

Carlisle Companies (CSL)

\$162.61 (As of 01/21/20)

Price Target (6-12 Months): **\$171.00**

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:B

Value: C

Growth: A

Momentum: D

Summary

Over the past six months, Carlisle's shares have outperformed the industry. Strength in aerospace, medical, space and defense 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. Recently, the company acquired Providien, which has been strengthening the medical technologies platform at its CIT segment. Also, solid product portfolio and geographical diversity are expected to boost growth. However, difficult global automotive market conditions and challenging market conditions in China are concerning. Also, its overseas business is exposed to headwinds like geopolitical issues and currency fluctuations. High R&D costs and rise in debts might adversely impact its profitability.

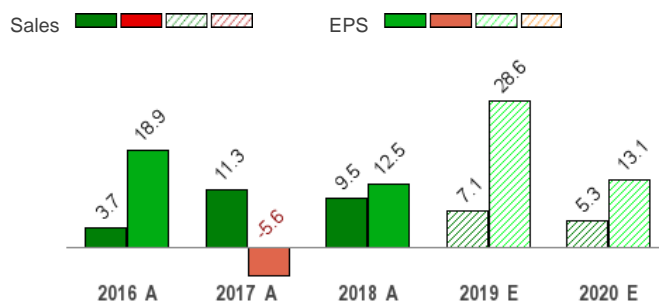
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$164.80 - \$106.19
20 Day Average Volume (sh)	249,623
Market Cap	\$9.2 B
YTD Price Change	0.5%
Beta	0.99
Dividend / Div Yld	\$2.00 / 1.2%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 29% (182 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.7%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	20.3
P/E F1	18.0
PEG F1	1.2
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,119 E	1,408 E	1,359 E	1,200 E	5,051 E
2019	1,072 A	1,315 A	1,281 A	1,131 E	4,799 E
2018	985 A	1,236 A	1,181 A	1,077 A	4,480 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.44 E	\$2.83 E	\$2.63 E	\$1.91 E	\$9.05 E
2019	\$1.41 A	\$2.62 A	\$2.42 A	\$1.68 E	\$8.00 E
2018	\$1.03 A	\$1.97 A	\$1.68 A	\$1.58 A	\$6.22 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 01/21/2020. The reports text is as of 01/22/2020.

Overview

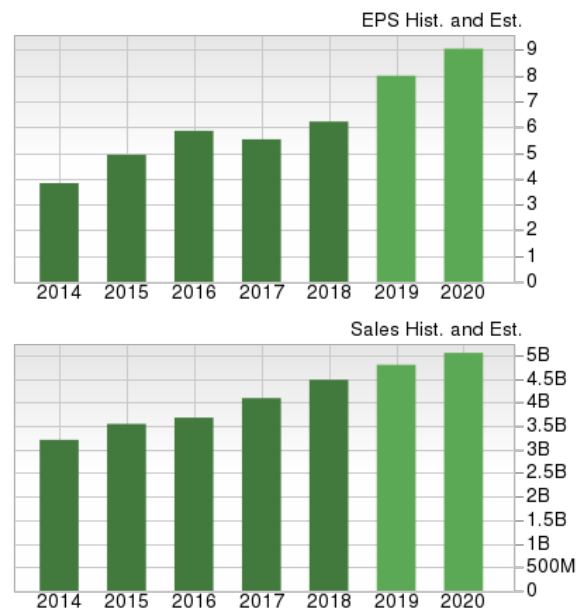
Headquartered in the Scottsdale, AZ, Carlisle Companies Incorporated is a diversified, global portfolio of niche brands and businesses with highly engineered and high margin products. It engages in the design, manufacture and sale of a wide range of roofing and waterproofing products, engineered products, 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: 69.8% of third-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: 18.9%): 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: 5.3%): 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%): 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 six months, Carlisle's shares have gained 23.1% compared with 8.7% 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 third quarter of 2019, the segment's performance was strong owing to impressive organic growth, solid backlog, continued high volume of reroofing projects in the North American non-residential construction markets, and solid contribution from the acquisition of Petersen (January 2019). Encouraged by continued strong demand, accretive acquisitions and healthy forecast for North American non-residential construction market, management expects the segment to grow in low double-digits in 2019. In addition, persistent strength in aerospace, medical, space and defense 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 mid-single-digit range in 2019. Additionally, in light of the continued operational improvements, including cost savings from the Carlisle Operating System (COS) and overall positive market conditions, the company expects overall revenue growth to be in the high single-digit for 2019.
- ▲ 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. In this regard, Carlisle's acquisition of Petersen (in January 2019) has expanded CCM segment's product offerings in the metal roofing platform. Notably, the company anticipates achieving annual synergies of \$4 million across its metal roofing platform from this buyout. Also, the takeover has been enabling Carlisle to easily penetrate the markets of Arizona, Texas, the Midwest and Georgia. The company noted that the Petersen buyout will complement its other notable recent buyouts like Drexel Metals, Sunlast Metal and Premium Panels. In addition, the acquired MicroConnex business (May 2019) has been strengthening the medical technologies platform at the CIT segment. This apart, the company's buyout 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.
- ▲ Carlisle remains highly committed toward increasing wealth of its shareholders through share repurchase programs and dividends. In this regard, in the first nine months of 2019, the company repurchased approximately \$232 million of its shares and distributed dividends totaling \$75 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 CFT segment. The segment's sales declined 5.4% in the third quarter on a year-over-year basis. Notably, it is experiencing lower volumes of sales due to difficult global automotive market conditions, challenging market conditions in China as well as capital project delays with both automotive and industrial customers in North America. As a matter of fact, the company expects the softness to persist in the near term. Notably, for CFT, it expects sales to be down in low-to-mid single digit range in 2019. 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% on the company's sales in the third quarter.
- ▼ Carlisle is currently dealing with rising costs and expenses. For instance, in third-quarter 2019, its total cost of goods sold increased 3.8% from the prior-year quarter. Also, selling and administrative expenses jumped 6.2%. In addition, in the quarter, the company's R&D expenditures increased 23.6%. 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 balance at the end of third-quarter 2019 was approximately \$1,590.2 million. Notably, this balance was 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 60 days. Its earnings estimates for 2019 have decreased from \$8.23 to \$8.00 on account of three downward estimate revisions versus none upward. In addition, the Zacks Consensus Estimate for 2020 has gone down from \$9.15 to \$9.05.

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

Last Earnings Report

Carlisle Q3 Earnings Surpass Estimates, Revenues Miss

Carlisle reported mixed third-quarter 2019 results, wherein earnings surpassed the Zacks Consensus Estimate but revenues lagged the same.

The company's adjusted earnings came in at \$2.42 per share, surpassing the Zacks Consensus Estimate of \$2.29. Also, the bottom line increased 44% from the year-ago quarter figure of \$1.68.

Inside the Headlines

In the reported quarter, Carlisle's net sales were \$1,280.6 million, up 8.4% year over year. The improvement was driven by 3.4% contribution from organic sales growth and 5.4% benefit from acquired assets, partially offset by 0.4% adverse impact of foreign currency translation.

The top line missed the Zacks Consensus Estimate of \$1,295 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 \$893.5 million, increasing 15% year over year. It represented 69.8% of net sales. Organic sales and acquired assets had a positive impact of 8.8% and 6.5%, respectively. These were partially offset by 0.3% adverse impact of forex woes.

CIT revenues, representing 18.9% of net sales, were \$241.9 million, up 0.7% year over year. The improvement was driven 1.5% benefit from acquired assets, partially offset by 0.7% decline in organic sales and 0.1% adverse impact of unfavorable movements in foreign currencies.

CFT revenues, representing 5.3% of net sales, were \$68.5 million, down 5.4% year over year. In the third quarter, organic sales declined 17.1% while forex woes had an adverse 1.1% impact. However, acquired assets had a positive impact of 12.8% on sales.

CBF revenues were \$76.7 million, decreasing 16.6% year over year. It represented 6% of net sales. Organic sales declined 15% while unfavorable movements in foreign currencies had a 1.6% adverse impact.

Operating Margin Improves Y/Y

In the reported quarter, Carlisle's cost of sales jumped 3.8% year over year to \$900.4 million. It represented 70.3% of net sales compared with 73.4% a year ago.

Selling and administrative expenses increased 6.2% to \$175 million. It represented 13.7% of net sales compared with 13.9% in the year-ago quarter. R&D expenses totaled \$15.2 million, up from \$12.3 million.

Operating profit was \$191 million, up 36.4% year over year, while margin expanded 300 basis points to 14.9%. 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 third quarter, Carlisle had cash and cash equivalents of \$658.1 million compared with \$803.6 million recorded on Dec 31, 2018. Long-term debt was \$1,590.2 million compared with \$1,587.8 million at the end of 2018.

Outlook

For 2019, on a segmental basis, sales are anticipated to grow in low-double digit range for CCM, in a mid-single digit range for CIT. However, for CFT, the company expects sales to be down in low-to-mid single digit range. For CBF, the company expects sales to be down in low double digits range.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	-1.10%
EPS Surprise	5.68%
Quarterly EPS	2.42
Annual EPS (TTM)	8.03

Recent News

Dividend

On **Dec 2, 2019**, Carlisle paid a quarterly cash dividend of 50 cents per share to shareholders of record as of Nov 18, 2019.

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.

Acquisition Deal

On **Oct 22, 2019**, Carlisle announced the submission of a binding offer and also held detailed discussions to acquire 100% of the shares of Sainte-Genevieve based Draka Fileca SAS from Prysmian SpA.

The buyout will enable the company to strengthen the position of its CIT segment as a global leader of aerospace electrical wire and fiber optic cable technology.

Valuation

Carlisle's shares are up 51.8% over the trailing 12-month period. Over the past year, both the Zacks sub-industry and the Zacks Conglomerates sector have moved up 26.7%.

The S&P 500 Index has moved up 25.4% in the past year.

The stock is currently trading at 10.97x 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 11.36x and as low as 7.81x, with a 5-year median of 9.54x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$171 price target reflects 18.8x 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	10.97	26.85	26.85	12.66
	5-Year High	11.36	81.18	81.18	12.66
	5-Year Low	7.81	17.86	17.86	9.08
	5-Year Median	9.54	22.03	22.03	10.78
P/E F12M	Current	17.88	19.8	19.8	19.18
	5-Year High	23.99	20.06	20.06	19.34
	5-Year Low	13.49	15.31	15.31	15.17
	5-Year Median	17.2	17.76	17.76	17.44
EV/Sales F12M	Current	2.01	4.22	4.22	3.26
	5-Year High	2.01	4.24	4.24	3.37
	5-Year Low	1.38	2.82	2.82	2.3
	5-Year Median	1.75	3.65	3.65	2.79

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (182 out of 255)



Top Peers

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

Industry Comparison Industry: Diversified Operations				Industry Peers		
	CSL Neutral	X Industry	S&P 500	HON Neutral	MIC Neutral	RPM Neutral
VGM Score	B	-	-	D	A	B
Market Cap	9.22 B	7.49 B	24.43 B	129.28 B	3.88 B	9.59 B
# of Analysts	3	4	13	10	1	7
Dividend Yield	1.23%	1.36%	1.75%	1.99%	8.91%	1.95%
Value Score	C	-	-	C	B	C
Cash/Price	0.07	0.12	0.04	0.09	0.12	0.02
EV/EBITDA	14.71	9.75	14.00	14.27	12.58	20.48
PEG Ratio	1.20	2.02	2.06	2.22	NA	1.20
Price/Book (P/B)	3.44	1.35	3.39	7.06	1.35	6.83
Price/Cash Flow (P/CF)	16.99	12.32	13.69	18.45	7.69	19.13
P/E (F1)	17.95	16.99	19.00	20.56	9.71	21.99
Price/Sales (P/S)	1.94	1.48	2.68	3.50	2.23	1.71
Earnings Yield	5.57%	5.70%	5.26%	4.86%	10.29%	4.55%
Debt/Equity	0.59	0.67	0.72	0.61	1.03	1.90
Cash Flow (\$/share)	9.57	1.94	6.94	9.81	5.83	3.86
Growth Score	A	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	11.65%	9.00%	10.60%	8.86%	78.91%	3.15%
Proj. EPS Growth (F1/F0)	13.13%	7.09%	7.57%	8.16%	-4.15%	24.04%
Curr. Cash Flow Growth	9.03%	7.31%	14.00%	8.22%	6.40%	-3.31%
Hist. Cash Flow Growth (3-5 yrs)	11.06%	4.88%	9.00%	7.62%	31.85%	5.82%
Current Ratio	3.04	2.22	1.23	1.32	2.53	2.40
Debt/Capital	37.23%	40.06%	42.99%	37.76%	50.73%	65.51%
Net Margin	9.66%	5.78%	11.15%	17.06%	8.14%	5.89%
Return on Equity	17.99%	10.25%	17.16%	32.01%	12.64%	28.74%
Sales/Assets	0.88	0.77	0.55	0.63	0.23	1.03
Proj. Sales Growth (F1/F0)	5.25%	2.93%	4.05%	3.49%	3.54%	2.58%
Momentum Score	D	-	-	F	B	C
Daily Price Chg	-0.82%	-0.24%	-0.27%	-1.26%	-0.97%	-0.71%
1 Week Price Chg	2.28%	1.57%	2.29%	2.55%	0.20%	1.92%
4 Week Price Chg	0.43%	0.10%	2.13%	2.62%	3.10%	-2.00%
12 Week Price Chg	4.43%	4.02%	6.99%	4.49%	13.91%	1.22%
52 Week Price Chg	51.03%	-3.69%	21.25%	29.40%	9.17%	33.60%
20 Day Average Volume	249,623	62,022	1,415,064	1,899,488	486,323	585,924
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.13%
(F1) EPS Est 4 week change	-0.55%	0.00%	0.00%	-0.10%	0.00%	-0.17%
(F1) EPS Est 12 week change	-0.69%	-0.67%	-0.34%	-0.10%	1.09%	-0.17%
(Q1) EPS Est Mthly Chg	-4.64%	0.00%	0.00%	-0.37%	0.00%	-15.27%

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	A
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.

Disclosures

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