

Carlisle Companies (CSL)

\$163.31 (As of 02/17/20)

Price Target (6-12 Months): **\$172.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/15/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: D

Summary

In fourth-quarter 2019, Carlisle's earnings surpassed the Zacks Consensus Estimate by 12.7%. Over the past year, its shares have outperformed the industry. Strength in aerospace and medical markets, and solid medical technologies platform set the tone for robust growth. The company is likely to benefit from acquired assets and robust prospects in the North American non-residential construction markets. Also, cost savings from the Carlisle Operating System and enhanced operational efficiencies are expected to boost competency. However, difficult off-highway vehicle market conditions are concerning for its CBF segment. Also, its overseas business is exposed to headwinds like geopolitical issues and currency fluctuations. High costs and rise in debts might adversely impact its profitability.

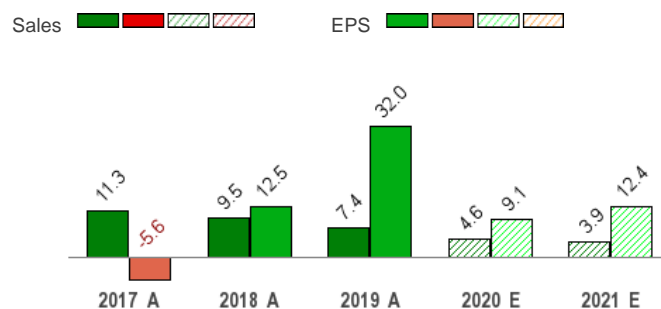
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$169.86 - \$119.11 |
| 20 Day Average Volume (sh) | 412,474 |
| Market Cap | \$9.1 B |
| YTD Price Change | 0.9% |
| Beta | 1.01 |
| Dividend / Div Yld | \$2.00 / 1.2% |
| Industry | Diversified Operations |
| Zacks Industry Rank | Bottom 22% (200 out of 255) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------|
| Last EPS Surprise | 12.7% |
| Last Sales Surprise | 1.1% |
| EPS F1 Est- 4 week change | 0.1% |
| Expected Report Date | NA |
| Earnings ESP | 0.0% |
| P/E TTM | 19.8 |
| P/E F1 | 18.2 |
| PEG F1 | 1.2 |
| P/S TTM | 1.9 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 1,126 E | 1,434 E | 1,390 E | 1,245 E | 5,231 E |
| 2020 | 1,076 E | 1,377 E | 1,349 E | 1,222 E | 5,033 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 | \$1.64 E | \$3.14 E | \$2.89 E | \$2.24 E | \$10.07 E |
| 2020 | \$1.25 E | \$2.87 E | \$2.73 E | \$2.13 E | \$8.96 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 02/17/2020. The reports text is as of 02/18/2020.

Overview

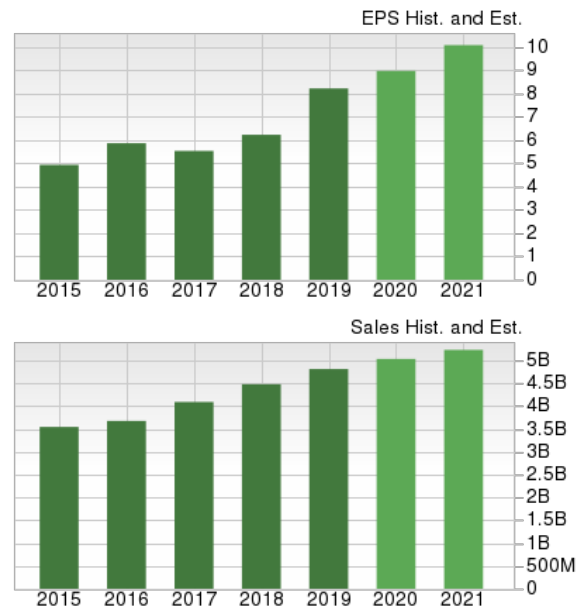
Headquartered in the Scottsdale, AZ, Carlisle Companies Incorporated is a diversified, global portfolio of niche brands and businesses with highly engineered and high margin products. It engages in the design, manufacture and sale of a wide range of roofing and waterproofing products, engineered products, 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: 65.9% of fourth-quarter 2019 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: 20.9%): 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: 6.9%): 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: 6.3%): 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:

- ▲ Over the past year, Carlisle's shares have gained 34.1% compared with 15.1% growth recorded by the industry. The company 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 fourth quarter of 2019, the segment's performance was strong owing to impressive organic growth, high volume of reroofing projects in the commercial construction markets, strong backlog, and solid contribution from the Petersen acquisition (completed in January 2019). Encouraged by continued strong demand, solid backlog in North America, accretive acquisitions and healthy forecast for North American non-residential new construction market, management expects the segment to grow in mid-single digits in 2020. In addition, persistent strength in aerospace and medical markets, and its initiatives to enhance capabilities at the medical technologies platform have set the tone for strong future growth for CIT segment. Notably, Carlisle expects CIT segment to grow in high-single-digit range in 2020. For, CFT segment, new product launches, acquisitions, and the company's expansionary efforts in the sealants and adhesives market are likely to act as tailwinds. The company expects CFT segment to grow in low- to mid-single digit range in 2020. Also, in light of the continued operational improvements, including cost savings from the Carlisle Operating System (COS) and enhanced operational efficiencies, the company expects overall revenue growth to be in the mid-single digit for 2020.
- ▲ Carlisle's global footprint, solid product portfolio and the ability to penetrate in 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, further leverage its COS culture to drive efficiencies through business processes besides returning cash to shareholders. It's 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) has expanded 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. This apart, 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 5.1% of revenue growth in the fourth quarter.
- ▲ Carlisle remains highly committed toward increasing wealth of its shareholders through share repurchase programs and dividends. In this regard, in 2019, the company repurchased approximately \$382.1 million of shares and distributed dividends totaling \$102.9 million. It is worth noting that the quarterly dividend rate was hiked 25% in August 2019. Such diligent capital deployment strategies boost shareholders' wealth.

Carlisle is set to benefit from its healthy prospects in North American non-residential construction markets and meaningful inorganic moves.

Reasons To Sell:

- ▼ Carlisle is experiencing softness in the CBF segment. The segment's organic sales declined 16.6% in the fourth quarter on a year-over-year basis. Notably, it is experiencing lower volumes of sales due to difficult off-highway vehicle market conditions and destocking activities at major OEMs. As a matter of fact, the company expects the softness to persist in 2020. Notably, for CBF, it expects sales to be down in mid-single digit range in 2020. In addition, 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 where it operates. For instance, foreign exchange headwinds had an adverse impact of 0.4% and 0.2% on the company's sales in the third and fourth quarter, respectively.
- ▼ Carlisle is currently dealing with rising costs and expenses. For instance, in the third and the fourth quarter of 2019, its total cost of goods sold increased 3.8% and 4.6%, on a year-over-year basis. Also, selling and administrative expenses jumped 6.2% and 2.3% in third and fourth quarters of 2019, respectively. In addition, in third and fourth quarters, the company's R&D expenditures increased 23.6% and 8.2%, respectively. As a matter of fact, increase in costs and expenses (on account of raw material and freight cost inflation and others) might continue to dent profits and result in margin contraction in the upcoming quarters. Notably, the cost of raw materials is a key component in the cost of products for Carlisle, particularly in the CCM segment.
- ▼ Carlisle's long-term debt in the last five years (2015-2019) increased 16.3% (CAGR). Notably, its long-term debt balance at the end of fourth-quarter 2019 was approximately \$1,591.6 million, higher than the 2018-end level figure. Also, fresh issuance in the quarters ahead is bound to increase this balance. We believe, if unchecked, high debt levels can increase the company's financial obligations and prove detrimental to its profitability in the quarters ahead. In addition, analysts have become increasingly bearish about the company over the past 30 days. Its earnings estimate for the first quarter of 2020 has decreased from \$1.44 to \$1.25 on account of one downward estimate revision versus none upward. In addition, the Zacks Consensus Estimate for 2020 has gone down from \$9.05 to \$8.96.

Weak CBF segment, unfavorable movements in foreign currencies and high debt levels might affect Carlisle's near-term profitability.

Last Earnings Report

Carlisle Q4 Earnings & Revenues Surpass Estimates

Carlisle reported strong fourth-quarter 2019 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate.

The company's adjusted earnings came in at \$1.78 per share, topping the consensus estimate of \$1.58. Also, the bottom line increased 21% on a year-over-year basis.

In 2019, the company's adjusted earnings were \$8.21 per share, up 39.6% from 2018.

Quarter Ending **12/2019**

| Report Date | Feb 06, 2020 |
|------------------|--------------|
| Sales Surprise | 1.08% |
| EPS Surprise | 12.66% |
| Quarterly EPS | 1.78 |
| Annual EPS (TTM) | 8.23 |

Inside the Headlines

In the reported quarter, Carlisle's net sales were \$1,144.3 million, up 6.2% year over year. The improvement was driven by 6.4% benefit from acquired assets, partially offset by 0.2% adverse impact of foreign currency translation.

The top line beat the Zacks Consensus Estimate of \$1,132 million.

In 2019, Carlisle generated net sales of \$4,811.6 million, up 7.4% on a year-over-year basis.

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 \$753.7 million, increasing 11.4% year over year. It represented 65.9% of net sales. Organic sales had a positive impact of 5.1% on revenues, backed by strong demand for commercial roofing products and new products.

CIT revenues, representing 20.9% of net sales, were \$239.2 million, up 3.3% year over year. The improvement was driven by benefits from acquired assets and strength in commercial aerospace and medical markets, partially offset by 3.1% decline in organic sales.

CFT revenues, representing 6.9% of net sales, were \$79.5 million, down 3.5% year over year. In the fourth quarter, organic sales declined 16.1% on account of lower sales volume, particularly in the general industrial and automotive sectors, particularly in China.

CBF revenues were \$71.9 million, decreasing 17.4% year over year. It represented 6.3% of net sales. Organic sales declined 16.6% and unfavorable movements in foreign currencies had an adverse impact.

Operating Margin Improves Y/Y

In the reported quarter, Carlisle's cost of sales jumped 4.6% to \$835.6 million. It represented 73% of net sales compared with 74.1% a year ago.

Selling and administrative expenses increased 2.3% to \$155.6 million. It represented 13.6% of net sales compared with 14.1% in the year-ago quarter. R&D expenses totaled \$15.9 million, up from \$14.7 million.

Operating profit was \$141.3 million, up 23.3% year over year, while margin expanded 170 basis points to 12.3%. Margin benefited from improved sales volume, Carlisle Operating System and price realizations. These were partially offset by wage inflation and higher raw material costs.

Balance Sheet and Cash Flow

Exiting the fourth quarter, Carlisle had cash and cash equivalents of \$351.2 million compared with \$803.6 million recorded on Dec 31, 2018. Long-term debt was \$1,591.6 million compared with \$1,587.8 million at the end of 2018.

In 2019, the company generated net cash of \$703.1 million from operating activities, compared with \$339.2 million in 2018.

Outlook

For 2020, on a segmental basis, sales are anticipated to grow in mid-single digit range for CCM, in a high-single digit range for CIT. For CFT, the company expects sales to be up in low-to-mid single digit range. However, for CBF, it expects sales to be down in the mid-single digits range.

Recent News

Pricing of Senior Notes

On **Feb 13, 2020**, Carlisle priced a public offering of senior notes, per market conditions. As communicated by the company, the offerings comprise \$750 million in total principal amount of its 2.750% notes set to mature in 2030.

Funds raised from the notes offering are likely to be used by Carlisle for redeeming all of its outstanding 5.125% senior notes due 2020 apart from meeting general corporate expenses.

Dividend

On **Feb 4, 2020**, Carlisle's board of directors approved payout of a quarterly cash dividend of 50 cents per share to shareholders of record as on Feb 20, 2020. The payment will be made on Mar 2, 2020.

Acquisition of Providien

On **Nov 20, 2019**, Carlisle completed the acquisition of Providien LLC. Financial terms of the deal were kept under wraps. The buyout deal was originally announced on Oct 21.

Based in San Diego, Providien is a major provider of manufacturing solutions for global medical device OEMs.

Carlisle will work on integrating Providien into its CIT segment. Notably, the company believes that the buyout will enhance the CIT segment's capabilities at the medical technologies platform by enhancing its product portfolio for medical markets — including drug delivery, oncology, robotics and kyphoplasty.

Valuation

Carlisle's shares are up 0.9% and 34.1% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector are up 3.6% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector have moved up 15.1%.

The S&P 500 Index has moved up 4.9% in the year-to-date period and 20.7% in the past year.

The stock is currently trading at 10.75x forward 12-month EV/EBITDA, which compares to 26.85x for both the Zacks sub-industry and the Zacks sector and 12.66x for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.02x and as low as 8.03x, with a 5-year median of 9.58x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$172 price target reflects 18.88x 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 | 10.75 | 26.85 | 26.85 | 12.66 |
| | 5-Year High | 11.02 | 81.18 | 81.18 | 12.66 |
| | 5-Year Low | 8.03 | 17.86 | 17.86 | 9.08 |
| | 5-Year Median | 9.58 | 22.27 | 22.27 | 10.79 |
| P/E F12M | Current | 17.93 | 20.36 | 20.36 | 19.35 |
| | 5-Year High | 23.99 | 20.36 | 20.36 | 19.35 |
| | 5-Year Low | 13.49 | 15.31 | 15.31 | 15.18 |
| | 5-Year Median | 17.2 | 17.76 | 17.76 | 17.47 |
| EV/Sales F12M | Current | 2.07 | 4.22 | 4.22 | 3.26 |
| | 5-Year High | 2.07 | 4.24 | 4.24 | 3.37 |
| | 5-Year Low | 1.38 | 2.82 | 2.82 | 2.3 |
| | 5-Year Median | 1.76 | 3.65 | 3.65 | 2.79 |

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Bottom 22% (200 out of 255)



Top Peers

| | |
|--|--------------|
| Crane Company (CR) | Neutral |
| Honeywell International Inc. (HON) | Neutral |
| ITT Inc. (ITT) | Neutral |
| Macquarie Infrastructure Company (MIC) | Neutral |
| 3M Company (MMM) | Neutral |
| RPM International Inc. (RPM) | Neutral |
| H. B. Fuller Company (FUL) | Underperform |
| United Technologies Corporation (UTX) | Underperform |

| Industry Comparison Industry: Diversified Operations | | | | Industry Peers | | |
|--|-------------|------------|-----------|----------------|-------------|-------------|
| | CSL Neutral | X Industry | S&P 500 | HON Neutral | MIC Neutral | RPM Neutral |
| VGM Score | C | - | - | C | B | A |
| Market Cap | 9.13 B | 7.31 B | 24.61 B | 129.19 B | 3.85 B | 9.79 B |
| # of Analysts | 4 | 3 | 13 | 10 | 1 | 7 |
| Dividend Yield | 1.22% | 1.46% | 1.78% | 1.99% | 8.97% | 1.91% |
| Value Score | C | - | - | C | B | C |
| Cash/Price | 0.07 | 0.13 | 0.04 | 0.08 | 0.12 | 0.02 |
| EV/EBITDA | 14.22 | 9.45 | 14.06 | 14.43 | 12.52 | 20.82 |
| PEG Ratio | 1.22 | 2.23 | 2.09 | 2.23 | NA | 1.23 |
| Price/Book (P/B) | 3.46 | 1.80 | 3.29 | 6.91 | 1.34 | 6.97 |
| Price/Cash Flow (P/CF) | 13.54 | 12.13 | 13.65 | 18.33 | 7.64 | 19.52 |
| P/E (F1) | 18.31 | 17.18 | 19.21 | 20.49 | 9.65 | 22.44 |
| Price/Sales (P/S) | 1.90 | 1.51 | 2.70 | 3.52 | 2.21 | 1.74 |
| Earnings Yield | 5.49% | 5.61% | 5.19% | 4.88% | 10.37% | 4.45% |
| Debt/Equity | 0.51 | 0.71 | 0.71 | 0.59 | 1.03 | 1.90 |
| Cash Flow (\$/share) | 12.06 | 1.94 | 6.92 | 9.86 | 5.83 | 3.86 |
| Growth Score | B | - | - | B | B | A |
| Hist. EPS Growth (3-5 yrs) | 11.77% | 9.45% | 10.85% | 8.56% | 78.91% | 3.15% |
| Proj. EPS Growth (F1/F0) | 9.17% | 5.71% | 7.17% | 8.15% | -4.15% | 24.04% |
| Curr. Cash Flow Growth | 19.98% | 2.93% | 8.56% | -1.43% | 6.40% | -3.31% |
| Hist. Cash Flow Growth (3-5 yrs) | 14.60% | 4.88% | 8.36% | 5.69% | 31.85% | 5.82% |
| Current Ratio | 1.95 | 1.94 | 1.23 | 1.34 | 2.53 | 2.40 |
| Debt/Capital | 33.67% | 40.80% | 42.91% | 37.28% | 50.73% | 65.51% |
| Net Margin | 9.83% | 5.33% | 11.81% | 16.73% | 8.14% | 5.89% |
| Return on Equity | 18.21% | 10.89% | 16.86% | 32.21% | 12.64% | 28.74% |
| Sales/Assets | 0.89 | 0.77 | 0.54 | 0.62 | 0.23 | 1.03 |
| Proj. Sales Growth (F1/F0) | 4.61% | 2.79% | 3.85% | 2.13% | 3.54% | 2.58% |
| Momentum Score | D | - | - | C | D | B |
| Daily Price Chg | 0.96% | 0.00% | 0.06% | 0.38% | 1.25% | 0.12% |
| 1 Week Price Chg | 4.17% | 0.70% | 2.47% | 1.19% | 0.14% | 5.51% |
| 4 Week Price Chg | 0.23% | -2.83% | 0.59% | -0.80% | -2.30% | 1.00% |
| 12 Week Price Chg | 4.18% | -0.88% | 6.98% | 2.42% | 6.75% | 4.89% |
| 52 Week Price Chg | 35.17% | -11.00% | 16.62% | 20.12% | 2.34% | 31.00% |
| 20 Day Average Volume | 412,474 | 73,575 | 2,020,569 | 2,630,782 | 474,268 | 509,835 |
| (F1) EPS Est 1 week change | 0.89% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | 0.14% | 0.00% | -0.05% | 0.28% | 0.00% | 0.13% |
| (F1) EPS Est 12 week change | -2.05% | -0.76% | -0.17% | 0.18% | 0.00% | -0.17% |
| (Q1) EPS Est Mthly Chg | -12.96% | -0.58% | -0.24% | -0.19% | 0.00% | -2.42% |

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 | C |

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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