Looking Ahead: Factors in Planning For Growth

Koppers has more than quadrupled its diverse operating base over the past decade by reinvesting the equivalent of nearly all of the cash flow it generates each year. The criteria that guide Koppers allocation of investment funds are set forth below.

Decisions on such investments are not made in a vacuum. They require that we study and understand the nature of change in the world in which we will be operating.

Between now and 1987, the number of U.S. citizens aged 25 through 44 will rise by 17.8 million, to make up 32% of the population. We believe that national priorities will have to be formulated to encourage substantial industry investments to provide jobs for a flood of new entrants into the work force.

Beyond that time, industry will need a high level of investment to raise productivity in the face of two developments: a sharp decline in the number of new workers and an increase in the number of people over the age of 60, who will represent 17% of the population.

Some further considerations:

- The U.S. and Canada have the only advanced economies in the world where war did not destroy the national infrastructure—such things as railroads and highways; the networks that carry water, petroleum goods and electricity; and, of course, manufacturing facilities. Other countries have rebuilt from the ground up, while the U.S. limps along with an economic machine that shows many signs of wear and obsolescence. Tremendous investments will be needed to keep our economy competitive.
- The growth rate of America's productivity has lagged seriously behind that of other countries. This has been cited as an underlying cause of our inflationary spiral. The phenomenon is self-nourishing: inflation eats away at return on investment; failure to invest adequately lowers productivity; reduced efficiency stimulates inflation. By the same token, we believe, the pattern can be turned around, through adequate investment in modern productive capacity.
- The fall-off in productivity can be traced to a number of factors—inadequate profits, inequitable tax laws and excessive regulations—that have encouraged current consumption of assets at the expense of the modernization and expansion needed to strengthen the nation's economy. This cause-effect relationship has become unmistakably clear, and Koppers management believes that public attitudes and government policies have begun to shift in ways that will motivate the actions necessary to rejuvenate the private industrial sector.

These are the considerations that dictate the shape of Koppers investment program. Because they tell us that the time for a revision of priorities is at hand, Koppers has positioned itself, through increasing capital expenditures for more than a decade, to serve as a supplier to a broad cross section of the nation's industrial base. Nearly 75% of the Company's sales now go to the capital equipment and nonresidential construction markets.

Some specifics:

Coke. Early in the 1970s, Koppers perceived that aging U S. capacity was strained to meet domestic demand for foundry coke, a fuel vital to the large metal-casting industry. There was, too, a significant possibility that capacity would be cut further by the pressures of environmental regulation and by plant deterioration, since 60% of U.S. foundry coke is produced in ovens that are at least 30 years old.

In 1976, the foundry industry indicated that, by 1985, its demand for coke would exceed coking capacity by 30%.

By the end of 1979, Koppers will have devoted nearly 15% of its total capital expenditures since 1974 to more than triple its foundry coke capacity and will have accounted for about 55% of the U.S. capacity added in that period.

Koppers Investment Criteria

Capital investments in diversified areas have been the key to Koppers growth. Through decentralization of the responsibilities for investment planning and growth, Koppers has cultivated a broad expertise within management for the initiation and development of growth opportunities. The Company's many interfaces with a wide array of American and overseas industry provide a broad horizon of investment possibilities.

Koppers growth program operates within the discipline of specific investment goals. Every appropriation for capital funds must be accompanied by satisfactory answers to three questions: Why should we do this at all? Why should we do it this way? Why should we do it at this time?

A potential investment is measured against the following tests:

- **Is it related to a business that Koppers knows through experience in raw material supply, market participation, or production or technology expertise?**
- **Does it give Koppers the potential to be a low-cost supplier in the industry served?**
- **Does it position Koppers so that it can attain a leadership role in the primary market segment served?**
- **Is it capable of producing an average 25% return (before income taxes and interest) on the total net investment during the first five years of operations?**
- **Will it generate enough cash flow for Koppers to recapture its total investment within five years?**

The growth program is carried out within an over-all Company strategy that limits debt to 35% of Koppers total capitalization.