 7.6% | 7.2% | 6.5% | 1.7% | 2.2% |
| Return on Equity | 13.9% | 14.5% | 14.7% | 14.4% | 12.1% | 13.5% | 13.4% | 13.1% | 3.4% | 4.2% |
| ROIC | 8.9% | 9.4% | 10.2% | 10.5% | 9.4% | 11.2% | 10.5% | 9.6% | 2.2% | 3.0% |
| Shares Out. | 22 | 22 | 23 | 23 | 23 | 23 | 23 | 23 | 23 | 23 |
| Revenue/Share | 77.70 | 76.48 | 82.35 | 85.48 | 79.72 | 80.40 | 100.74 | 120.24 | 101.36 | 95.08 |
| FCF/Share | 2.82 | 4.72 | 5.14 | 3.62 | 4.84 | 4.71 | (5.25) | (6.10) | (3.72) | 1.71 |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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