

Carlisle Companies (CSL)

\$130.04 (As of 06/03/20)

Price Target (6-12 Months): **\$110.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 06/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: D

Summary

Carlisle's share price has underperformed the industry in the past six months. Low demand forecast, stemming from the coronavirus outbreak, along with softness in commercial aerospace and global automotive end-markets is a major concern. The company anticipates revenues from its commercial aerospace business to decline up to 50% in the second quarter. Also, it withdrew its revenue guidance for 2020 on end-market uncertainties, stemming from the pandemic. Rise in debt levels can increase its financial obligations. Its overseas business is exposed to headwinds like geopolitical issues and currency fluctuations. In the past 60 days, earnings estimates for the company have been lowered for the second and third quarters of 2020. However, it remains poised to benefit from strength in its commercial roofing products and medical end markets.

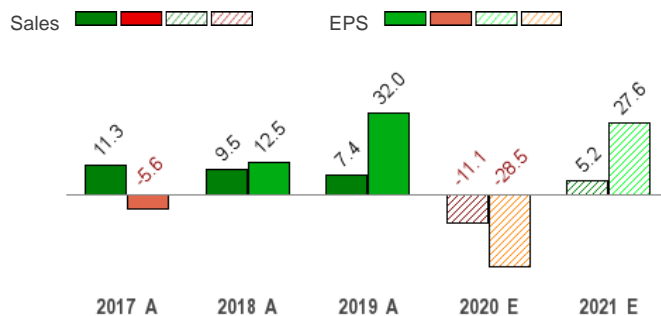
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$169.86 - \$97.55
20 Day Average Volume (sh)	472,588
Market Cap	\$7.1 B
YTD Price Change	-19.7%
Beta	0.82
Dividend / Div Yld	\$2.00 / 1.5%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 13% (219 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	27.7%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/28/2020
Earnings ESP	0.0%
P/E TTM	16.0
P/E F1	22.2
PEG F1	1.5
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,019 E	1,098 E	1,120 E	1,054 E	4,504 E
2020	1,030 A	983 E	1,175 E	1,121 E	4,280 E
2019	1,072 A	1,315 A	1,281 A	1,144 A	4,812 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.44 E	\$1.83 E	\$2.38 E	\$1.86 E	\$7.49 E
2020	\$1.29 A	\$1.06 E	\$2.00 E	\$1.72 E	\$5.87 E
2019	\$1.41 A	\$2.62 A	\$2.42 A	\$1.78 A	\$8.21 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

Overview

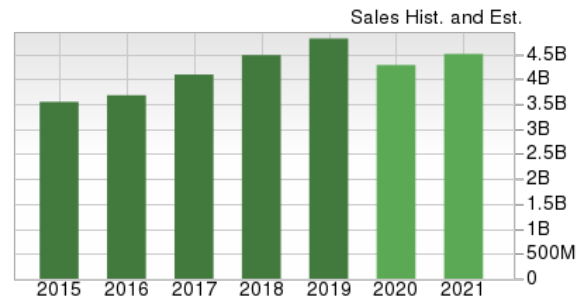
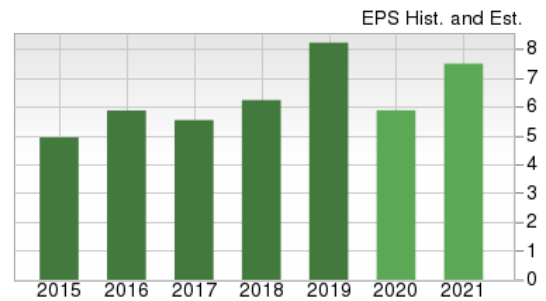
Headquartered in the Scottsdale, AZ, Carlisle Companies Incorporated is a diversified, global portfolio of niche brands and businesses with highly engineered and high margin products. It engages in the design, manufacture and sale of a wide range of roofing and waterproofing products, engineered products, finishing equipment and brake as well as friction system solutions. The company sells its products in the United States, Europe, Asia, Canada, Mexico, Latin America, the Middle East and Africa. Carlisle has restructured its business into four segments, which are discussed below:

Carlisle Construction Materials (CCM: 65.7% of first-quarter 2020 revenues): The segment manufactures a comprehensive range of roofing and waterproofing products for commercial and industrial buildings. Notably, through acquisitions in Netherland and Germany, the business has become the leading manufacturer and supplier of EPDM roofing systems in Europe.

Carlisle Interconnect Technologies (CIT: 21.8%): This segment is engaged in designing and manufacturing high-performance wire and cable, fiber optic cable, avionics trays, integrated systems as well as complex cable assemblies for applications in the aerospace industry. Also, it provides engineered products for the defense industry that include applications for radar systems, missiles and electronic warfare systems as well as test and measurement solutions. This apart, the segment offers medical interconnect products for the surgical, electrosurgical, patient monitoring and wire harness applications.

Carlisle Fluid Technologies (CFT: 5.7%): The segment is engaged in providing a comprehensive range of finishing equipment products for the automotive, refinishing, aerospace, construction, agriculture, marine and rail industries.

Carlisle Brake & Friction (CBF: 6.8%): The segment is engaged in offering innovative brake and friction system solutions for a wide range of motion control applications. The products manufactured by the segment include industrial brake assemblies, hydraulic control products, clutch and transmission applications as well as aftermarket replacement kits.



Reasons To Sell:

- ▼ In the first quarter of 2020, Carlisle's revenues declined 3.9% year over year and lagged estimates by 1.2%. The company's top-line performance was adversely impacted by weak demand environment in most of its end-markets on account of the coronavirus outbreak. In the first quarter, CBF was the most affected segment for the company, whose organic revenues declined 20.8% on a year-over-year basis. The segment's performance was adversely impacted by temporary operational shutdowns in China, Italy, and the U.K, owing to the coronavirus-related issues. Also, the segment is witnessing continued lower demand from its mining, agriculture and construction end markets. The company expects the issues to persist in the quarters ahead and affect its top-line performance. Moreover, softness in the global automotive end-market remains concerning for the CFT segment in the near term. Notably, the company predicts the CFT segment's revenues to fall by more than 20% in the second quarter. In addition, owing to the crisis in commercial aerospace end-markets, the company anticipates revenues from its commercial aerospace business to decline up to 50% in the second quarter. Notably, Carlisle has withdrawn its revenue guidance for 2020 on end-market uncertainties, owing to the outbreak.
- ▼ Carlisle's long-term debt in the last five years (2015-2019) increased 22.5% (CAGR). Notably, its long-term debt balance at the end of first-quarter 2020 was \$2,577.3 million, a surge of 61.9% from the 2019-end level. Also, the company's net interest expenses grew almost 16% over the same time frame. Fresh issuance in the quarters ahead is bound to increase the balance. Its total debt-to-total capital stood at 50.6% at the end of the first quarter versus 37.6% in the previous quarter. We believe, if unchecked, high debt levels can increase the company's financial obligations and prove detrimental to its profitability in the quarters ahead.
- ▼ Given its strong international presence, Carlisle's business is exposed to the financial and credit markets, including interest rate and currency exchange rate fluctuations as well as economic conditions of the places, where it operates. For instance, foreign exchange headwinds had an adverse impact of 0.2% and 0.3% on the company's sales in the fourth quarter of 2019 and the first quarter of 2020, respectively.
- ▼ In the past six months, Carlisle shares have lost 17.7% compared with the industry's decline of 11.9%. In addition, the Zacks Consensus Estimate for the company's earnings per share have decreased from \$2.61 per share to \$1.06 for the second quarter of 2020 and gone down from \$2.59 per share to \$2.00 for the third quarter in the past 60 days. Also, the Zacks Consensus Estimate for 2020 has moved down from \$8.50 to \$5.87.

Coronavirus related issues, weak near-term prospects across its CBF and CFT segments, unfavorable movements in foreign currencies and high debt levels might affect Carlisle's performance.

Risks

- Carlisle has been gaining from its diversified business structure, which enables it to tap opportunities and neutralize operating risks associated with a single market. Of late, one of the company's major segments, CCM, is witnessing significant improvement. For instance, in the first quarter of 2020, the segment's performance was strong, owing to stable demand for commercial roofing and new products, strong backlog, and growth in the architectural metals platform. Encouraged by continued strong demand, solid backlog and healthy forecast for the U.S infrastructure market, management expects the segment to show resilience during the coronavirus-led global market downturn. In addition, persistent strength in medical end markets, and the company's initiatives to enhance capabilities at the medical technologies platform have set the tone for strong future growth for the CIT segment. In the long run, for the CFT segment, product launches, acquisitions and the company's expansionary efforts in the sealants and adhesives market are likely to be beneficial. Also, the Carlisle Operating System ("COS") continues to deliver significant cost savings and make its business operations more efficient. Notably, COS successfully generated savings and efficiency gains equivalent to 1.4% of the company's sales in the first quarter.
 - Carlisle's global footprint, solid product portfolio and the ability to penetrate different markets are commendable. In fact, it is one of the leading manufacturers of a complete range of roofing and waterproofing products for commercial and industrial buildings. With the acquisitions in Germany and the Netherlands, the company has become one of the major European manufacturer and supplier of EPDM (rubber) roofing systems. Moreover, under the Vision 2025 program, it seeks to achieve above-market organic growth, pursue synergistic acquisitions and further leverage its COS culture to drive efficiencies through business processes beside returning cash to shareholders. It is worth noting here that the company deployed more than \$615 million on eight strategic acquisitions in 2019. In this regard, Carlisle's acquisition of Petersen (in January 2019) expanded the CCM segment's product offerings in the metal roofing platform. Also, the takeover has been enabling Carlisle to easily penetrate the markets of Arizona, Texas, the Midwest and Georgia. In addition, the acquired MicroConnex business (May 2019) has been strengthening the medical technologies platform at the CIT segment. Apart from this, the company's acquisition of Ecco Finishing (July 2019) has been boosting growth opportunities in CFT's Sealants and Adhesives platforms. Moreover, Carlisle's acquisition of Providien (in November 2019) has been strengthening its medical technologies platform in the CIT segment. Notably, acquisitions had a positive contribution of 3.4% of revenue growth in the first quarter. Carlisle remains highly committed toward increasing the wealth of its shareholders through share repurchase programs and dividends. In this regard, in the first quarter of 2020, the company repurchased \$120.6 million of shares and distributed dividends totaling \$28.3 million. It is worth noting that the quarterly dividend rate was hiked 25% in August 2019. Such diligent capital deployment strategies boost shareholders' wealth.
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Last Earnings Report

Carlisle Q1 Earnings Beat Estimates, Revenues Miss

Carlisle reported mixed first-quarter 2020 results, wherein earnings beat the Zacks Consensus Estimate, while revenues lagged the same.

The company's adjusted earnings were \$1.29 per share, beating the consensus estimate of \$1.01. However, the bottom line declined 8.5% on a year-over-year basis on account of lower revenues.

Quarter Ending **03/2020**

Report Date	Apr 21, 2020
Sales Surprise	-1.25%
EPS Surprise	27.72%
Quarterly EPS	1.29
Annual EPS (TTM)	8.11

Top-Line Details

In the reported quarter, Carlisle's revenues were \$1,030.2 million, down 3.9% year over year. The decline was attributable to a 7% fall in organic revenues and a 0.3% adverse impact of foreign currency translation, partially offset by a 3.4% benefit from acquired assets.

The top line missed the Zacks Consensus Estimate of \$1,043 million.

The company reports results under four segments — **Carlisle Construction Materials** ("CCM"), **Carlisle Interconnect Technologies** ("CIT"), **Carlisle Fluid Technologies** ("CFT"), and **Carlisle Brake & Friction** ("CBF"). The quarterly segmental results are briefly discussed below.

Revenues from CCM totaled \$676.4 million, increasing 0.8% year over year. It represented 65.7% of revenues. Organic revenues had a positive impact of 0.7% on revenues, backed by persistent strong demand for commercial roofing products and new products as well as architectural metals platform growth.

CIT revenues, representing 21.8% of total revenues, were \$224.5 million, down 8.9% year over year. The decline was primarily attributable to a 19.7% decline in organic revenues on account of the softness in commercial aerospace markets and the coronavirus outbreak, partially offset by strength in the medical markets.

CFT revenues, representing 5.7% of total revenues, were \$58.3 million, down 7.6% year over year, reflecting negative impacts of the coronavirus outbreak. In the first quarter, organic revenues declined 18.8% on account of lower sales volume, particularly in the general industrial and automotive sectors.

CBF revenues were \$71 million, decreasing 22.2% year over year. It represented 6.8% of revenues. Organic revenues in the quarter declined 20.8%. Also, coronavirus outbreak-related issues and unfavorable movements in foreign currencies had an adverse impact.

Operating Margin Details

In the reported quarter, Carlisle's cost of sales declined 4% to \$751.8 million. It represented 73% of net sales compared with 73.1% a year ago.

Selling and administrative expenses decreased 1.4% to \$161.9 million. It represented 15.7% of net sales compared with 15.3% in the year-ago quarter. R&D expenses totaled \$14.4 million, flat year over year.

Operating profit was \$102.7 million, down 10.5% year over year, while margin contracted 70 basis points to 10%. Margin was adversely impacted by lower sales volumes, wage inflation and higher raw material costs. These were partially offset by benefits from Carlisle Operating System, price realizations and lower expenses.

Balance Sheet and Cash Flow

Exiting the first quarter, Carlisle had cash and cash equivalents of \$1,187.7 million compared with \$351.2 million recorded as of Dec 31, 2019. Long-term debt was \$2,577.3 million compared with \$1,591.6 million at the end of 2019.

In the first three months of 2020, the company generated net cash of \$53.2 million from operating activities compared with \$109.8 million in the year-ago comparable period.

Outlook

On uncertainties, regarding the impacts of the coronavirus outbreak on financial and operating results, Carlisle has now withdrawn its revenue guidance for 2020.

Recent News

Dividend

On **Jun 1, 2020**, Carlisle paid out a quarterly cash dividend of 50 cents per share to shareholders of record as of May 15, 2020.

Valuation

Carlisle's shares are down 19.6% in the year-to-date period and decreased 4.5% over the trailing 12-month period. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector are down 15.1% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector are down 7.8%.

The S&P 500 Index has moved down 4.4% year to date and increased 9.1% in the past year.

The stock is currently trading at 8.64x forward 12-month EV/EBITDA, which compares to 23.88x for both the Zacks sub-industry and the Zacks sector and 12.31x for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.36x and as low as 7.81x, with a 5-year median of 9.52x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$110 price target reflects 16.78x forward 12-month earnings per share.

The table below shows summary valuation data for CSL.

Valuation Multiples - CSL					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA F12M	Current	8.64	23.88	23.88	12.31
	5-Year High	11.36	79.69	79.69	12.65
	5-Year Low	7.81	17.51	17.51	9.05
	5-Year Median	9.52	21.59	21.59	10.81
P/E F12M	Current	19.84	26.59	26.59	22.3
	5-Year High	23.99	26.59	26.59	22.3
	5-Year Low	10.94	15.76	15.76	15.23
	5-Year Median	17.09	18.34	18.34	17.49
EV/Sales F12M	Current	1.82	3.39	3.39	3.21
	5-Year High	2.08	4.1	4.1	3.52
	5-Year Low	1.38	2.53	2.53	2.28
	5-Year Median	1.77	3.39	3.39	2.82

As of 06/03/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (219 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
H. B. Fuller Company (FUL)	Neutral	4
General Electric Company (GE)	Neutral	3
Honeywell International Inc. (HON)	Neutral	3
Macquarie Infrastructure Company (MIC)	Neutral	3
3M Company (MMM)	Neutral	3
RPM International Inc. (RPM)	Neutral	4
Crane Company (CR)	Underperform	5
ITT Inc. (ITT)	Underperform	5

Industry Comparison Industry: Diversified Operations				Industry Peers		
	CSL	X Industry	S&P 500	CR	HON	ITT
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	5	3	5
VGM Score	B	-	-	D	D	C
Market Cap	7.14 B	4.51 B	22.50 B	3.49 B	107.63 B	5.23 B
# of Analysts	4	3	14	3	10	8
Dividend Yield	1.54%	1.80%	1.88%	2.85%	2.35%	1.12%
Value Score	C	-	-	D	C	C
Cash/Price	0.18	0.25	0.06	0.09	0.09	0.17
EV/EBITDA	9.84	9.02	12.98	12.18	12.26	8.36
PEG Ratio	1.48	3.21	3.05	NA	2.98	3.44
Price/Book (P/B)	2.84	1.04	3.11	2.48	6.02	2.59
Price/Cash Flow (P/CF)	10.78	6.85	12.18	7.56	15.50	11.78
P/E (F1)	22.15	20.48	22.19	16.07	22.14	23.85
Price/Sales (P/S)	1.50	0.78	2.40	1.08	2.97	1.86
Earnings Yield	4.51%	4.60%	4.31%	6.22%	4.52%	4.19%
Debt/Equity	1.02	0.77	0.76	0.60	0.65	0.00
Cash Flow (\$/share)	12.06	2.43	7.01	7.97	9.89	5.14
Growth Score	B	-	-	F	C	B
Hist. EPS Growth (3-5 yrs)	11.33%	10.44%	10.87%	10.44%	8.38%	10.27%
Proj. EPS Growth (F1/F0)	-28.53%	-21.63%	-10.74%	-37.71%	-15.11%	-33.36%
Curr. Cash Flow Growth	19.98%	2.77%	5.48%	-1.40%	-1.43%	13.73%
Hist. Cash Flow Growth (3-5 yrs)	13.96%	5.78%	8.55%	7.00%	5.69%	7.28%
Current Ratio	4.33	1.65	1.29	1.37	1.30	1.76
Debt/Capital	50.57%	42.26%	44.75%	37.44%	39.26%	0.00%
Net Margin	9.54%	3.62%	10.59%	3.50%	17.38%	12.03%
Return on Equity	17.88%	11.52%	16.29%	22.07%	33.60%	16.26%
Sales/Assets	0.84	0.76	0.55	0.76	0.62	0.68
Proj. Sales Growth (F1/F0)	-11.05%	0.00%	-2.65%	-13.88%	-13.30%	-16.22%
Momentum Score	D	-	-	B	D	D
Daily Price Chg	5.60%	1.93%	2.42%	5.18%	3.37%	5.34%
1 Week Price Chg	3.88%	2.60%	4.60%	7.46%	4.79%	6.34%
4 Week Price Chg	16.13%	10.17%	13.40%	21.64%	15.27%	26.22%
12 Week Price Chg	-2.88%	-3.33%	12.78%	4.22%	-0.03%	26.33%
52 Week Price Chg	-4.57%	-21.83%	0.89%	-25.14%	-9.48%	0.53%
20 Day Average Volume	472,588	73,935	2,528,787	394,611	3,641,166	698,224
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.14%	0.00%	-4.34%	-9.93%
(F1) EPS Est 12 week change	-32.46%	-33.53%	-16.00%	-40.79%	-21.34%	-34.61%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.02%	0.00%	-11.93%	0.08%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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