

Carlisle Companies (CSL)

\$127.86 (As of 08/11/20)

Price Target (6-12 Months): **\$134.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

Carlisle is poised to benefit from strength in the U.S. reroofing and medical end markets along with strong backlog and acquired assets. Cost savings from the Carlisle Operating System and enhanced operational efficiencies are expected to boost its competency. Also, it remains committed toward increasing the wealth of its shareholders through share repurchase programs and dividends. However, low demand forecast, stemming from the coronavirus outbreak along with softness in commercial aerospace and global automotive end-markets remains a major concern. The company has not provided revenue guidance for 2020 on end-market uncertainties due to the pandemic. Owing to international exposure, its overseas business is exposed to geopolitical issues and currency fluctuations. In the past six months, its shares have underperformed the industry.

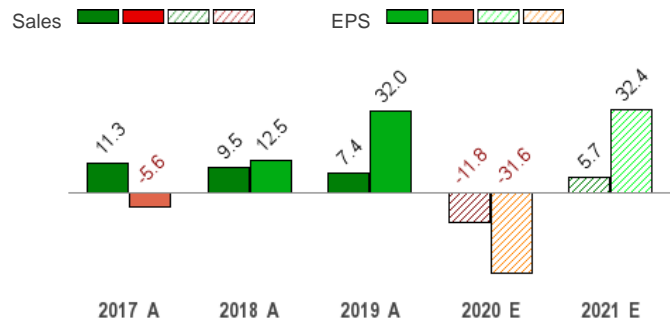
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$169.86 - \$97.55
20 Day Average Volume (sh)	534,330
Market Cap	\$7.0 B
YTD Price Change	-21.0%
Beta	0.81
Dividend / Div Yld	\$2.10 / 1.6%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 24% (192 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	51.9%
Last Sales Surprise	2.6%
EPS F1 Est- 4 week change	2.1%
Expected Report Date	10/27/2020
Earnings ESP	0.0%
P/E TTM	18.0
P/E F1	22.8
PEG F1	1.5
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	980 E	1,129 E	1,186 E	1,073 E	4,487 E
2020	1,030 A	1,024 A	1,126 E	1,065 E	4,246 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	\$1.33 E	\$2.08 E	\$2.31 E	\$1.75 E	\$7.44 E
2020	\$1.29 A	\$1.61 A	\$1.74 E	\$1.43 E	\$5.62 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 08/11/2020. The reports text is as of 08/12/2020.

Overview

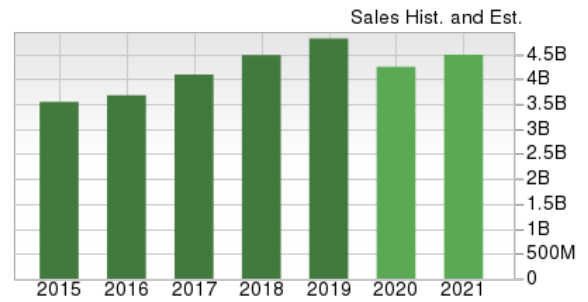
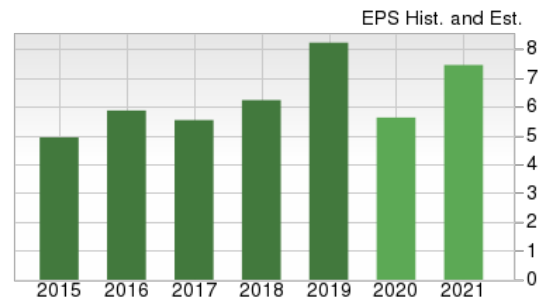
Headquartered in the Scottsdale, AZ, Carlisle Companies Incorporated is a diversified, global portfolio of niche brands and businesses with highly engineered and high margin products. It engages in the design, manufacture and sale of a wide range of roofing and waterproofing products, engineered products, 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: 71.8% of second-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: 18%): 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: 4.5%): 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: 5.7%): 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 Buy:

- ▲ Carlisle's diversified business structure enables it to tap opportunities and neutralize operating risks associated with a single market. The company believes that one of its major segments, CCM, will benefit from strengthening reroofing market in the United States, with positive trends continuing through 2025. Encouraged by solid backlog, strength in the U.S infrastructure market and growth in the architectural metals platform management expects the segment to show resilience during the coronavirus outbreak-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. Notably, in the second quarter, organic revenues for the medical technologies business increased 15% year over year, driven by surge in demand for COVID-19 outbreak-related patient monitoring equipment. In the long run, for the CFT segment, product launches and acquisitions in the company's sealants and adhesives business are likely to be beneficial. 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. Notably, COS successfully generated savings and efficiency gains in excess of 1% of the company's sales in the second quarter.
- ▲ Carlisle's global footprint, solid product portfolio and the ability to penetrate different markets through acquisitions are commendable. The company has become one of the major European manufacturers and suppliers of EPDM (rubber) roofing systems with the acquisitions in Germany and the Netherlands. Notably, in 2019, the company deployed more than \$615 million on eight acquisitions. 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 enabled 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% and 1.9% of revenue growth in the first and second quarters of 2020, respectively.
- ▲ Carlisle remains highly committed toward increasing the wealth of its shareholders through share-repurchase programs and dividends. In this regard, in the second quarter of 2020, the company repurchased \$71.2 million of shares and distributed dividends totaling \$27.7 million. It is worth noting that the quarterly dividend rate was hiked 5% in August 2020. Such diligent capital deployment strategies boost shareholders' wealth.

Carlisle is set to benefit from its strength in the U.S. infrastructure market apart from its initiatives to enhance capabilities at the medical technologies platform and meaningful inorganic moves.

Reasons To Sell:

- ▼ In the second quarter of 2020, Carlisle's revenues declined 22.1% (down 23.8% on an organic basis) on a year-over-year basis. The decline was attributable to weak demand environment in most of its end-markets on account of the coronavirus outbreak. In the second quarter, the CIT segment's organic revenues declined 33.5% on a year-over-year basis. The segment's performance was adversely impacted by persistent weakness in the commercial aerospace business, which declined about 50% year over year. The company expects a similar year-over-year decline in revenues for the commercial aerospace business in the third quarter due to weak outlook for global air transport operations. Overall, it anticipates the CIT segment's revenues to fall by more than 20% in the third quarter. CBF segment's organic revenues declined 31.1% year over year due to continued lower demand from its vehicle, mining, agriculture and construction end markets. Notably, it anticipates the CBF segment's revenues to fall in the mid-teen range in the third quarter. Moreover, softness in the global automotive end-market remains concerning for the CFT segment in the near term. The company expects a fall of 20% in the CFT segment's revenues in the third quarter. Notably, Carlisle has not provided revenue guidance for 2020 on end-market uncertainties due to the outbreak.
- ▼ The company's long-term debt in the last five years (2015-2019) increased 22.5% (CAGR). Notably, its long-term debt balance (including current portion) at the end of second-quarter 2020 was \$2,078 million, marking a surge of 30.6% from the 2019-end level. Also, the company's net interest expenses grew 20% over the same time frame. Further increase in debt levels can raise the company's financial obligations. Moreover, the company's ability to meet its debt obligations based on its current income has declined over the past quarter. Notably, its times interest earned ratio is 7.6 at the end of the second quarter, lower than 9.3 recorded at the end of the previous quarter. High debt levels, if unchecked, 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 0.3% and 0.2% on the company's sales in the first and the second quarters of 2020, respectively. In the past six months, Carlisle shares have lost 21% compared with the industry's decline of 11%.

Weak near-term prospects across its CIT, CBF and CFT segments due to coronavirus outbreak, unfavorable movements in foreign currencies, and high debt levels might affect Carlisle's performance.

Last Earnings Report

Carlisle Q2 Earnings & Revenues Surpass Estimates

Carlisle reported better-than-expected results in second-quarter 2020, wherein both earnings and revenues beat the Zacks Consensus Estimate.

The company's adjusted earnings were \$1.61 per share, beating the consensus estimate of \$1.06. However, the bottom line declined 38.5% on a year-over-year basis on account of lower revenues.

Quarter Ending **06/2020**

Report Date	Jul 21, 2020
Sales Surprise	2.63%
EPS Surprise	51.89%
Quarterly EPS	1.61
Annual EPS (TTM)	7.10

Inside the Headlines

In the reported quarter, Carlisle's revenues were \$1,024.2 million, down 22.1% year over year. The decline was attributable to a 23.8% fall in organic revenues and 0.2% adverse impact of foreign currency translation, partially offset by 1.9% benefit from acquired assets.

The top line surpassed the Zacks Consensus Estimate of \$998 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 \$734.9 million, decreasing 19.7% year over year. It represented 71.8% of the company's revenues. Organic revenues declined 19.7% due to a decline in sales volume across most product categories.

CIT revenues, representing 18% of total revenues, were \$184 million, down 25% year over year. The decline was primarily attributable to a 33.5% decline in organic revenues on account of the significant order decline from Aerospace customers amid the coronavirus outbreak, partially offset by acquisitions and strength in the medical markets.

CFT revenues, representing 4.5% of total revenues, were \$46.5 million, down 30.9% year over year, reflecting negative impacts of the coronavirus outbreak. In the second quarter, organic revenues declined 34.2% on account of lower sales volume, particularly in the transportation and automotive refinish markets.

CBF revenues were \$58.8 million, decreasing 32.5% year over year. It represented 5.7% of revenues. Organic revenues in the quarter declined 31.1%. Softness in vehicle end markets and unfavorable movements in foreign currencies had an adverse impact.

Operating Margin Details

In the reported quarter, Carlisle's cost of sales declined 19.3% to \$743 million. It represented 72.5% of net sales compared with 70% a year ago.

Selling and administrative expenses decreased 11.1% to \$153.1 million. It represented 14.9% of net sales compared with 13.1% in the year-ago quarter. R&D expenses totaled \$14.1 million, down 8.4% year over year.

Operating profit was \$113.4 million, down 45.3% year over year, while margin contracted 470 basis points to 11.1%. Margin was adversely impacted by lower sales volumes, wage inflation, higher raw material costs and higher restructuring costs. These were partially offset by benefits from Carlisle Operating System and lower expenses.

Balance Sheet and Cash Flow

Exiting the second quarter, Carlisle had cash and cash equivalents of \$737.7 million compared with \$351.2 million recorded as of Dec 31, 2019. Long-term debt (including current portion) was \$2,078.0 million compared with \$1,591.6 million at the end of 2019.

In the first six months of 2020, the company generated net cash of \$226.3 million from operating activities compared with \$197.1 million in the year-ago comparable period.

Outlook

On uncertainties, regarding the impacts of the coronavirus outbreak on financial and operating results, Carlisle has not provided its earnings and revenue guidance for 2020.

However, the company anticipates generating free cash flow conversion of more than 125% in 2020. For the year, Carlisle anticipates incurring capital expenditure of \$100-110 million. Its net interest expenses are expected to be \$75 million.

Recent News

Dividend

On **Aug 6, 2020**, Carlisle's board of directors approved the payment of a quarterly dividend of 52.5 cents per share to shareholders of record as of Aug 18, 2020. The payment will be made on Sep 1. Notably, this marks the hike of the quarterly dividend rate by 5%.

Valuation

Carlisle's shares are down 21% in the year-to-date period and decreased 10.7% over the trailing 12-month period. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector are down 7.9% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector are up 0.4%.

The S&P 500 Index has moved up 4.1% year to date and increased 14.9% in the past year.

The stock is currently trading at 18.51x forward 12-month earnings per share, which compares to 26.81x for both the Zacks sub-industry and the Zacks sector and 22.8x for the S&P 500 index.

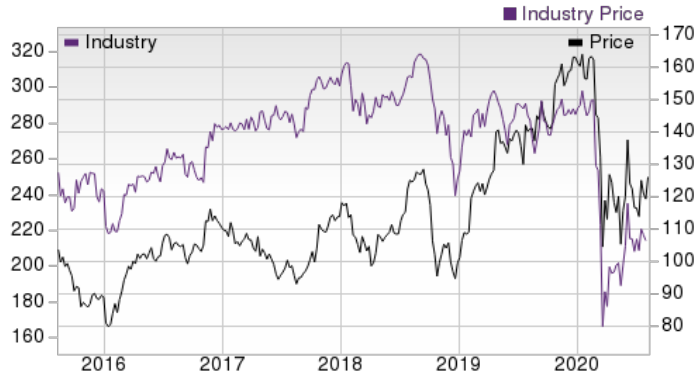
Over the past five years, the stock has traded as high as 23.99x and as low as 10.94x, with a 5-year median of 17.08x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$134 price target reflects 19.46x forward 12-month earnings per share.

The table below shows summary valuation data for CSL.

Valuation Multiples - CSL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.51	26.81	26.81	22.8
	5-Year High	23.99	26.81	26.81	22.8
	5-Year Low	10.94	15.76	15.76	15.25
	5-Year Median	17.08	18.47	18.47	17.58
P/Sales F12M	Current	1.59	3.84	3.84	3.67
	5-Year High	1.95	3.84	3.84	3.67
	5-Year Low	1.11	2.29	2.29	2.53
	5-Year Median	1.58	3.03	3.03	3.05

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (192 out of 253)



Top Peers

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

Industry Comparison Industry: Diversified Operations				Industry Peers		
	CSL	X Industry	S&P 500	CR	HON	ITT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	C	A
Market Cap	6.98 B	5.14 B	23.61 B	3.63 B	112.48 B	5.47 B
# of Analysts	4	4	14	3	10	8
Dividend Yield	1.56%	1.93%	1.69%	2.75%	2.25%	1.07%
Value Score	A	-	-	A	B	B
Cash/Price	0.11	0.25	0.07	0.17	0.14	0.16
EV/EBITDA	9.60	8.64	13.32	11.72	12.77	8.87
PEG Ratio	1.52	2.55	2.95	NA	3.01	3.31
Price/Book (P/B)	2.77	1.01	3.22	2.55	6.12	2.66
Price/Cash Flow (P/CF)	10.60	7.08	12.79	7.84	16.20	12.32
P/E (F1)	22.80	19.66	22.02	16.73	23.15	22.95
Price/Sales (P/S)	1.56	0.91	2.57	1.18	3.26	2.10
Earnings Yield	4.40%	4.40%	4.29%	5.98%	4.32%	4.36%
Debt/Equity	0.83	0.83	0.77	0.59	0.96	0.00
Cash Flow (\$/share)	12.06	2.35	6.94	7.97	9.89	5.14
Growth Score	B	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	10.24%	10.24%	10.41%	9.34%	7.45%	10.77%
Proj. EPS Growth (F1/F0)	-31.58%	-22.68%	-6.51%	-37.87%	-15.15%	-27.56%
Curr. Cash Flow Growth	19.98%	9.67%	5.22%	-1.40%	-1.43%	13.73%
Hist. Cash Flow Growth (3-5 yrs)	13.96%	7.02%	8.55%	7.00%	5.69%	7.28%
Current Ratio	3.51	1.64	1.34	1.33	1.63	1.93
Debt/Capital	45.22%	45.22%	44.59%	37.18%	48.93%	0.00%
Net Margin	8.43%	2.97%	10.13%	1.22%	16.94%	12.26%
Return on Equity	15.60%	10.35%	14.59%	19.07%	29.93%	14.40%
Sales/Assets	0.77	0.73	0.51	0.70	0.58	0.63
Proj. Sales Growth (F1/F0)	-11.76%	-0.72%	-1.45%	-12.58%	-12.89%	-16.83%
Momentum Score	C	-	-	F	D	A
Daily Price Chg	0.30%	0.13%	-0.17%	0.21%	0.53%	1.28%
1 Week Price Chg	5.74%	4.01%	2.30%	6.54%	3.84%	4.54%
4 Week Price Chg	9.33%	3.63%	6.41%	7.66%	8.22%	6.90%
12 Week Price Chg	11.13%	13.40%	15.42%	23.86%	21.47%	19.76%
52 Week Price Chg	-10.72%	-17.27%	2.88%	-19.51%	-4.58%	13.25%
20 Day Average Volume	534,330	53,516	2,007,486	271,115	3,301,368	507,763
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.50%
(F1) EPS Est 4 week change	2.10%	0.00%	1.84%	-0.27%	-0.04%	9.52%
(F1) EPS Est 12 week change	0.00%	0.00%	2.40%	-0.27%	-0.33%	2.46%
(Q1) EPS Est Mthly Chg	-12.36%	0.00%	0.72%	-2.66%	-7.15%	8.37%

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	A
Growth Score	B
Momentum Score	C
VGM Score	A

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.

Disclosures

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