



## **Koppers Holdings Inc. (NYSE: KOP)**

### **Overview**

Koppers is a wood treatment, railroad products, utility pole, and carbon materials company. On the surface, it sounds like a pretty unattractive business. A random legacy industrial company tied to coal tar, treated lumber, railroad ties, and a bunch of old chemical assets. It screens like a levered, cyclical chemicals business, but a closer look shows that a large portion of the business is actually tied to replacement-driven infrastructure demand with much more resilient characteristics than the market seems to be giving it credit for.

Koppers has three main segments: Railroad and Utility Products and Services, Performance Chemicals, and Carbon Materials and Chemicals. The railroad and utility segment sells treated railroad crossties, bridge products, utility poles, and related services. The Performance Chemicals segment sells wood-preservation chemicals used in lumber, decking, fencing, utility poles, agricultural products, and fire-retardant wood. The Carbon Materials segment distills coal tar into products like creosote, carbon pitch, naphthalene, and carbon black feedstock.

My investment thesis centers around the market over-penalizing Koppers for its weakest segment, the company's free cash flow being underappreciated because of messy accounting and restructuring charges, and management finally taking serious action to shrink the lower-quality parts of the business. Koppers does not need to become a high-growth business for the stock to work. It just needs to become a cleaner and more cash-generative version of itself.

At the current price, I think Koppers represents a pretty interesting risk/reward because the market is still valuing it like an old industrial chemicals company, while the company is increasingly becoming more of a railroad/utility infrastructure maintenance and wood-preservation business with a smaller legacy chemicals drag.

### **Investment Thesis**

**(1) Koppers is being valued through the lens of its ugliest business, even though its better segments are much more attractive.**

The easiest mistake to make with Koppers is to look at the company as one blended industrial business. That is also probably what most screeners are doing. If you just look at the



consolidated numbers, you see leverage, low growth, old chemical assets, restructuring costs, and cyclical. Obviously, that is not going to screen particularly well.

But I think this misses the fact that Koppers' best businesses are not really discretionary cyclical businesses in the way the market seems to think they are. Railroads need to replace crossties. Utilities need to replace poles. Lumber treaters need preservatives. These are not exciting businesses, but they are embedded in the basic maintenance of physical infrastructure.

The railroad crosstie business is especially interesting because it is much more protected than it might seem. Crossties are heavy, low-value-per-pound products, so logistics matter a lot. Treatment capacity matters. Customer relationships matter. The ability to reliably supply large railroads matters. It is not the kind of market where a new entrant can just show up, undercut pricing by a few points, and take meaningful share. Koppers supplies all North American Class I railroads and has a significant portion of its railroad products sales under long-term contracts. That is a very different business than a normal commodity industrial supplier.

The utility pole business is similar. Utility poles are not a consumer product. They are safety-critical infrastructure products. Utilities care about reliability, treatment quality, timing, and specifications. This gives Koppers a better position than the simple description of "treated wood supplier" would suggest.

The Performance Chemicals segment is probably the most underappreciated part of the company. It sells wood-preservation chemicals into treated lumber, fencing, decking, utility pole, and fire-retardant wood markets. This is not just a random chemicals business. Customers need product consistency, regulatory support, technical knowledge, and long-term reliability. Koppers has relationships with many of the largest lumber treaters in North America, and this segment deserves to be viewed much more like a niche specialty chemicals business than the overall company multiple suggests.

The problem is Carbon Materials and Chemicals. This segment is tied to coal tar distillation, creosote, carbon pitch, naphthalene, aluminum, steel, and raw material availability. It is clearly the lower-quality part of the company and probably the main reason why investors are skeptical. But I think the important point is that management seems to know this. They are not acting like every part of the portfolio deserves the same amount of capital.

**(2) The Stickney shutdown is a very important catalyst because it is exactly the kind of self-help the company needs.**



The most important recent development for Koppers is the announced plan to discontinue production activities at the Stickney, Illinois facility. This is the kind of thing that looks ugly optically, because it comes with charges and makes the business look messier in the short term. But economically, I think this is exactly what shareholders should want management to be doing.

Stickney had aging infrastructure, excess capacity, raw material issues, and a bad cost structure. In other words, it was the exact kind of asset that keeps the whole company trading at a discount. Management expects the action to improve annual free cash flow by \$15 million to \$25 million, improve adjusted EBITDA by \$15 million to \$20 million annually starting in 2027, and improve adjusted EPS by \$1.00 to \$1.20.

For a company with a market cap under \$1 billion, this is very meaningful. Even the low end of the expected free cash flow improvement is not trivial. More importantly, this is a sign that Koppers is willing to take painful actions to simplify the business and stop feeding capital into weaker legacy assets.

I think the market often dislikes these situations while they are happening. The charges show up immediately, while the benefits come later. But that is also why the setup is interesting. If the company can get through the restructuring period and the cash savings start appearing in 2027, investors may start looking at Koppers less as a messy chemicals company and more as a self-help story with infrastructure-linked assets underneath.

**(3) Koppers' free cash flow is being masked by messy reported numbers, but the cash generation potential is much better than the stock price implies.**

Koppers is not an easy company to screen. The company has LIFO adjustments, restructuring charges, plant closure costs, pension items, mark-to-market hedging impacts, and other accounting noise. This makes the business look much harder to underwrite than it probably is.

That said, the free cash flow setup is pretty straightforward. Management guided to \$165 million to \$185 million of operating cash flow in 2026 and around \$55 million of capex. That implies roughly \$110 million to \$130 million of free cash flow. At the current market cap, that is a very high free cash flow yield.

This matters because Koppers' main problem right now is not that the company lacks cash generation. It is that the market does not fully trust the quality of the business because the



consolidated financials are noisy and leverage is still high. If the company actually generates over \$100 million of free cash flow in 2026, the thesis becomes much easier to see. Debt can be paid down, interest expense can come down, and the equity starts to benefit directly from the deleveraging.

The important part here is that this does not require aggressive growth assumptions. The stock can work through cash conversion, restructuring benefits, and debt paydown alone. Revenue growth would obviously help, but it is not the core of the thesis.

**(4) There is a lot of leverage, but it also creates equity accretion if management uses cash correctly.**

Koppers had roughly \$877 million of net debt at the end of Q1 2026, with net leverage around 3.5x. This is clearly one of the main reasons the stock is cheap. A small-cap industrial company with this much leverage and this much accounting noise is not going to get a premium multiple.

However, I think the debt risk is more manageable than it looks if the free cash flow guidance is credible. If Koppers produces \$110 million to \$130 million of free cash flow in 2026, and then gets an additional \$15 million to \$25 million of annual free cash flow improvement from Stickney, the balance sheet can improve relatively quickly.

The equity math is also attractive because debt paydown directly accrues to shareholders. If the company uses cash flow primarily for deleveraging, then even a flat EBITDA business can create equity value. This is not a situation where you need huge top-line growth for the stock to move. If leverage goes from 3.5x closer to management's 2x-3x target range, the company should screen much better and the stock should be investable for a wider range of investors.

I do not think management should be overly aggressive with buybacks before leverage comes down. But if they can reduce debt and still repurchase shares opportunistically, buybacks at this free cash flow yield could be very accretive.

**(5) The company is not being given credit for the direction of the portfolio.**

The most interesting part of the thesis is not just that Koppers is cheap. Lots of cheap industrials stay cheap. The more important point is that the company is actively trying to make itself easier to value.



The Catalyst program, the Stickney shutdown, and the focus on free cash flow all point in the same direction. Management is trying to reduce costs, improve working capital, simplify the footprint, and get more cash out of the existing asset base. If this works, the market's view of the company can change without Koppers needing some massive demand recovery.

This is important because small, complicated industrial companies often get stuck in a valuation discount until something forces the market to look again. In Koppers' case, that "something" could be a combination of visible free cash flow, leverage reduction, and additional rationalization of CMC assets.

## **Valuation**

At around \$44.58 per share, Koppers has a market cap of roughly \$897 million. With approximately \$877 million of net debt, the enterprise value is around \$1.77 billion. Based on 2026 adjusted EBITDA guidance of \$240 million to \$260 million, Koppers is trading at around 7x 2026 EBITDA.

That multiple does not look extremely cheap at first glance, but I think the valuation becomes much more interesting when viewed through free cash flow. If the company generates around \$120 million of free cash flow in 2026, the equity is trading at roughly a 13% free cash flow yield. That is before the full run-rate benefit from the Stickney closure.

The value creation here should come from three places: (1) the market gaining confidence in the free cash flow base, (2) debt paydown improving the equity value and the way the company screens, and (3) a multiple rerating as the company becomes simpler and less dominated by the CMC overhang.

### **Bull Case:**

EBITDA: 300

TEV: 2,550

Multiple Assumed: 8.5x

Net Debt: 725

Equity Value: 1,825

Shares: 18.5

Stock Price: 98.65

Upside (%): 121.3

**Base Case:**

EBITDA: 275

TEV: 2,062.5

Multiple Assumed: 7.5x

Net Debt: 775

Equity Value: 1,287.5

Shares: 19.0

Stock Price: 67.76

Upside (%): 52.0

**Bear Case:**

EBITDA: 230

TEV: 1,380

Multiple Assumed: 6.0x

Net Debt: 850

Equity Value: 530

Shares: 20.0

Stock Price: 26.50

Upside (%): -40.6

The base case assumes that Koppers mostly hits its 2026 cash flow targets, begins to show the benefits of the Stickney shutdown in 2027, and receives only a modest rerating. I do not think this requires heroic assumptions. The company already generated over \$250 million of adjusted EBITDA in 2025, and the 2027 setup should benefit from cost savings and a cleaner footprint.

If the restructuring takes longer than expected, CMC deteriorates further, or free cash flow disappoints, the stock could fall materially. But I think the upside/downside is attractive because the market is still not giving much credit for the possibility that Koppers becomes a cleaner and more cash-generative business over the next 12-24 months.

**Why does this opportunity exist?****(1) Koppers screens poorly because it looks like a levered old industrial company.**

Rebuttal: This is partly true, but incomplete. The company does have leverage and old industrial assets, but its best businesses are much better than that description implies. Railroad ties, utility poles, and wood-preservation chemicals are tied to recurring maintenance demand, long



customer relationships, and supply reliability. The market is assigning too much of the company's identity to its weakest segment.

**(2) The Carbon Materials segment makes the whole company look lower quality.**

Rebuttal: CMC is definitely the weakest segment, but it is also where management has the clearest self-help opportunity. The Stickney shutdown suggests that management is willing to reduce uneconomic capacity and improve the segment's cash contribution. If CMC becomes smaller, less capital-intensive, or less volatile, the remaining business should be easier to value.

**(3) The company is highly levered.**

Rebuttal: This is valid concern, but Koppers' cash generation gives management a path to reduce it. The company is guiding to more than \$100 million of free cash flow in 2026, and Stickney should improve free cash flow further in 2027. If this cash goes toward debt paydown, the equity value can accrete even without major revenue growth.

**(4) Investors do not trust the adjusted numbers.**

Rebuttal: This is understandable because the accounting is messy. However, the thesis should be judged primarily on free cash flow and debt reduction. If Koppers generates cash and reduces net debt, the market will have a harder time ignoring the value creation.

**(5) It has no clean investor category.**

Rebuttal: Koppers is not a pure railroad company, not a pure utility infrastructure company, not a pure chemicals company, and not a pure lumber/treating business. This hurts the multiple. But as the company simplifies, the market may begin to value the better pieces more appropriately. The lack of a clean category is part of the opportunity.

**Catalysts**

**Free cash flow inflection in 2026**

The most important near-term catalyst is the 2026 free cash flow guidance. If Koppers produces around \$110 million to \$130 million of free cash flow, investors will be able to see the debt reduction path much more clearly. This should also help the company screen better.



### **Stickney savings showing up in 2027**

The announced Stickney benefits are large relative to the market cap. As the \$15 million to \$20 million of annual EBITDA benefit and \$15 million to \$25 million of annual free cash flow improvement begin to show up, the market should be forced to reassess whether the restructuring is just noise or a value-creation lever.

### **Deleveraging toward the 2x-3x target range**

Koppers' leverage is one of the main reasons the stock is discounted. If management can bring net leverage down meaningfully, the stock should become more attractive to investors who currently avoid it because of balance sheet risk.

### **Additional CMC rationalization**

Stickney may not be the final move. Any further shutdown, sale, or restructuring of lower-quality CMC assets could act as a catalyst because it would make the business cleaner and reduce the segment's drag on the overall multiple.

### **Better recognition of Performance Chemicals**

Performance Chemicals is probably the segment most likely to be undervalued inside the company. If investors start viewing it more like a niche specialty chemicals business with customer stickiness and regulatory/technical advantages, the consolidated multiple could move higher.

### **Buybacks after leverage improves**

The company has already repurchased shares, but I think buybacks become much more powerful once leverage comes down. At the current free cash flow yield, repurchases could be very accretive if done after the balance sheet is in a more comfortable position.

### **Risks**



The biggest risk is that Carbon Materials keeps getting worse and absorbs the benefits of the self-help actions. If raw material availability, pricing, or demand deteriorate further, CMC could remain a drag on the whole company.

The second risk is leverage. Koppers is not a low-risk balance sheet story. If EBITDA misses or cash flow disappoints, the stock could decline significantly because the equity is levered.

The third risk is that the free cash flow guidance does not materialize. The thesis depends heavily on cash conversion. If working capital reverses, capex increases, or restructuring cash costs are higher than expected, the market will not give the company credit for adjusted EBITDA.

The fourth risk is environmental and regulatory exposure. Any business involving creosote, coal tar, and wood preservatives will always deserve some discount. I think the discount may be too high, but the risk is not imaginary.

The fifth risk is capital allocation. If management uses cash for poor acquisitions or buybacks before the balance sheet is ready, the deleveraging thesis becomes less clean.

## **Conclusion**

Koppers is not a pristine business, but that is also why the opportunity exists. The market is valuing it like a messy, levered, old industrial chemicals company, while the better parts of the business are tied to railroad maintenance, utility infrastructure, and wood-preservation chemicals.

The key question is whether management can convert the company's current messiness into free cash flow and simplification. I think the Stickney shutdown, Catalyst program, 2026 free cash flow guidance, and deleveraging path all point in the right direction.

At the current valuation, the stock does not need a massive growth story to work. It needs the company to show cash flow, pay down debt, and prove that the lower-quality CMC assets are being rationalized instead of protected. If that happens, Koppers should no longer trade like the entire company is defined by its weakest segment.

The upside comes from a combination of free cash flow, debt paydown, and a rerating as the market begins to view Koppers as a cleaner infrastructure-maintenance and specialty chemicals business rather than just another levered industrial name.