Cooper Standard (CPS) Review

February 19, 2026

Executive Summary

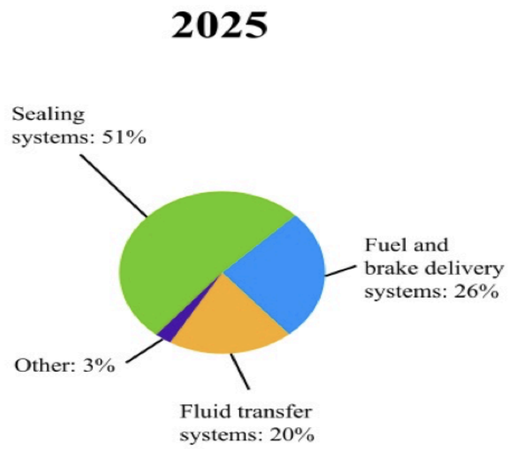
Cooper Standard (CPS) remains a high-conviction turnaround opportunity, now trading at approximately $700 million market cap after a remarkable re-rating from the depths of the thesis. The company just reported its best operational year in history, delivered adjusted EBITDA of $209.7 million at the top end of guidance, increased margins across the board given structural improvements and cost cuts and, critically, launched a $1.1 billion refinancing on February 17, 2026 that will resolve the single largest risk overhanging the equity for the past three years, which is liquidity concerns.

The thesis for the investment keeps getting stronger even as the stock price goes up. The market was pricing CPS for near-term distress given a debt wall due in 2027 and concerns that the company would not be able to manage their liquidity. However, over the past few quarters management has streamlined operations and boosted margins significantly and now launched an initiative to push the 2027 maturities to 2031 through a 1.1B private fist-lien note, eliminating the existential risk until then. Meanwhile the underlying operations continue to execute at levels that would be impressive at any point in the company's history, growing operating income at +24% YoY,

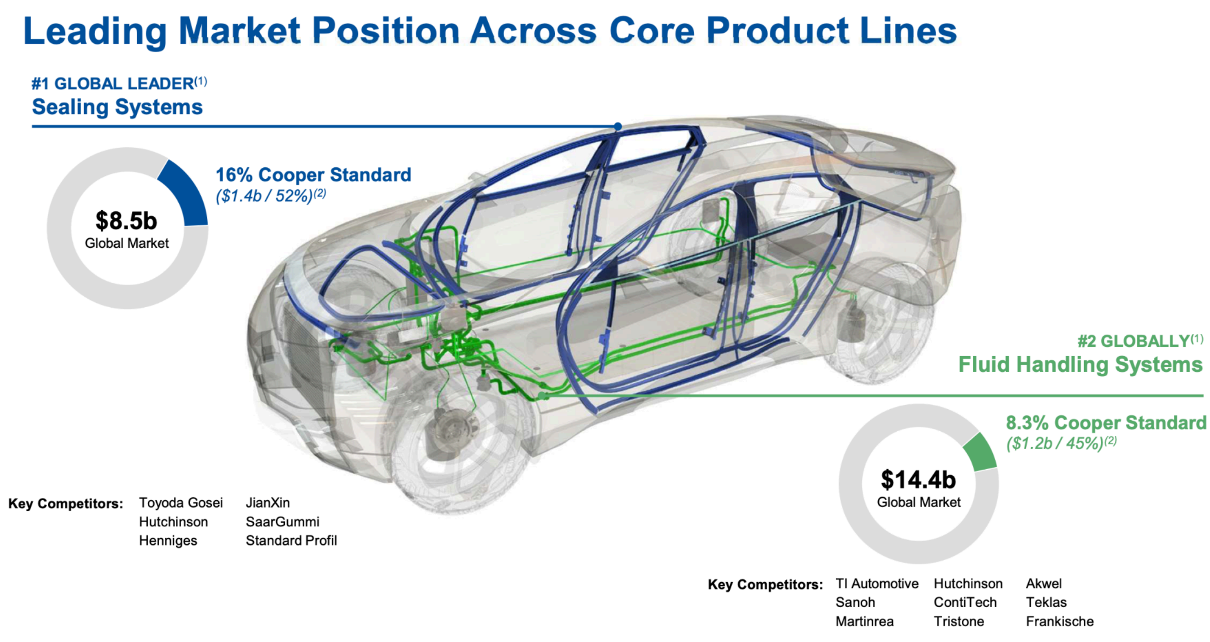
What Cooper Standard Does

Cooper Standard is a Tier 1 automotive supplier, meaning it sells fully engineered, ready-to-install systems directly to the world's largest automakers rather than to other suppliers. This distinction matters, it places CPS in the co-design relationship with automakers (OEMs) rather than in the more commoditized lower tiers of the supply chain.

Their product portfolio spans three categories, all of which are essential to every vehicle on the road and all of which are deeply integrated with the design of the car model itself, which is the main perk of being a Tier 1 supplier. Sealing systems include the weatherstrips, door seals, trunk seals, window seals, and sunroof seals that keep vehicles quiet, dry, and thermally efficient. Fluid handling systems transport fuel, coolant, brake fluid, and emissions control fluids throughout the vehicle. Fuel and brake delivery tubing handles high-pressure and high-temperature requirements across the operating life of the powertrain. None of these products generate headlines but every vehicle sold anywhere in the world needs them.



Scale is a genuine competitive differentiator here. Cooper Standard is the number one sealing systems supplier in the world and the number two fluid handling systems supplier globally. These positions took decades to build through accumulated engineering expertise, OEM relationships, and manufacturing scale, and they are not positions a competitor can replicate by simply investing capital.



The company operates 124 manufacturing facilities across 20 countries with approximately 22,000 employees, being the top suppliers for these parts for major OEM companies like Ford, GM, and Stellantis representing roughly 56% of revenue.

This concentration reflects the depth of integration rather than a lack of diversification effort, with CPS having won several prizes for outstanding suppliers for these OEMs for years.

The company has achieved significant improvements in both the sealing systems segment and the fluid handling systems segment (incorporating beak systems and other fluid handling systems). Management guides for ROICs of 30%+ and 20%+ for these businesses in only a few years, accompanied by strong sales increase due to geographic expansion (as we will talk later), stronger OEM market and a focus on vehicles with higher components per vehicle which requires more parts.

Here are some numbers for the fluid handling system segment (left) and the sealing system business (right)

	2023A	2024A	2025P[1]	Strategic Targets (2030)
Sales ($b)	$1.26	$1.24	$1.35-$1.45	**>$2.0**
Adj. EBITDA Margin	5.9%	6.3%	9.0%-9.5%	**>16%**
Capital Spend ***% of sales***	2.2%	2.0%	<2.0%	**<3.0%**
ROIC	4.3%	6.7%	13.0%-13.5%	**>30%**

	2023A[1]	2024A	2025P[2]	Strategic Targets (2030)
Sales ($b)	$1.42	$1.44	$1.35-$1.45	**>$1.8**
Adj. EBITDA Margin	7.9%	8.9%	9.0%-9.5%	**>13%**
Capital Spend ***% of sales***	2.8%	1.7%	<2.0%	**<3.0%**
ROIC	3.9%	9.8%	10.0%-10.5%	**>20%**

The Competitive Moat: Why OEMs Cannot Simply Switch Suppliers

The moat at Cooper Standard is structural rather than being only brand-driven or network-based, coming from the deep integration of CPS systems into OEM vehicle programs at the earliest design phase, and from the enormous switching costs that integration creates.

Cooper Standard's competitive position is protected by one of the most durable moats in the automotive supply chain, which is deep program-level integration that makes switching nearly impossible without enormous cost, risk, and multi-year disruption to production schedules that no OEM procurement team would willingly absorb. Once CPS sealing and fluid handling systems are co-engineered into a vehicle platform, they become embedded in the design geometry, material specifications, and manufacturing tolerances of that platform for its entire production life, which typically spans six to eight years, and replacing an incumbent supplier at that stage requires new tooling, full re-engineering of adjacent components, multi-year qualification testing, and regulatory re-certification, all of which carry meaningful operational risk on a program generating hundreds of thousands of units per year.

With the Ford F-150, which CPS supplies sealing and fluid handling systems across the program, Ford cannot simply swap in an alternative supplier mid-cycle (model), because the systems are designed into the vehicle, not bolted on top of it, and any decision to resource that program away from CPS would need to be made years in advance, during the design phase of the next-generation F-150, before a single prototype is built. That multi-year lead time is not a vulnerability for CPS, it is a structural advantage, because it means any potential loss of business is visible on the horizon long before it affects revenue, giving management ample runway to adjust overhead, redeploy capacity, and offset the impact through new program wins elsewhere. There are no sudden cliff edges, the revenue base does not evaporate, it transitions slowly, predictably, and on a timeline CPS can plan around, which transforms what might appear to be customer concentration risk into something that more closely resembles revenue predictability.

The result is that CPS effectively holds a platform-level monopoly on every program it wins, given that new business is contested only at the design phase, years before a vehicle enters production, and once awarded, revenue is locked in for the life of the program. This is not commodity supply, it is engineered dependency, and it compounds over time as CPS accumulates an installed base across an OEM's full lineup, making it progressively harder for any competitor to displace them without winning at the design table on the next platform cycle.

Pricing power follows naturally from this structure, as CPS is not subject to the same competitive pressure that commodity suppliers face at annual renegotiations, and the index-based pricing agreements that CPS has systematically implemented across its customer base pass raw material cost inflation directly through to OEMs, protecting margins from the primary input cost risk. The technical credibility CPS has earned over decades, including eight consecutive GM Supplier of the Year awards, Ford's Crisis Management award, and recognition across Volkswagen, Stellantis, and BMW, reinforces its position at the design table on the next generation of platforms, creating a self-reinforcing cycle of trust, integration, and incumbency that new entrants simply cannot replicate without decades of investment and a track record they do not yet have.

The moat is not a policy or a contract, it is structural, it is built into every vehicle CPS supplies, and it deepens with every new platform win.

Of course, the downside to this is that CPS has to produce inventory years ahead of deploying them into cars in OEM assembly lines, which puts a negative strain in working capital and FCF (which was what happened in 2025 as CPS won many contracts throughout the year, as we will see).

Additionally, CPS accounts for most of their big OEM partner's production line integration, meaning that most cars produced by major automakers are already deeply reliant on CPS products across multiple geographies.

I'll try to run a proxy calculation to understand that more clearly:

In 2025, CPS generated approximately $520 million from selling parts to GM alone, representing roughly 19% of total sales, across virtually every major market where GM produces vehicles. With GM selling approximately 5.9 million light vehicles globally in 2025 across those same regions, implied CPS content per GM vehicle globally is approximately $88. Given that the combined global sealing and fluid handling market is roughly $23 billion spread over approximately 78 million vehicles at roughly $290 per vehicle, suggests CPS captures around 30% of GM's total global sealing and fluid handling spend. This figure might be understated given that hybrid and electric cars, segments where GM is not really strong in, spend much more on sealing and fluid handling systems than the average, inflating market numbers disproportionally. Additionally, the figure almost certainly understates North American penetration, where the relationship is deepest and content per vehicle is highest given the prevalence of large trucks and SUVs, which carry significantly more CPS content than passenger cars. It would be fair to argue that around 35-40% of GM's fleet have parts coming from Cooper Standard.

Replacing CPS at GM would require overhauling supply chain relationships across nearly every vehicle GM produces, in nearly every market where GM operates, and that is not a transition any rational procurement team undertakes voluntarily.

Beyond the switching cost moat, CPS has invested in technology that deepens competitive differentiation. AI-assisted compound development and virtual prototyping are shortening product development cycles and reducing validation risk. Thermoplastic seals reduce vehicle weight. Integrated valve-pump units designed for EV thermal management systems are securing next-generation program wins. These investments are how CPS ensures its moat extends through the powertrain transition rather than eroding with it.

Finally, another silent moat is their relationship history with the big OEMs. The award record demonstrates this OEM loyalty concretely as CPS has won GM's Supplier of the Year for eight consecutive years and similar stories are true for Stellantis, Ford and Toyota. When the industry's largest purchasers keep handing out awards, it reflects genuine satisfaction with technical performance and supply reliability, the two things OEMs care about most and are not shown in data alone. Reliability and trustworthiness is an underrated moat for companies with deeply integrated supply chains and many different moving parts like GM or Ford.

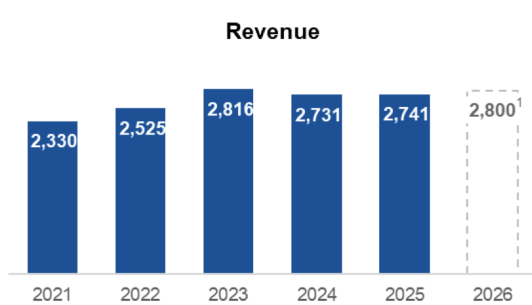
Performance Wins Recognition..... and New Business Orders

Operational history and numbers

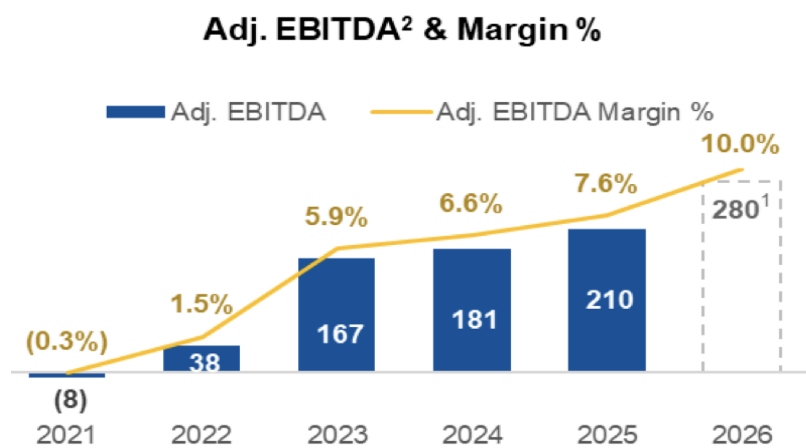
Management described 2025 as the best operational year in the company's history and this is not marketing language. They have made significant progress on all the metrics relevant for the business to survive and thrive for the future even as the company faced a few significant one time headwinds in Q4 as I will discuss soon.

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2025	2024	2025	2024
Sales	$ 672.4	$ 660.8	$ 2,740.9	$ 2,730.9
Gross Profit	$ 70.2	$ 82.0	$ 327.5	$ 302.9
% Margin	*10.4 %*	*12.4 %*	*11.9 %*	*11.1 %*
Adjusted EBITDA[1]	$ 34.9	$ 54.3	$ 209.7	$ 180.7
% Margin[1]	*5.2 %*	*8.2 %*	*7.6 %*	*6.6 %*

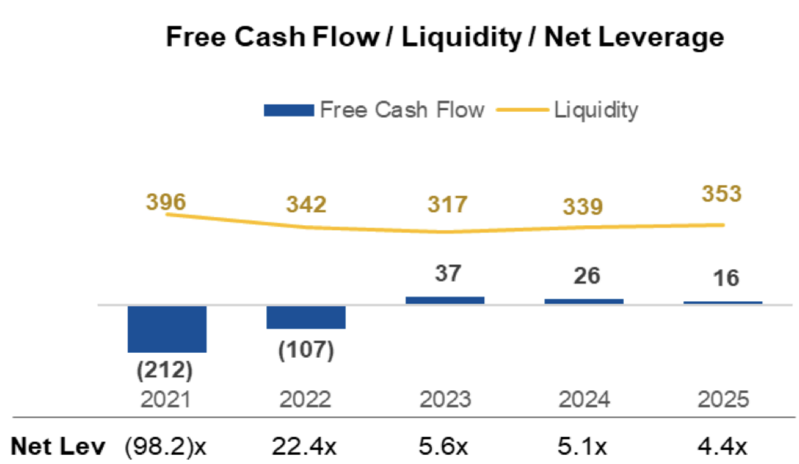
Revenue grew just 0.4% as favorable foreign exchange and net customer pricing recoveries offset production volume headwinds, but this isn't the most interesting part of the story.



The EBITDA story is where the thesis lives, as the company delivered $29 million of incremental adjusted EBITDA on essentially flat revenue, with $64 million in manufacturing and supply chain efficiency savings and $18 million from the 2024 salaried workforce reduction serving as the primary drivers. Improving the bottom line by $29 million on zero revenue growth is a demonstration of operational discipline that is rare in the auto supply sector.

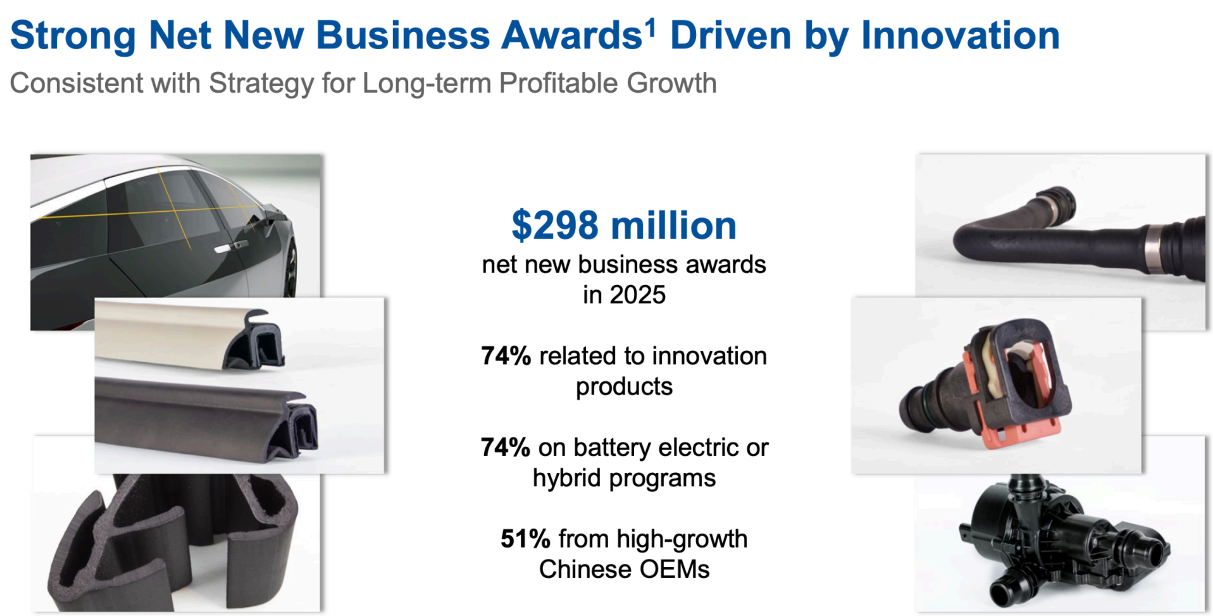


The GAAP net loss improved by $74.5 million year-over-year, from -$78.7M in 2024 to just -$4.2M in 2025, which would've been positive if not for the Q4 headwinds. This represents the company approaching GAAP profitability for the first time since the operational overhaul began.



The Free Cash Flow generation story is pretty similar and the company delivered strong FCF generation this year again, though Q4 had a few issues as we will discuss soon and it had some good news disguised as bad news regarding new contracts that affected working capital negatively. Positive free cash flow is incredibly important for a business that needs to handle liquidity constraints soon, and it goes to show management efficiency.

CPS booked $298 million in net new business awards during 2025, a 65% increase over the $181 million booked in 2024, with management targeting over $400 million in 2026, which would represent another step-change in the pace of platform wins. These awards do not appear in today's revenue, they typically take two to three years to ramp to their full run rate as the underlying vehicle programs enter production, meaning the revenue acceleration embedded in the current backlog is largely invisible in the 2025 income statement and will only begin to surface meaningfully in 2027 and 2028. This represents a very strong future for the company and shows that they're indeed further developing their relationships with top OEMs.



<u>Five Years of Operational Transformation</u>

To appreciate why CPS is genuinely compelling today, you need to understand what management has accomplished since launching the operational overhaul in 2019. It is really incredible what the company has been able to do in a few years, all executed through a period that threw every possible headwind at the business simultaneously.

Starting from a negative adjusted EBITDA margin of -0.3% in 2021, the company has systematically built savings through four categories: manufacturing efficiency, supply chain renegotiation, headcount rationalization, and facility consolidation. The cumulative EBITDA impact through 2024 reached $715 million in savings as of Q3 2025, a figure that exceeds the entire enterprise value of the company during much of this period. Not bad for a company that has a market cap of only $700M today.

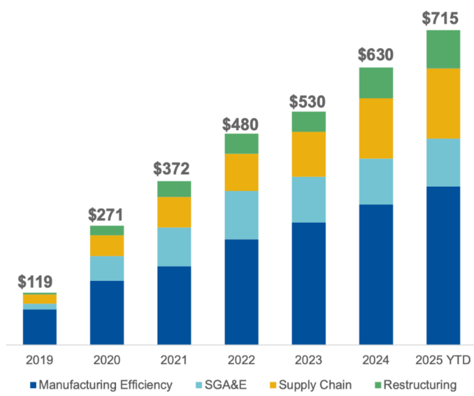
Sustainable Strategic Actions to Address Industry Volatility

Sustainable Actions

- **Rationalized Manufacturing Footprint**
  - Closed over a dozen manufacturing facilities and divested certain underperforming businesses
- **Streamlined Operations**
  - Centralized equipment spec and sourcing decisions
  - Aggressive cost-saving initiatives continue to drive YoY cost improvement
- **Rightsized Headcount**
  - Reduced headcount globally, including at the leadership level
  - Executed 2024 salaried workforce reduction
- **Renegotiated Supplier Contracts and Heightened Recovery Efforts**
  - Expanded index-based contracts and supply agreements
  - Pushed back on unjustified price increases

Cumulative Sustainable Cost-Saving Impact to Adjusted EBITDA (2019 – Q3 2025 YTD)

Averaged over $100 Million in Savings Annually



Manufacturing efficiency has been the largest driver, through centralizing equipment specifications, standardizing sourcing decisions, and executing lean initiatives across 124 plants in 20 countries. Supply chain improvements involved renegotiating contracts to index-based pricing that insulates margins from commodity price swings and pushing back on unjustified supplier price increases. Workforce actions included global headcount reductions and a focused 2024 salaried reduction that contributed $18 million annually. Facility consolidation shuttered underperforming plants and concentrated production in higher-margin operations.

The largest driver was manufacturing efficiency, where CPS standardized equipment specifications and sourcing decisions across 65 manufacturing facilities in 20 countries and pushed lean manufacturing principles deep into plant-level operations, generating approximately $64 million in annual savings in 2025 alone. Supply chain was the second major lever, where the company systematically renegotiated supplier contracts to index-based pricing, meaning that when commodity costs rise, the price CPS pays its suppliers rises proportionally rather than in unpredictable spikes, and when costs fall, savings flow through automatically, removing one of the most damaging sources of margin volatility in the business. Workforce actions added another layer, with a focused salaried reduction program in 2024 contributing $18 million in annual savings, on top of broader global headcount rationalization that reduced SG&A costs materially over the period. Finally, the company shut down underperforming facilities and exited lower-margin business segments entirely, concentrating production in operations that could generate acceptable returns rather than subsidizing facilities that could not.

The context makes the achievement more impressive. This transformation was executed through 8% inflation in 2022, 525 basis points of Fed rate hikes, COVID-related demand disruptions, ongoing geopolitical volatility, and a prolonged cyclical trough in auto production. The fact that management delivered $82 million per year in compounding efficiency gains through all of that is the foundation of my conviction in their ability to continue delivering.

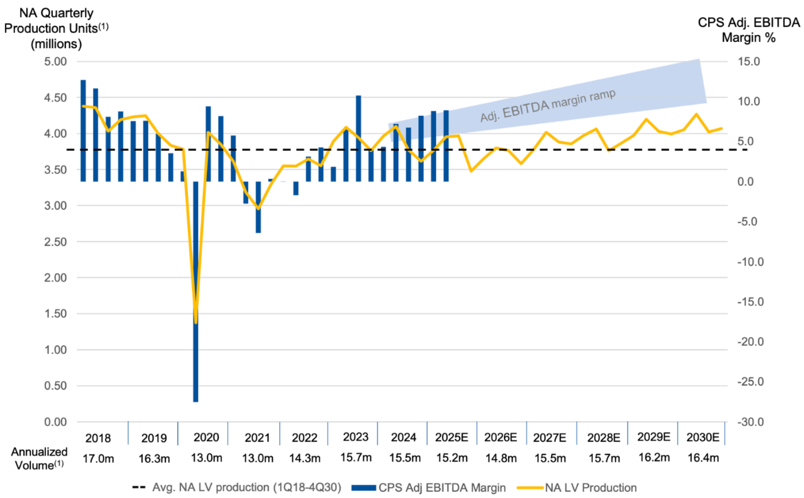
In 2025 specifically, the team generated $64 million in plant efficiency and supply chain savings and it was also the company's best-ever performance in safety and quality in the plants. When every operational dimension improves at once, it reflects a genuine culture of excellence rather than a point-in-time initiative.

The reason this transformation is so compelling as an investment signal is precisely because it happened during the worst possible external environment, not during a tailwind. A management team that can extract $218 million of incremental annual earnings while simultaneously dealing with surging inflation, rising debt costs, supply chain chaos, and weak OEM production volumes has demonstrated a quality of operational execution that is genuinely rare, and when the external environment eventually normalizes, that same operational capability will compound on top of a much more favorable revenue backdrop. I'm confident in the company's ability to generate returns in any scenario and especially excel as market conditions for OEMs continue to improve.

Finally, CPS has been expanding margins since 2021 while North American light vehicle production has remained stuck well below its pre-pandemic average of roughly 3.8 million units per quarter, meaning the margin recovery has been entirely self-funded through internal cost actions rather than borrowed from a favorable volume environment. This is significant because it implies that when North American production eventually recovers toward the 16 million annualized unit range that industry forecasters project by 2030, CPS will be capturing that volume uplift on top of a structurally leaner cost base, which is precisely the dynamic that drives operating leverage and accelerates margin expansion beyond what cost savings alone could achieve.

I will talk about macro later in this report.

Margins Ramping Up Faster than LV Production Volume



- Margin expansion began to outpace North American production growth in 3Q24 with trend expected to continue
  - Recent margin improvement largely driven by a continued focus on manufacturing & purchasing cost savings and successful execution of other restructuring activities
- Additional production volume or accelerated ramp up beyond current forecast levels could drive further and/or faster margin expansion

Q4 2025: Understanding the Noise

The fourth quarter was weaker than the prior three quarters, with adjusted EBITDA falling and EPS results missing consensus significantly. The stock surged 32% on the next day anyway as investors immediately understood it wasn't a structural issue.

	Three Months Ended December 31,			
		2025		2024
Sales	$	672.4	$	660.8
Gross Profit	$	70.2	$	82.0
% Margin		*10.4 %*		*12.4 %*
Adjusted EBITDA[1]	$	34.9	$	54.3
% Margin[1]		*5.2 %*		*8.2 %*
Income Tax Benefit	$	(33.9)	$	(38.4)
Effective Tax Rate %		*110.4 %*		*(2,094.9)%*
Net Income (Loss)	$	3.3	$	40.2
EPS (Fully diluted)	*$*	*0.18*	*$*	*2.24*
Adjusted Net Loss[1]	$	(31.0)	$	(2.9)
Adjusted EPS (Fully diluted)[1]	*$*	*(1.73)*	*$*	*(0.16)*
CAPEX	$	11.7	$	11.5
% of Sales		*1.7 %*		*1.7 %*

The reason for that reaction is that investors correctly identified the sources of Q4 weakness as transitory and all of this was already predicted by management in their Q3 earnings report.

Q4 2025 Outlook: Continued Operational Excellence, Market Uncertainty

Ongoing impacts from short-term industry disruptions affecting certain customers

- Catastrophic events impacting aluminum supply
- Labor disruptions in select regions
- Cyberattack and natural disasters impacting customer operations

Underlying demand for new light vehicle production remains solid

- Increasing numbers of licensed drivers
- Record age of light vehicle fleet
- Stable dealer inventories in the U.S.

Continued relentless focus on excellence; controlling what we can control

- Confident in our ability to deliver continued world-class service, technology and manufacturing efficiencies
- Expect continued successful launches of new programs with enhanced variable contribution margins

The single largest driver of Q4 earnings weakness was a production disruption at a key Ford F-Series supplier, which cascaded into a sudden and unplanned volume reduction on one of CPS's highest-revenue programs mid-quarter. CPS's cost structure does not flex down quickly when a customer halts production that suddenly, meaning that a volume shortfall on a large platform like the F-Series creates a fixed cost deleverage effect. It was far more damaging to margins than the revenue loss alone would suggest, as the larger and more concentrated the platform (the F-150 being a major one), the more pronounced that effect becomes.

Compounding the volume disruption was a structural increase in labor costs where wage inflation has been running persistently above historical norms driven by tight labor markets. While the company has been partially offsetting this through headcount reduction and productivity improvements, the underlying hourly wage rate across the business is structurally higher than it was two years ago and does not compress quickly, meaning it will remain a margin headwind until volume and pricing improvements grow over the top of it, which it will given the normalization of the Ford production and the record number of new contracts signed this year.

The decline in free cash flow from $25.9 million in 2024 to $16.3 million in 2025 despite EBITDA improving by $29 million over the same period is one of those numbers that looks concerning on the surface but tells a very different story once you understand what is driving it, because the gap between EBITDA improvement and free cash flow is almost entirely explained by working capital consumed by new business program launches, where CPS is required to invest in tooling and build up inventory ahead of production starting, and that cash leaves the balance sheet before a single dollar of revenue from those programs has been recognized. In other words, the company is simultaneously reporting improving earnings and declining free cash flow precisely because it is winning and preparing to launch more business than it has in years, and the cash drag is the upfront cost of that growth, not a sign that the underlying business is deteriorating, with the payback on those investments expected to flow through the income statement in 2027 and 2028 as the new programs reach their full production run rates.

Free Cash Flow[1]

(millions)

	Quarter Ended December 31, 2025	Quarter Ended December 31, 2024
Net cash provided by operating activities	$ 56.2	$ 74.7
Capital expenditures	(11.7)	(11.5)
Free cash flow	$ 44.6	$ 63.2

The Debt Situation: The Biggest Risk Has Just Been Resolved

I have been monitoring the debt situation closely since establishing the position because it was, unambiguously, the single largest risk overhanging the equity. A $1.1 billion debt maturity concentrated in 2027, against a market cap that was under $400 million for much of 2025, created a legitimate scenario where equity holders could be wiped out if credit markets were unfavorable.

Year	Debt and Finance Lease Obligations*
2026	$ 87,077
2027	1,011,524
2028	2,492
2029	5,721
2030	1,691
Thereafter	5,307
Total	$ 1,113,812

On February 17, 2026, Cooper Standard announced a proposed $1.1 billion private offering of Senior Secured First Lien Notes due 2031. The net proceeds, combined with cash on hand, will redeem all outstanding 2026 and 2027 notes in full.

The notes being retired carried a blended cost that was extremely punishing with the largest tranche, the $617 million first lien PIK toggle notes, carried a 13.5% cash pay rate, and the $392 million third lien notes carried a 10.625% PIK rate, meaning the weighted average cost of the debt being replaced was around 13%.

The 10% stock drop on February 19 suggests the market's early read on the likely coupon was less favorable than hoped, possibly pricing in the 10-11% range rather than the low end of expectations, but that would still be lower than the current blended rate and could probably boost earnings a little bit.

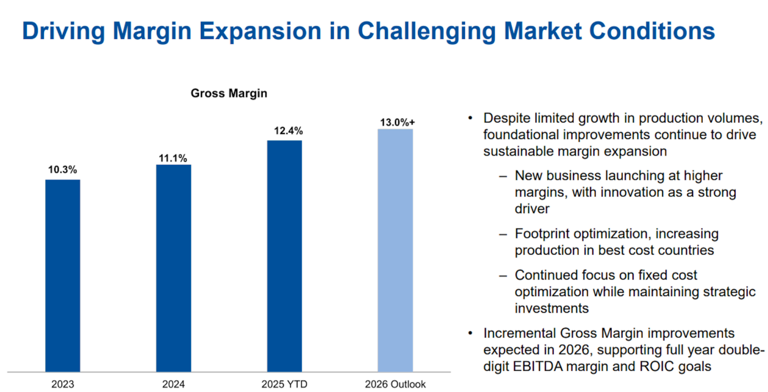
But the key thing is that now the 2027 debt wall disappears. The new 2031 maturity gives management five years of runway to continue the margin improvement trajectory, generate free cash flow, and de-lever systematically rather than under duress and it allows the market to re-rate the stock at a higher valuation reflecting the lower bankruptcy risk.

The refinancing eliminates the maturity risk but does not eliminate the leverage, however. I will still keep watching CPS’s debt reduction over the next few quarters to see how they go about dealing with their liquidity problems, but given management’s exceptional operational performance, I’m not extremely worried immediately.

<u>Outlook, revenues and macro tailwinds:</u>

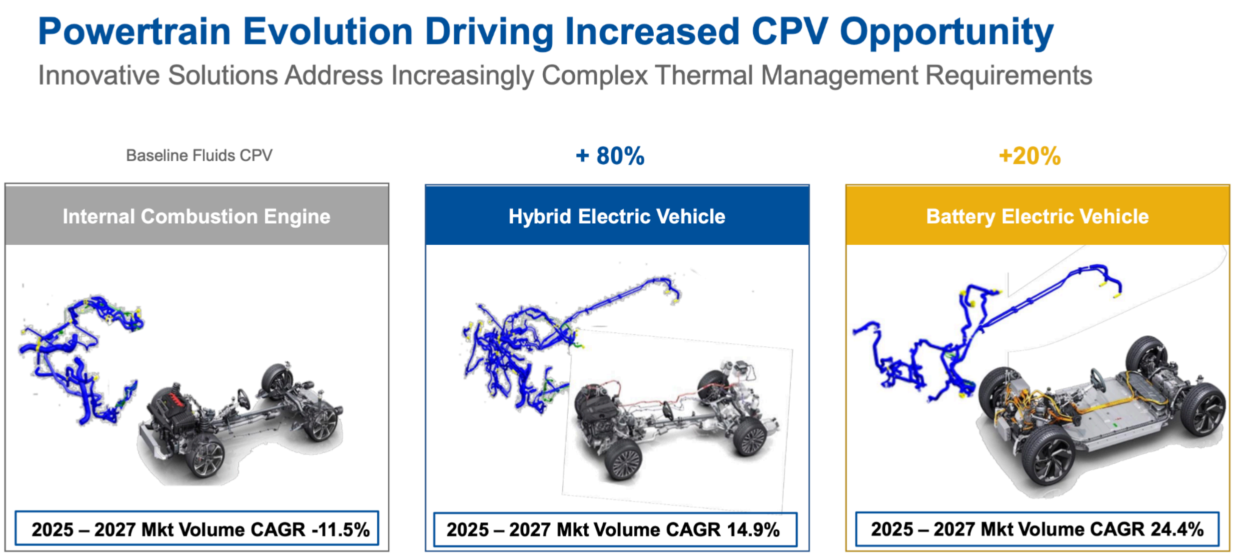
Management's 2026 guidance, in my view, follows the same pattern that characterized this management team throughout the turnaround: conservative projections that the business then exceeds.

The bridge from $210 million of 2025 EBITDA to $280 million in 2026 is not dependent on revenue heroics. Management has already identified well above 90% of its 2026 cost improvement commitments with the primary levers being continuing plant efficiency gains and the ramp-up of higher-margin new business programs that were booked in prior years and are now entering production.



The revenue guidance of 3% growth is interesting for a different reason. CEO Jeff Edwards noted on the Q4 call that S&P's industry forecasts show a down market in several key regions for 2026, Europe from 17.0 to 16.9 million units, China from 33 to 32 million, North America essentially flat. Yet CPS is projecting 3% revenue growth on top of that declining volume environment, driven entirely by new program launches and higher content per vehicle from EV and hybrid platforms. Generating $70 million of incremental EBITDA on a down volume market is the demonstration of why the margin expansion story is durable rather than cyclical.

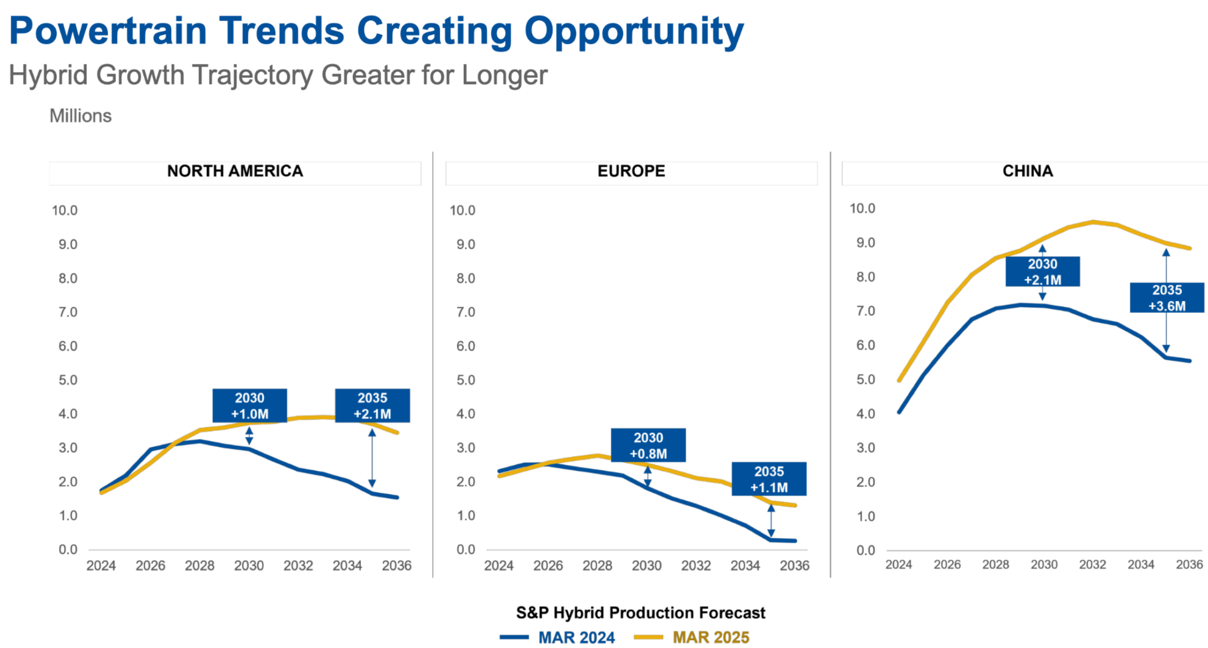
The transition toward electric and hybrid powertrains is frequently discussed as a headwind for auto suppliers whose products are specific to internal combustion engines but for CPS, the reality is the opposite. Their sealing and fluid handling systems are required in larger quantities for electrified vehicles than for traditional ones.



Hybrid vehicles require approximately 80% more CPS content per vehicle than a gas equivalent, primarily because thermal management complexity increases when you are managing both combustion and electrical heat sources simultaneously. Battery electric vehicles require approximately 20% more CPS content per vehicle, driven by the extensive fluid cooling systems needed for battery thermal management, power electronics cooling, and the more complex sealing requirements of high-voltage systems.

This creates a powerful tailwind as the product mix shifts. Even on flat total vehicle production, CPS's revenue per vehicle grows as hybrids and EVs take share. Management has incorporated this dynamic into their 2030 strategic plan, assuming 20 million hybrid vehicles produced annually globally by 2030, a figure that many independent forecasters consider conservative (again, following the theme of management sandbagging expectations, as we saw in the original report last year).

The net new business pipeline reflects this positioning directly as 74% of the $298 million in 2025 new business awards were tied to battery electric or hybrid vehicle platforms.



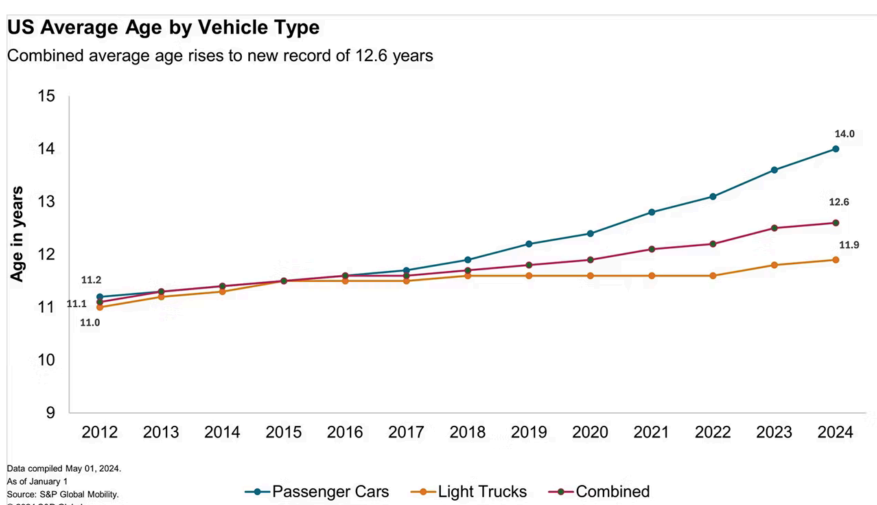
On business visibility, management noted that all of 2026's new business is already in production in their factories. For 2027 and 2028, the booked business exceeds 95% already. The figure refers to already-booked business from existing programs, but CPS will continue winning and launching new business throughout 2026 itself, meaning incremental revenue awards made in late 2025 and early 2026 could hit the top line within the same calendar year. So the % booked is a floor, not a ceiling, and any new awards, favorable production mix, or volume upside from OEMs running their schedules above management's sandbagged expectations forecasts would push revenue above the guided

Additionally, management has laid out an explicit plan to triple their exposure to Chinese OEM revenue, and the economics are exceptional because the incremental capacity is already built and paid for.

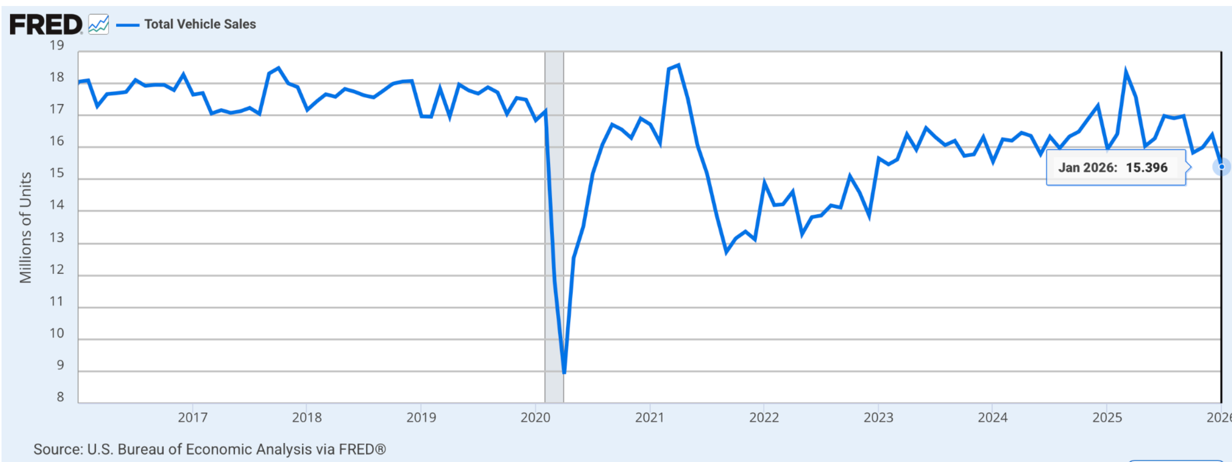
CPS has operated in China for over 20 years, mainly through western OEMs that have manufacturing plants there, and has established deep relationships with local manufacturing operations. Chinese automakers are growing rapidly domestically and accelerating their global export ambitions and CPS has already secured new business, as 51% of 2025 net new business awards came from Chinese OEMs.

Current analyst models focus overwhelmingly on North American and European volume recovery. A 15%+ CAGR in China revenue through 2028, compounding on a base that already represents a meaningful portion of Asia-Pacific revenue, represents genuine upside optionality that is not captured in consensus numbers.

Looking into the US, there is a structural tailwind for Cooper Standard in the historic deterioration in the age of vehicles on American roads. The average age of a light vehicle in the United States has reached 12.8 years in 2025 according to S&P, an all-time record.



With auto sales down from pre-pandemic levels, combined with the average age of vehicles, the market has been systematically under-supplied for four years running, accumulating a structural deficit estimated at several million vehicles relative to historical replacement norms. Older vehicles fail more frequently and carry higher maintenance costs, and the reliability calculus eventually forces replacement regardless of financing conditions. With the fleet aging past the point where deferred maintenance becomes economically irrational for millions of owners simultaneously, the replacement cycle is overdue and production should bounce back soon.



Industry forecasters broadly agree that North American production has the structural capacity and replacement demand to support a return toward the 16-17 million unit range before the end of the decade, yet current guidance embeds no recovery whatsoever. Management itself acknowledged this dynamic on the Q4 call, noting that if S&P's numbers prove too conservative, the financial results will be meaningfully better.

Financing and consumer wise, two policy developments should further incentivize vehicle demand.

The first is the auto loan interest deduction embedded in Trump's One Big Beautiful Bill Act, which allows taxpayers to deduct up to $10,000 in annual interest payments on new vehicle loans for American-made vehicles. This starts coming into play in fiscal year 2026 so the effects should be seen soon. Crucially, the deduction explicitly excludes used vehicles, which redirects suppressed demand away from the secondary market and toward the OEM production pipeline that feeds CPS's revenue.

The second catalyst is the trajectory of Federal Reserve policy. With inflation having moderated through 2024-2025, the labor market softening and Kevin Warsh set to start his mandate as FED chairman soon, rates should keep falling further, or at least not rise for the foreseeable future. President Trump has made it clear that he wants a FED chairman that will keep rates low and now that his pick is set to start on the job this should happen, especially given the recent inflation data and job market data.

Taken together, the aging fleet, the structural production deficit, the fiscal demand stimulus, and the monetary easing cycle form a rare convergence of tailwinds that are not reflected in CPS's conservative guidance assumptions, and which, if they materialize even partially, would drive revenue and EBITDA substantially above the floors management has set for 2026 and beyond.

Critical Risks

CPS's revenue is directly tied to automotive production volumes, and production schedules can shift on short notice. Q4 2025 was a demonstration of this, with a single customer supply chain disruption cutting quarterly EBITDA by roughly $20 million versus expectations. Volume and mix are the primary swing factors for 2026 guidance, and any softening in production schedules at Ford, GM, or Stellantis will hit numbers quickly. CPS’s business is highly visible given booked programs, but macro production remains the dominant uncertainty.

However, the biggest risk CPS still faces is refinancing their debt right now. The $1.1 billion offering is subject to market conditions, and the redemption target of March 4, 2026 is conditional so if credit market conditions deteriorate, the transaction could be delayed or priced at an unfavorable coupon.

The interest cost matters significantly and the difference between 8% and 11% on $1.1 billion is dozens of millions in annual interest expense, which flows directly to free cash flow. Given the secured nature of the new notes and CPS's improving operational profile, execution risk appears manageable, but it warrants monitoring through the close.

Even after the refinancing, CPS will carry approximately $1.1 billion in debt, only at a longer maturity date. Net leverage in 2025 was 4.6x EBITDA, down sharply from 22x in 2022 but still elevated relative to investment-grade peers. The path to meaningful deleveraging runs through sustained free cash flow generation over the 2026-2031 refinancing runway. If operational performance disappoints or the auto cycle weakens, deleveraging could stall. This is a risk I will monitor closely as it will be a clear point of contention for the market to re-rate the stock.

So these are some red flags that would trigger a position review:

- Refinancing closes at coupon above 12%, or fails entirely
- Adjusted EBITDA margin falls below 7% for two or more consecutive quarters

- Any major customer (Ford/GM/Stellantis) cuts annual production guidance significantly, excluding one time items
- China revenue growth comes in below 5% CAGR through 2027
- Free cash flow turns consistently negative excluding disclosed one-time items

Hedging:

Though Ribeiro Capital is a long only portfolio, I will present here some hedging strategies that I would recommend using if you're interested in mitigating risks of this position in your own portfolio. I found thinking of hedging strategies to be an interesting way to better understand different aspects of the market and, in this case, to find the best ways to mitigate the risks related to margin/revenue expansion and risks related to liquidity.

Margin expansion risk:

To generate alpha from CPS's operational improvement while isolating my portfolio from broader systematic risks and automotive sector exposure, I want to find a short candidate whose business carries the same macro sensitivity as CPS, same commodity costs, same OEM production cycle, same directional response to volume changes, but whose operational execution and margin trajectory are materially weaker. By pairing the long CPS position with a short in a correlated Tier 1 supplier that is spending heavily on restructuring without delivering meaningful margin improvement, market-wide moves in the automotive sector largely cancel out, and my returns are driven primarily by the spread between CPS's proven cost discipline and the short candidate's stagnation.

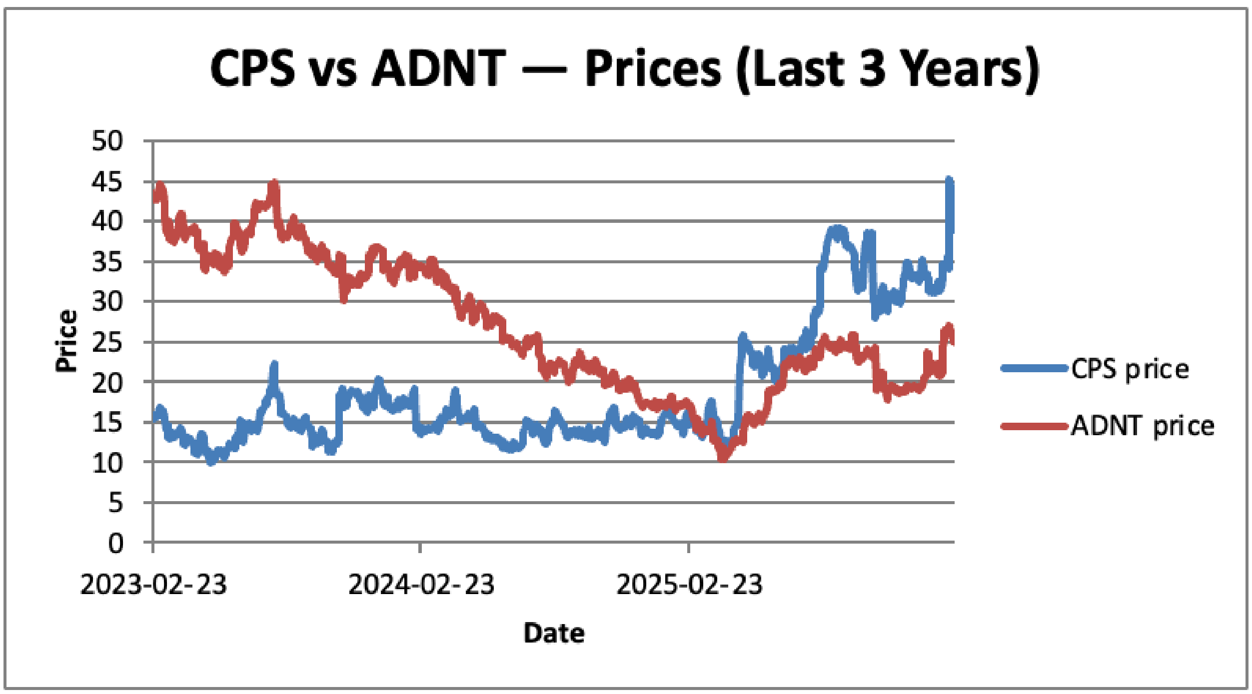
I analyzed how the stocks of different OEM companies and auto suppliers, some of which are CPS's peers, have behaved for the last year. After calculating the correlation of these stocks returns in relation to CPS, I got an understanding of which companies could be great short candidates for mitigating the CPS long thesis.

Ticker	Correlation_to_CPS	YTD_Performance_%
CPS	1.0	20.65050478897256
APTV	0.42447720696011654	2.5752123663883357
MGA	0.40538860847469294	21.972188721295467
DAN	0.3952374960156508	36.83366070417016
VC	0.3950980556251605	-3.0656416964378175
ALSN	0.39218695840908874	19.04183937032744
F	0.3654706833998583	4.41710629729504
LEA	0.36482149580174333	12.98372297212547

ADNT	0.340529080486024	31.407559110774873

Adient (ADNT), though only being the one with the 8th biggest correlation seems to be the best candidate given the company's profile.

Like CPS, ADNT is a Tier 1 supplier embedded in the vehicle design process, but they specialize in automotive seating systems, complete seat structures, mechanisms, foam, trim, and just-in-time assembly, serving virtually every major OEM globally. Their products are deeply integrated into vehicle programs in the same way CPS's sealing and fluid systems are, meaning they share the same macro drivers like OEM production volumes, commodity input costs, and the same automotive cycle.



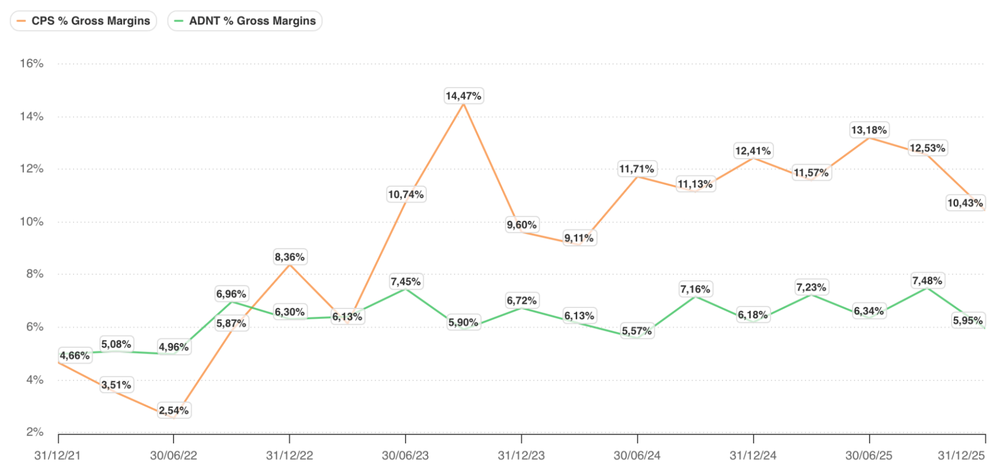
Both companies have the same commodity cost exposure and move with the same auto production cycle. When the macro is good, they both go up, hence the 0.34 correlation. But this is precisely where the pair trade logic makes sense, because the 0.66 non-correlated returns come from a difference in operating performance coming from the companies themselves.

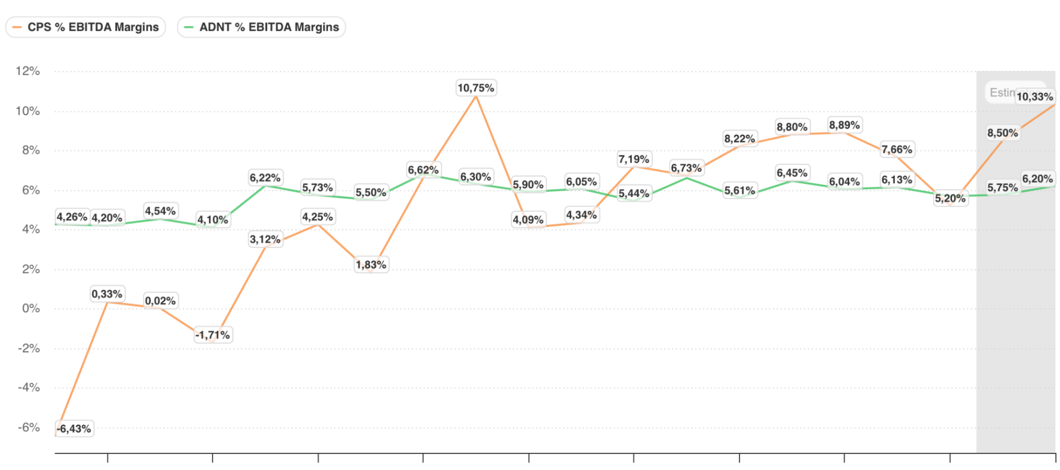
Auto supplier Adient cuts jobs, transfers roles in Europe to shave costs

By **Reuters**

April 22, 2024 8:46 AM CDT · Updated April 22, 2024

Restructuring started in Q2 2024 for ADNT.



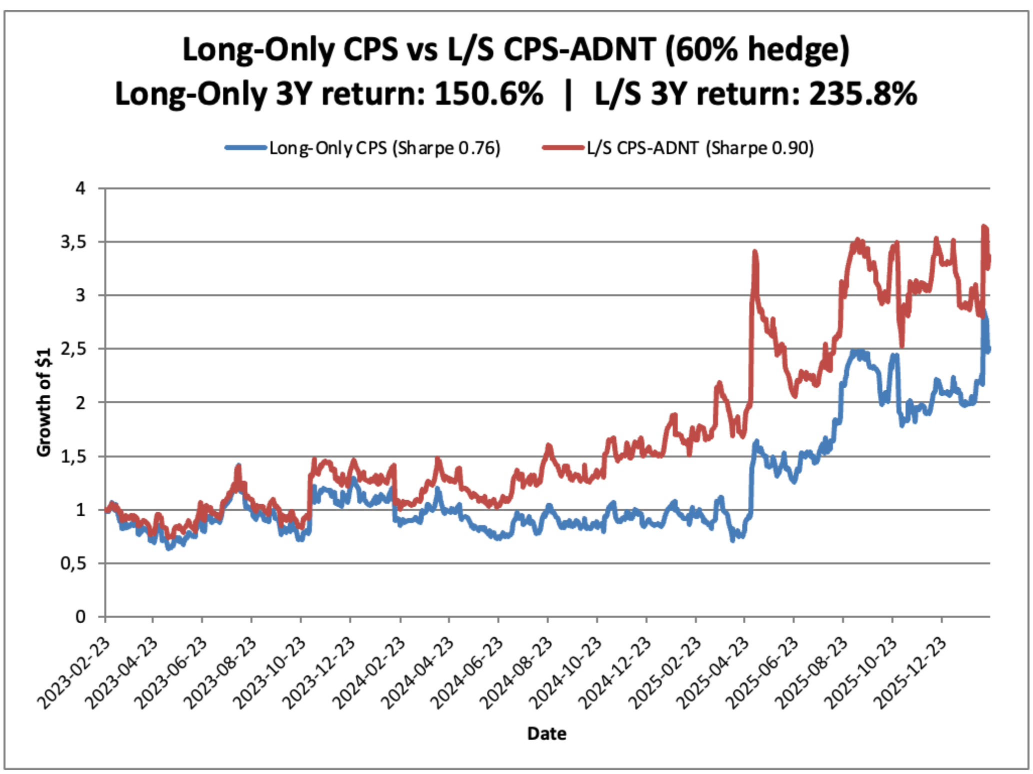


CPS has spent five years systematically rebuilding its cost structure and is now at 7.7% EBITDA margins and climbing and a clear path to double-digit margins in 2026. Adient, however, is spending heavily on restructuring and getting almost nothing for it in margin terms, with EBITDA margins stuck around 5.7% after essentially flat improvement year-over-year. Management's own guidance does not project margins reaching even the mid-single digits until beyond FY2026, and their path to a 7.5% target is explicitly contingent on executing a multi-year European restructuring whose timing depends largely on customer program decisions outside Adient's control.

CPS delivered $29 million of incremental EBITDA on flat revenue in 2025 through pure cost discipline. Adient spent more than four times that amount on restructuring and produced a 10 basis point margin improvement. One management team is proving its operational capability quarter by quarter. The other is still describing what it hopes to achieve with no solid plan or credibility to make that happen.

So if the auto cycle weakens, CPS has a demonstrated buffer of operational improvement to absorb the hit, with a leaner cost base that management has already proven it can defend. Adient does not have that buffer.

That divergence in resilience is where my alpha is coming from, while the shared macro exposure protects me from market-wide automotive downturns affecting the long side of the position.



Looking back over the last 3 years, a Long-Short position in CPS and ADNT would've produced an incredible 235% return

<u>Refinancing risk:</u>

The refinancing closes March 4 and its beginning a few days ago caused distress in CPS stock, which dropped around 10% with fears of "bad" refinancing interest rates.

If the refinancing fails or prices significantly worse than expected, say above 12%, the equity would fall sharply as the 2027 maturity risk returns. The cleanest hedge here is shorting the existing CPS first lien notes in the credit market, specifically the 13.5% Senior Secured First Lien Notes due 2027.

In a scenario where the refinancing fails or deteriorates, these notes would trade down as recovery value concerns resurface, and your short position profits precisely when your equity position is under the most stress.

<u>Valuation</u>

<u>Using a Free Cash Flow bridge:</u>

2025 Baseline: $16M (reported full-year FCF)

Add: cash interest reduction: +$12M (partial year benefit) The $1.1B notes with a 13% interest rate will be replaced by new ones at around 10% coupon or $19M in annualized savings, of which approximately $12M accrues in 2026 given the nine-month benefit window.

Add: working capital Stabilization: +$8M 2025 consumed $26M in launch-related tooling and inventory pre-build as discussed in the Q4 2025 figures. The drag continues in 2026 but moderates meaningfully as the earliest 2025 award programs begin reaching production run-rate.

Subtract: Capex step-up of around -$15M Management guided approximately $15M of incremental capex at the midpoint, directed at launch readiness and new business growth support.

Subtract: cash tax increase of -$10M Explicitly flagged on the Q4 call as global profitability rises and the deferred tax asset shield continues to burn off.

2026 Projected Free Cash Flow: $49M

For 2027, having the 2026 figure as a starting point:

Add: working capital release: +$34M The $298M of 2025 awards and $400M+ targeted in 2026 reach full production run-rate, converting the tooling and inventory pre-investment of prior years into operating cash inflow.

Add: EBITDA expansion: +$48M Incremental margin step-up from 2026 (EBITDA at 10%) toward 12% in 2027 on continued revenue growth, driven by new program contribution, lean manufacturing savings, and fixed cost absorption across a structurally leaner footprint.

Subtract: capex normalization: -$7M A modest further increase as the 2027 launch calendar peaks before normalizing in subsequent years.

Subtract: cash tax increase: -$12M Further escalation as profitability continues to improve globally and the deferred tax asset shield approaches exhaustion.

2027 Projected Free Cash Flow: $112M

Post-2027, the major one-time headwinds like working capital pre-investment, partial-year interest savings, and peak launch capex, have fully normalized. FCF growth from that point tracks the EBITDA expansion and the 3% annual revenue growth rate I project for the company (explained below) compounding with EBITDA margins that continue stepping up roughly 80bps per year toward 13.2% by 2030.

- **2028 = $139M FCF**
- **2029 = $168M FCF**
- **2030 = $198M FCF**

Considering the company's multiple of 10x-15x before their leverage/bankruptcy risk increased dramatically and before their margins went negative and considering that this 2030 CPS will be a much leaner, higher margin and well oiled machine than ever, I believe a 12x FCF multiple is reasonable for the stock.

This would imply a $2,376M market cap by Q4 of 2030, or a 27% CAGR for the stock from now until then. An amazing return and one that earns the stock a place in my portfolio.

The 12x multiple reflects the 2030 business, not the current one. By then CPS will be a company with solid competitive advantages, sub-2x net leverage, 13%+ EBITDA margins, and around $200M of annual FCF generation deserves to trade at a multiple consistent with quality industrial businesses, not the distressed discount the market applied through 2025.

Similarly, in a DCF model with the same assumptions, CPS would return around 24% CAGR from now until 2030.

Inputs						
Current stock price		$39.76	CPS			
Shares outstanding (million) (Y10)		17				
Perpetuity growth rate		2.0%				
Discount Rate		10%				
Cash flow estimates	***Year 2025***	***Year 2026***	***Year 2027***	***Year 2028***	***Year 2029***	***Year 2030***
Revenue	2,741.00	2,850.64	2,936.16	3,024.24	3,114.97	3,208.42
Revenue Growth	N/A	4%	3%	3%	3%	3%
FCF Margin		1.72%	3.81%	4.61%	5.41%	6.21%
FCF		49.00	112.00	139.55	168.66	199.39
Discounted FCFs	***Year 0***	***Year 1***	***Year 2***	***Year 3***	***Year 4***	***Year 5***
FCF		49.00	112.00	139.55	168.66	199.39
Present value		44.55	92.56	104.85	115.20	123.80
Sum discounted CFs		480.96				
Terminal value						
TV (at a 12x FCF exit multiple)		2,392.65				
Present Value TV		1,485.65				
Total equity value						
Total equity value		1,966.61				
Value per share						
Intrinsic Value		115.68				
Upside/downside		190.95%				
CAGR		23.81%				

<u>Using EBITDA:</u>

I build the valuation from the ground up, using conservative assumptions at each step and checking them against management's own targets.

Starting with 2025 revenue of $2.74 billion as the base, I project 3% annual growth through 2030, matching management's own 2026 guidance rate and consistent with industry forecasts for gradual auto production recovery toward pre-pandemic levels. CPS's own sandbagged 2026 forecast implies even lower industry volumes, suggesting the 3% revenue assumption has a genuine margin of safety especially given the China, EV/Hybrid and US car macro tailwinds.

	Revenue (M)	Revenue Grov	EBITA margin			
Y0	$2.741,00	3,00%	7,6%	Company	CPS	
Y1	$2.823,23	3,00%	10,0%	Rev. Growth Change		
y2	$2.907,93	3,00%	10,8%			
y3	$2.995,16	3,00%	11,6%			Net Debt (-)
y4	$3.085,02	3,00%	12,4%	Current Market Cap	$712,01	
y5	$3.177,57	3,00%	13,2%	Future Equity Value (M)	$2.755,51	$600,00
				Multiple	8	
Y5 EBITDA	$419,44					
				return (CAGR)	31,08%	

On margins, management targets double-digit EBITDA in 2026 at approximately 10%. I project 80 basis points of annual expansion through 2030, reaching approximately 13.2% by year five, in line with what management projects in the graph on page 11. This makes sense alongside the projected 20% and 30% ROIC for their two product lines and their cost improvement track record rather than extrapolating the most optimistic management scenario.

For the exit multiple, CPS historically traded at 10-12x EV/EBITDA during periods of healthy auto demand. Given the improved business quality, leaner cost structure, better business mix, EV/hybrid content tailwinds, China growth, and a cleaner balance sheet, a return to 10x is reasonable. I apply 8x as the conservative case.

With their cash flows normalizing to $112M in 2027 and growing alongside revenue and EBITDA until 2030 as mentioned above in my bridge analysis, I project that basically all this FCF will be used to pay off debt which will lead to a reduction from today's $1.1B to around $600M by 2030. $600M is conservative given the cumulative FCF projection but I believe it is better to aim for a safer than a sorry number.

At a 31% CAGR over five years, this is a compelling return profile for a business that has now resolved its primary balance sheet risk, has a proven management team executing operationally, and carries multiple upside catalysts that are not reflected in current consensus models.

<u>Conclusion</u>

I think about value and contrarian investing as finding a dollar trading for fifty cents and having the patience to wait for the gap to close. For most of 2025, CPS was a dollar trading for thirty cents because the market focused on the debt maturity and priced bankruptcy probability into the equity. The re-rating has begun, but the value gap is not yet closed.

At a $700 million market cap on a path to $280 million of EBITDA this year, with a clean capital structure through 2031 and growth catalysts the market has not fully priced, the opportunity remains compelling.

I maintain CPS as a core position in Ribeiro Capital. The risk/reward at current levels continues to justify the position size. I will monitor the refinancing closing, Q1 2026 margins for confirmation of the guidance trajectory, and the pace of new business program launches. This is a thesis that requires patience with the auto cycle, but the underlying business improvement has proven itself durable, and that is what earns a long-term hold.