

Cabot Corporation (CBT-US)

University of Wisconsin-Milwaukee | Lubar College of Business | Investment Management Certificate Program

Analyst: Zach Spellman Recommendation: BUY As of: 10/03/2026

Value Fit 6 / 10
Philosophy Fit 4 / 5

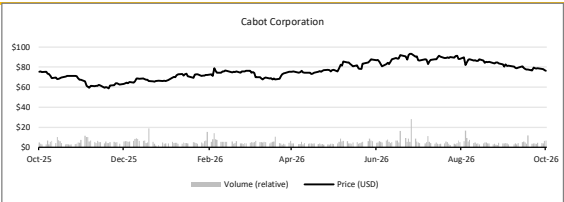
WISCONSIN VALUE FUND LENS — Maximize return by buying improving companies at reasonable valuations.

Performance level — ROIC (FY2026E) vs. ke 13.0% vs 8.6% → Above ke

Change in performance — ΔROIC -1.3 pts, FY2026E vs FY2025A → Declining

Lifecycle phase Phase IV — high expectations, declining

Valuation gap — target vs. price +11.3% → Price below our value



BUSINESS DESCRIPTION

Cabot Corp. is a global specialty chemicals and performance materials company. The firm's products include reinforcing and specialty carbons, specialty compounds, conductive additives, carbon nanotubes, fumed metal oxides, inkjet colorants, and aerogel. It operates through the Reinforcement Materials and Performance Chemicals segments. The Reinforcement Materials segment involves the rubber blacks and elastomer composites product lines. The Performance Chemicals segment refers to specialty carbons, specialty compounds, fumed metal oxides, battery materials, inkjet colorants, and aerogel product lines. The company was founded by Godfrey Lowell Cabot in 1882 and is headquartered in Boston, MA.

INVESTMENT THESIS

Cabot is a leading carbon black producer (Reinforcement Materials, 65% of FY2025 revenue) and uses that cash flow to grow specialty products for batteries, infrastructure and electronics. FY2026 is the trough year: the calendar-2026 tire agreements reset carbon black margins lower, so consensus EBIT falls about 15% and ROIC dips before recovering in FY2027. The stock has priced much of that in. At 12x FY2026E and 11x FY2027E earnings it trades below its 13.5x five-year average and well under its 52-week high, and three macro forces support a turn: EU duties on Chinese tires, the AI and grid build-out, and energy storage demand. Cabot keeps investing through the dip without adding leverage (net debt 1.4x EBITDA, capex held at \$200m to \$215m, \$101m of buybacks year to date). Our model matches consensus earnings and free cash flow, sits below the \$91 street target and still shows value above the price; with a 2.5% dividend the expected total return is in the low-to-mid teens. The events that confirm the turn (Q4 results and FY2027 guidance, the 2027 tire agreements, the EU duty ruling) all land in the next three months, so we are a modest buyer and keep the position overweight.

MARKET SNAPSHOT

Current Price	\$76.35	Market Cap (\$B)	\$3.9	Beta	1.06
52-Week Range	\$59 – \$93	Inst. Ownership	104.1%	Insider Own.	1.8%
Shares Out. (mm)	53.7	Short Interest (% float)	9.2%	Dividend Yield	2.5%
Consensus L-T Growth	1.2%	Payout Ratio	51.4%	Cost of Equity	8.6%
Price Target	\$85.00	Upside to Target	11.3%	Value Range	\$77 – \$95

VALUATION SUMMARY — equity DCF, FCFE discounted at ke

Method	Value / Share	Upside	Terminal Assumption
Equity DCF – terminal P/E	\$76.80	0.6%	10.0x P/E
Equity DCF – terminal P/S	\$79.84	4.6%	1.0x P/S
Equity DCF – terminal P/B	\$94.85	24.2%	2.0x P/B
Equity DCF – constant growth	\$89.23	16.9%	2.0% g, 8.6% ke
Average of methods	\$85.18	11.6%	Equal-weighted
Analyst price target	\$85.00	11.3%	Blue = analyst override

PHILOSOPHY FIT — Five pillars · Score: 4 / 5

	Fit?
1. Fundamental improvement & valuation discipline	No
2. Investing through company cycles	Yes
3. Initial position sizing & risk limits	Yes
4. Capital allocation discipline	Yes
5. Identifiable catalysts & conservative underwriting	Yes

VALUE CRITERIA — 10-Point Checklist · Score: 6 / 10

	Pass?
1. Catalyst / Investment Drivers	Yes
Driver 1: Tire Trade Duties	Reinforcement Materials sells about 60% of its tire carbon black under one-year agreements, and the 2026 round reset margins lower (Q3 segment EBIT \$97m vs \$128m a year ago). The EU has set anti-dumping duties of 24% to 45% on most Chinese tire imports, with countervailing duties possible on top; EU tire imports were down 16% year to date through April and US imports about 2%. More tires made in Europe and North America means fuller Cabot plants and a better setup for the 2027 agreements. Consensus, which our model matches, has the EBIT margin moving from 14.7% in FY2026E to 15.7% in FY2027E.
Driver 2: AI and Grid Build-Out	Wire and cable makers have record order backlogs from grid renewal, renewable power and data center demand, which pulls through Cabot's conductive carbons and compounds. AI-driven semiconductor demand is lifting fumed silica volumes for chip polishing (CMP). Performance Chemicals segment EBITDA rose 19% year over year to \$68m in Q3, and management expects the segment to grow at 1.5x to 2x GDP in a normal economy, which keeps shifting the mix toward higher-margin products.
Driver 3: Energy Storage Demand	Global battery demand is expected to more than double by 2030, and about 30% already comes from non-EV uses such as grid and data center storage. Cabot's battery materials line expects about \$40m of EBITDA in FY2026 at a 24% trailing margin. It is adding about \$125m of capacity at two existing US sites, online in 2028 and sized for about three years of growth, instead of building the Michigan greenfield plant. Matching capacity to customer start-ups rather than building ahead is the overinvestment discipline the fund looks for.
What does management say?	Q3 FY2026 call (Aug 4): adjusted EPS guidance tightened to \$6.15 to \$6.45 (from \$6.00 to \$6.50), capex narrowed to \$200m to \$215m and the operating tax rate set at 28% to 30%. Buybacks total \$101m year to date and resume in Q4; net debt/EBITDA is 1.4x and the September bond will be refinanced. Management expects a modest seasonal dip in Reinforcement Materials EBIT in Q4 and Performance Chemicals margins to normalize as raw material costs catch up with price. CEO Sean Keohane retires September 30; CFO Erica McLaughlin succeeds him and a CFO search is under way.

2. Low P/E Ratio							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
EPS (model)	\$7.79	\$6.79	\$6.09	\$6.37	\$6.99	\$7.24	
P/E at current price	9.8x	11.2x	12.5x	12.0x	10.9x	10.5x	
Peer median P/E (FactSet, subject excl.)	47.1x	FY2026E P/E vs. peer median		(75%)			
3. Low Price / Cash Flow							No
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
FCFE / share	\$5.70	\$6.37	\$5.40	\$4.46	\$4.67	\$5.37	
Price / FCFE	13.4x	12.0x	14.1x	17.1x	16.3x	14.2x	
Peer median P/CF (FactSet, subject excl.)	15.5x	Price / FCFE (today) vs. peer median		(9%)			
4. Low Price / Book Value							No
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Book value / share	\$22.53	\$25.86	\$28.86	\$32.20	\$36.21	\$39.86	
Price / Book	3.4x	3.0x	2.6x	2.4x	2.1x	1.9x	
ROE (EOY book)	34.6%	26.2%	21.1%	19.8%	19.3%	17.3%	
Peer median P/B (FactSet, subject excl.)	3.3x	Price / book (today) vs. peer median		(20%)			

Cabot Corporation (CBT-US) — Value Criteria, continued

5. Financial Soundness							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Total debt (\$mm)	1,375	1,242	1,228	1,328	1,328	1,328	
Net debt (\$mm)	1,137	1,019	970	899	825	744	
Total debt / equity (gross)	108.8%	87.2%	79.2%	78.7%	71.4%	65.8%	
Total debt / assets (gross)	38.2%	33.2%	32.2%	32.7%	31.2%	30.0%	
Net debt / invested capital	38.2%	33.6%	30.8%	26.6%	23.2%	20.0%	
Net debt / EBIT	2.1x	1.6x	1.5x	1.7x	1.4x	1.2x	
Tax rate	34.7%	Book equity (\$mm)		1,550	Deloitte; net debt 1.4x EBITDA		

6. Positive Earnings Dynamics							No
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Sales growth	(9.0%)	1.6%	(7.0%)	(0.8%)	3.1%	2.5%	
EBIT margin	13.5%	15.7%	17.0%	14.7%	15.7%	15.7%	
EPS growth	113.6%	(12.9%)	(10.3%)	4.5%	9.8%	3.6%	

7. Business Strategy & Segment Mix							Yes
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Carbon black (Reinforcement Materials, sold mainly to tire makers) generates the cash, and Performance Chemicals (specialty carbons and compounds, fumed metal oxides, battery conductive additives, inkjet and aerogel) is where Cabot invests for growth. Management focuses on applications with secular demand, runs the global plant network for efficiency, funds growth inside a steady capex envelope and returns excess cash through dividends and buybacks. Concentration is highest in batteries, where four customers are about half of revenue.

Segment / geography mix
FY25 revenue: Reinforcement Materials 65%, Performance Chemicals 35%; China 25%, Europe/Middle East/Africa 24%, US 18%.

8. Capable Management & Insider Ownership							No
Insider ownership	1.8%	Inst. ownership		104.1%	Buybacks, % of NOPAT (FY1E)		51.1%

Insiders own 1.8%. The bigger issue is the handover: Sean Keohane retires September 30, 2026 after ten years as CEO, CFO Erica McLaughlin takes over and the CFO seat is open during a search. She helped build the current strategy, so continuity is likely, but two senior roles change at once.

9. Valuation — Value Creation (ROIC vs. ke)							Yes
ROIC (FY1E)	13.0%	Cost of equity (ke)		8.6%	EVA spread (ROIC – ke)		4.4%
Price target / upside	\$85.00	11.3%		Value / share range (low–high)		\$77 – \$95	

10. Uses of Capital — allocation discipline							Yes
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Reinvests 17% of NOPAT in FY2026E, pays 26% as dividends and 26% in buybacks, with capex at \$200m to \$215m and net debt/EBITDA held near 1.4x.

VALUE FIT SCORE — criteria met	6 / 10
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FINANCIAL SUMMARY (\$mm except per share)	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	CAGR 2023–2028
Sales	3,931	3,994	3,713	3,683	3,796	3,891	(0.2%)
Gross margin	21.3%	24.3%	25.5%	23.3%	24.7%	25.0%	
EBIT	529	627	632	540	595	609	2.9%
Net income	437	374	327	334	359	363	(3.6%)
EPS (basic)	\$7.79	\$6.79	\$6.09	\$6.37	\$6.99	\$7.24	(1.5%)
Dividend / share	\$1.57	\$1.69	\$1.79	\$1.87	\$2.01	\$2.11	
FCFE / share	\$5.70	\$6.37	\$5.40	\$4.46	\$4.67	\$5.37	(1.2%)
Invested capital	2,979	3,031	3,145	3,383	3,555	3,712	4.5%
ROIC	20.5%	17.6%	14.3%	13.0%	13.8%	13.8%	
NOPAT margin	14.3%	12.4%	11.1%	10.4%	11.1%	11.1%	
Sales / NWC	5.15x	5.90x	6.08x	5.84x	5.84x	6.02x	
Sales / NFA	1.99x	1.87x	1.63x	1.58x	1.58x	1.57x	
Sales / invested capital (ex cash)	1.43x	1.42x	1.29x	1.25x	1.24x	1.24x	

USES OF CAPITAL — full range, as % of cash generated (NOPAT)	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	Avg 2023–2028
NOPAT before reinvestment (\$mm)	562	495	413	384	422	433	
Uses, as % of NOPAT							
CapEx, R&D & content (Δ NFA)	48.6%	30.9%	35.1%	12.5%	18.4%	18.5%	27.3%
Working capital (Δ NWC)	(20.3%)	(17.4%)	(16.0%)	5.0%	4.6%	(0.7%)	(7.5%)
Dividends	15.7%	18.8%	23.3%	25.5%	24.4%	24.5%	22.0%
Share buybacks	(3.0%)	24.2%	25.7%	25.5%	19.9%	23.1%	19.2%
Debt repaid (neg. = borrowing)	29.4%	26.8%	3.4%	(26.1%)	—	—	5.6%
Cash & securities build	5.7%	(3.0%)	8.5%	44.5%	17.7%	18.6%	15.3%
Interest & other (residual)	24.0%	19.7%	20.0%	13.0%	15.0%	16.1%	18.0%
Total uses of capital	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Discipline — reinvestment, % of NOPAT	28.3%	13.5%	19.1%	17.5%	23.0%	17.7%	19.9%
Dividends + buybacks, % of NOPAT	12.6%	43.0%	48.9%	51.1%	44.3%	47.6%	41.3%

Framework: the full range of capital allocation — CapEx/R&D/brand, dividends, buybacks, cash and debt. Cautious at the top of the cycle; invest for the future at the bottom, without over-levering. Total ties to 100% by construction, with interest and unallocated items in the residual.

COMPS OVERVIEW (current multiples, FactSet)						
Ticker	Company	P/E	P/S	P/B	P/CF	EV/EBIT
CBT-US	Cabot Corporation	21.5x	1.1x	2.5x	8.0x	8.1x
NGVT-US	Ingevity Corporation	47.1x	2.2x	52.3x	11.9x	12.5x
KAFFR-IL	Kafrim Industries (1993) Ltd	12.8x	0.6x	1.3x	10.7x	12.5x
301595-CN	Guangdong Tali Technology Group Co Ltd. Class A	119.4x	4.1x	5.5x		77.8x
300586-CN	Mallin New Materials Co. Ltd. Class A		3.6x	3.3x	60.0x	
2104-TW	International CSRC Investment Holdings Co. Ltd.		0.8x	0.5x	19.2x	
Median	Peer median (subject excluded)	47.1x	2.2x	3.3x	15.5x	12.5x
CBT-US	Subject, at current price	12.5x	1.1x	2.6x	14.1x	7.7x
Premium / (discount) to peer median		(73%)	(49%)	(20%)	(9%)	(38%)

Note: CBT-US appears in its own peer list (AutoTearSheet-SPageID4:DI9). It is excluded from the median, but replace that slot with a real peer to use oil six.

KEY RISKS

- Tire demand and contract pricing. About 60% of reinforcing carbons volume reprices every year. If Chinese tires reroute around EU duties or tire demand weakens, the 2027 agreements may not recover, putting the 15.7% FY2027E EBIT margin in our consensus model at risk.
- Oil and feedstock swings. Carbon black feedstock follows oil. The Q3 oil spike tied up \$44m of working capital, and Performance Chemicals margins are expected to normalize as raw material costs catch up with price.
- Leadership change and weak end markets. A new CEO and an open CFO seat arrive while automotive production and housing stay soft, EV growth is uneven and China is 25% of revenue.

Exit discipline. Sell if FY2027 guidance shows no EBIT recovery from FY2026, if net debt rises above 2.5x EBITDA, if ROIC falls below the 8.6% cost of equity, or if the position breaches the fund's sector-relative drawdown limit.

Sources: model outputs linked to Auto-FinandValInfo and AutoTearSheet-SPage (FactSet). Information for educational purposes only. Not a recommendation to buy or sell any security.