

# **Carlisle Companies Incorporated, Q4 2017 Earnings Call, Feb 08, 2018**

Carlisle Companies Incorporated (NYSE:CSL)

CALL PARTICIPANTS: 2

PRESENTATION: 4

QUESTION AND ANSWER: 59

# Call Participants

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## EXECUTIVES

### **D. Christian Koch**

Chief Executive Officer, President and Director

### **Robert M. Roche**

Chief Financial Officer and Vice President

## ANALYSTS

### **Charles Damien Brady**

Managing Director

### **James Giannakouros**

Executive Director and Senior Analyst

### **Joel Gifford Tiss**

MD & Senior Research Analyst

### **Kevin William Hocevar**

VP & Equity Research Analyst

### **Liam Dalton Burke**

Analyst

### **Neil Andrew Frohnapple**

Analyst

### **Timothy Ronald Wojs**

Senior Research Analyst

# Presentation

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## Operator

Good afternoon. My name is Christie, and I will be your conference operator today. At this time, I would like to welcome everyone to the Carlisle Companies Incorporated fourth quarter earnings conference call. [Operator Instructions]

I will now turn the conference over to President, Chris Koch. You may begin.

## D. Christian Koch

Chief Executive Officer, President and Director

Thank you, Christie. Good afternoon, and welcome to the Carlisle Companies Fourth Quarter 2017 Conference Call. On the phone this afternoon with me are Bob Roche, our Chief Financial Officer; and Titus Ball, our Chief Accounting Officer. On today's call, I will discuss our full year and fourth quarter 2017 performance, our 2018 outlook, introduce our new strategic plan and discuss the foodservice divestiture. Bob will review the impact of changes to the U.S. tax policy on the company, our segment performance, balance sheet and cash flow.

Before we discuss our 2017 results, I want to update you about our friend and colleague, Steve Ford. As many of you are aware, Steve underwent a scheduled surgery in November to address an earlier diagnosed medical condition. Steve was expecting a quick recuperation, and we were all anticipating his return to work in a matter of weeks. Unfortunately, unexpected complications arose from the surgery, which have extended Steve's recovery period. While Steve is making good progress, at this time, we do not know when he will return to Carlisle. Steve remains our General Counsel.

As was anticipated with Bob Roche's appointment to CFO in 2017, effective January 1, all Investor Relations activities began reporting to Bob. Carlisle's legal department continues to operate as before. Scott Selbach, Carlisle's former General Counsel, along with our outside law firm partners, are providing legal resources in Steve's absence.

While we are receiving periodic updates on Steve's condition, in respect of his and his family's privacy, we are not going to comment further on his medical condition at this time. Please join us in keeping Steve and his family in your thoughts.

Please now review Slide 2 of our presentation entitled Forward-looking Statement and the Use of Non-GAAP Financial Measures. Reconciliations of U.S. GAAP to non-GAAP measures are provided in the appendix to the presentation.

Those considering an investment in Carlisle should read these statements

carefully, along with reviewing the reports we filed with the SEC before making any investment decision. These reports explain the risks associated with investing in our stock, which is traded on the New York Stock Exchange under the symbol of CSL.

Please turn to Page 3. As we close Carlisle's 100th year, we reflect one final time on a century of innovation and growth. A century of continuous improvement and a century of outstanding shareholder returns. 2017 marked the year of transition for Carlisle. We began a portfolio realignment process, engaged in significant rationalization restructuring projects and created a new strategic vision for Carlisle. As we embark on the next 100 years, our nearly 14,000 dedicated employees are committed to achieving superior shareholder returns by driving above market organic growth, operational excellence, continuous improvement and deploying capital through synergistic acquisitions to the portfolio.

In 2017, we achieved record net sales of \$4.1 billion, an 11% increase from 2016, driven by outstanding organic growth in our Construction Materials business, market recovery in our Brake & Friction business and contributions from strategic acquisitions. Full year adjusted operating income declined 13% to \$506 million, while adjusted operating income margin declined 340 basis points to 12.4%. The decline in operating income was driven by approximately \$27 million of incremental restructuring, facility rationalization and other acquisition-related costs. Additionally, we faced significant challenges in our Interconnect business, driven by a technological evolution in in-flight connectivity through SatCom advancements in our aerospace markets, coupled with an in-sourcing initiative at a key in-flight entertainment customer.

Carlisle generated \$459 million of operating cash flow and \$299 million of free cash flow. Our strong cash generation supported \$160 million of capital expenditure investment in key organic growth initiatives. Furthermore, we returned a record \$361 million to shareholders in the form of \$92 million of dividends and \$268 million of share repurchases. Our 6% dividend increase in the third quarter of '17 was our 41st consecutive year of increasing the dividend.

Consistent with our long-standing acquisition philosophy, in 2017, we successfully deployed a record \$1 billion into synergistic acquisitions to our businesses, including Accella Performance Materials, the largest acquisition in Carlisle's history. With \$1 billion of availability on our creditor revolver, \$380 million of cash on hand and with our strong cash generation, we remain well positioned to continue to invest in organic growth, fund synergistic acquisitions and return capital to Carlisle's shareholders through dividends and share repurchases.

The Carlisle Operating System, COS, the cornerstone of Carlisle's culture of operational excellence, continue to gain traction and drive improvements throughout our organization in 2017. Savings from COS exceeded \$50 million for the first time, and were a significant contributor to our operating income

performance.

To review our fourth quarter performance, please turn to Slide 4. Our fourth quarter results demonstrated solid progress against the significant challenges we faced in 2017. Record fourth quarter net sales were up 20% to \$1.1 billion, representing our 19th consecutive quarter of year-over-year growth. Sales growth was led by our CCM business, which outpaced strong single ply roofing industry trends and took advantage of a robust North American nonresidential construction market. In our Fluid Technology business we experienced strong European and Asia Pacific performance, while CBF enjoyed a strengthening recovery in the off-highway vehicle markets. Strategic acquisitions, primarily from our recent acquisition of Accella, contributed 12%. Net sales at CIT met our fourth quarter expectations with strong growth experienced in medical and test and measurement markets, while SatCom projections made during our second quarter conference call were achieved.

Operating income declined 9% in the fourth quarter to \$104 million. At CCM, despite a relatively stable pricing environment, raw material headwinds remained, resulting in year-over-year declines in profitability. Unfavorable product mix at CIT further negatively impacted operating income. Across the business, restructuring, facility rationalization and acquisition-related costs across most segments totaled \$15.6 million in the fourth quarter. These initiative-driven costs were offset by savings from the Carlisle Operating System and an estimated onetime positive direct and indirect tax impact of approximately \$53 million due to the Tax Cuts and Jobs Act in late 2017. As a result, our fourth quarter EPS was \$1.82, a 38% increase compared to the fourth quarter of 2016 on an adjusted diluted basis. This \$1.82 includes \$0.84 of estimated positive tax impact and negative \$0.19 of restructuring, facility rationalization and acquisition-related costs. Bob will provide more detail on the tax impact later in the presentation.

Turning to Slide 5. On February 1, we announced the sale of Carlisle FoodService Products to The Jordan Company for \$750 million. This divestiture of foodservice is consistent with Carlisle's vision of operating a portfolio of businesses with highly engineered manufactured products in strong growth markets. While we believe foodservice is a valuable asset with industry-leading brands and a strong management team, the sale of CFS will allow Carlisle to focus on our core businesses and result in a portfolio that is better aligned with our operating strengths. We expect to use the proceeds of the sale to fund organic sales initiatives and future mergers and acquisitions activity at CCM, CIT and CFT.

Bob will now provide further detail about our segment performance and review the impact of the U.S. tax reform, our balance sheet and cash flow. After Bob's review, I will discuss Vision 2025 and the outlook for 2018. Bob?

**Robert M. Roche**

Chief Financial Officer and Vice President

Thanks, Chris. Please turn to the sales bridge on Slide 6 of the presentation. As Chris mentioned in his opening remarks, and we are pleased with our record fourth quarter net sales. Price volume had a positive 7.6% impact, driven by strength in U.S. commercial roofing for CCM, transportation and automotive refinish increases at CFT and recovering off-highway construction and mining equipment markets at CBF. Acquisitions contributed 11.7% sales growth in the quarter.

Turning now to our margin bridge on Slide 7. Operating margin decreased 310 basis points in the quarter to 9.7%. The net impact of volume and selling price had a positive 150 basis point impact. Mix had a negative 180 basis points impact. COS drove 180 basis points of margin improvement. Acquisitions had a negative 200 basis point impact. Finally, rising raw material costs, driven largely by CCM and other operating costs across all segments, had a negative 280 basis point impact.

Turning to Slide 8. I will now focus on the effect of the U.S. Tax Cuts and Jobs Act on Carlisle's performance. While we are still evaluating long-term impact of the changes to the U.S. tax policy, our 2017 effective tax rate was 22%. Our 2017 results include an approximately \$53 million positive direct and indirect impact, due to: a benefit from remeasured deferred taxes of approximately \$90 million; a onetime toll charge on foreign earnings of approximately \$32 million; and expense related to repatriating foreign earnings of approximately \$5 million.

Now let's turn to Slide 9 to review the fourth quarter performance by segment in more detail.

At CCM, sales increased 26.7% in the quarter driven by high single-digit organic growth. The Accella, Arbo and Drexel Metals acquisitions contributed 16.7% to the year-over-year growth. Selling price at CCM was relatively stable, and we are determined to maintain price discipline in our market, while delivering a superior customer experience.

Despite a rising raw material cost environment, CCM delivered solid operating margin of 14.2% in the quarter, including \$5.8 million of acquisition-related costs. Dilution from the Accella acquisition was in line with our expectations. Raw material costs negatively impacted our operating income by over \$10 million in the fourth quarter. Higher sales volume and savings from the Carlisle Operating System were offsets to the raw material headwinds.

Please now turn to Slide 10 to review CIT's results. CIT's sales stabilized, declining less than 1% in the quarter, with volume and selling prices down 1.6%, partially offset by acquisitions which added 50 basis points. Of significance, the SatCom ramp-up continued as expected, while organic growth initiatives in medical and test and measurement markets have begun to see -- begun to accelerate.

CIT's operating margin declined 15% to \$21.9 million due to unfavorable product mix, partially offset by COS savings. Operating margin of 10.5% represented a 180 basis point year-over-year decline.

Turning to Slide 11. CFT finished 2017 with 3 consecutive months of strong sales performance. Sales increased 11.3% in the fourth quarter, representing an organic sales increase of 8.9% and positive impact of foreign exchange of 2.4%. CFT experienced growth in all market segments. Highlighting the fourth quarter sales success, our transportation segment, specifically within Asia Pacific, delivered double-digit growth, capitalizing on strong trends in the region. CFT's operating income decreased \$5.6 million, driven primarily by \$3.5 million of incremental restructuring and facility rationalization costs. Unfavorable product mix, along with vertical integration investments, contributed to the margin decline.

Turning to Slide 12. CBF sales increased a substantial 38.9% in the quarter, reflecting an organic sales increase of 36.4% and favorable foreign exchange of 2.5%. The strong sales performance of CBF in the second half of 2017 was the promising sign that we have entered an accelerating growth period for off-highway mobile equipment.

Sales to the construction market grew 46%, while mining market sales grew 57% and agricultural market sales grew 49%. CBF's operating loss improved by \$1.8 million, including \$2.1 million of expense related to the previously announced consolidation of the Tulsa, Oklahoma manufacturing facility into our Medina, Ohio facility.

Please now turn to Slide 13 to review foodservice's results. At CFS, sales growth was driven by the January 2017 acquisition of San Jamar, contributing approximately 34% to our base business. Operating income increased \$2.6 million, including San Jamar.

On Slide 14, we have provided details of our restructuring, facility rationalization and other acquisition-related costs by segment. Fourth quarter charges included in operating income were \$15.6 million for all segments, and \$51.8 million for the full year 2017. In the first quarter of 2018, we expect these items to be approximately \$5 million to \$8 million. And for the full year 2018, the impact on operating income is expected to be approximately \$20 million to \$25 million, primarily in our CIT and CBF segments.

Turn now to Slide 15. As of December 31, we had \$380 million of cash on hand and \$1 billion of availability under our revolving credit facility. As announced February 6, we have increased our share repurchase program by an additional 5 million shares. This authorization is in addition to the approximately 2.1 million shares remaining as of year-end 2017 under our existing share repurchase authorization.

Our balance sheet remains strong. As of December 31 our net debt to capital ratio was 33%, our net debt to EBITDA ratio was 1.68x and our EBITDA to interest ratio was 20.2x.

Turning now to Slide 16. Our free cash flow in the quarter was \$105 million, compared to \$144.6 million in the prior year. Contributing to this decline were higher usage of working capital in support of our sales growth and higher capital expenditures.

And with those remarks, I will now turn to call back over to Chris.

**D. Christian Koch**

Chief Executive Officer, President and Director

Thanks, Bob. Before we discuss our 2018 outlook, please turn to Slide 17. In 2017, we developed a new vision and strategic plan that would usher Carlisle into the next century, Vision 2025. Our goal for Vision 2025 is to achieve \$8 billion of sales, 15% ROIC and 20% operating margins. Vision 2025, its key components and aggressive goals have set the tone for our next 100 years.

We created the vision based on detailed, tangible and executable plans that would energize employees, effectively utilize our capital resources and create sustained value for our shareholders. In Vision 2025, we seek to drive accelerated profitable organic growth, build scale in our core businesses by pursuing synergistic acquisitions, further leverage our COS culture to drive efficiencies and invest in attracting, retaining and developing exceptional talent.

Vision 2025 aligns our business segment strategies and operating plans under a stronger more active central core. The enhanced leadership role played by Carlisle's corporate center will include driving best practice sharing, ensuring consistent COS utilization, leveraging common resources, improving accountability and developing a deeper bench, all the while providing a strong oversight within our proven decentralized operating model.

As Carlisle successful history demonstrates, execution of our plans requires information and processes that provide insight, speed and agility to thrive in a rapidly changing global marketplace.

Our accomplishments in 2017 demonstrate that Vision 2025 is well underway. We are realigning the portfolio to focus on segments with highly engineered manufactured products in strong growth markets, evidenced by the divestiture of foodservice. We deployed a record nearly \$1 billion into acquisitions and returned a record \$360 million of cash to shareholders in the form of dividends and share repurchases, and we'll continue to deploy record amounts of capital under our plan.

2017 was also a record year of COS savings, a major element driving operational

efficiencies. And finally, we upgraded talent across the organization and are committed to further developing our employees. Vision

2025 can be summed up in a few key statements: drive organic growth, leverage that growth through COS into superior operational efficiencies, and effectively deploy capital. With our track record of success, strong teams in place across our businesses and presence in attractive growing markets, we're confident Carlisle will deliver on our goals.

To learn more about Vision 2025, please visit the Investors section of the Carlisle website, where we have provided a full presentation.

Please now turn to Slide 18 as we discuss our 2018 outlook. We expect net sales from growth, from continuing operations in the mid-teens. By segment, at CCM, driven by a healthy 2018 forecast for the U.S. commercial construction market, we expect to achieve mid-single-digit organic sales growth. Combined with contributions from acquisitions, primarily Accella, we expect a mid-teens net sales increase at CCM. The Accella integration is delivering on its deal thesis, and we are on track for the synergies we outlined at the time of the acquisition. CCM remains focused on maintaining price discipline in their markets, driving operational efficiencies in their factories and continuing to expand into the building envelope.

In the CIT segment, we expect mid-single-digit net sales growth, driven by strong aircraft build rates and higher content per plane in our commercial aerospace and in-flight connectivity markets.

Our medical platform remains an important focus of growth as we seek to drive new products and programs at major medical device producers and seek high-quality acquisitions within the medtech space.

At CFT, we expect net sales growth in the mid-single-digit percent range for 2018. As we enter 2018, CFT's restructuring and facility rationalization efforts commenced in 2016 are complete. With the change in leadership in late 2017, we've transitioned from a focus on integrating the acquisition and building the foundation of our Fluid Technologies platforms growth, and now expect the team's focus will be on new product introductions, expansion into core adjacencies and complementary acquisitions. We continue to be optimistic that CBF's end markets have entered an accelerated growth period, resulting in expected 2018 net sales growth in the low-teens. We are seeing continued improvement at key OEM customers, while sales initiatives launched in the past few years are contributing to the recovery. Restructuring will continue in 2018, as we complete our Tulsa, Oklahoma to Medina, Ohio plant consolidation.

Corporate expense is expected to be \$65 million to \$70 million. Depreciation and amortization expense is expected to be \$180 million to \$190 million. For the full year, we expect capital expenditures will be approximately \$135 million to \$160

million. We're anticipating free cash conversion to be in excess of 100%, interest expense is expected to be \$60 million to \$70 million and our tax rate is expected to be approximately 25% to 27% in 2018.

Entering 2018, we remain well positioned to continue to invest in our businesses, fund strategic acquisitions and return capital to Carlisle's shareholders through dividends and share repurchases.

We are excited about the prospects of our business segments and confident in the growth initiatives our teams have underway. With the introduction of Vision 2025, we will continue to build upon the positive momentum and expect to deliver another record year of performance in 2018.

This concludes our formal comments on the fourth quarter results and 2018 outlook. Christie, we're now ready for questions.

# Question and Answer

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## Operator

[Operator Instructions] Our first question comes from the line of Neil Frohnapple from Buckingham Research.

### Neil Andrew Frohnapple

Analyst

#### Question:

I guess starting out the 2018 sales outlook, it was very helpful. But can you elaborate a little bit more on EBIT margin expectations for the year by the 4 different segments? On the positive side, you guys will have significantly lower restructuring cost. You should experience, I guess, leverage from the higher sales volumes, and then corporate expenses will be roughly flat. But just want to make sure we account for any notable headwinds as well like mix and raw material cost.

### Robert M. Roche

Chief Financial Officer and Vice President

#### Answer:

Yes. Neil, as you know, we don't normally give margin guidance, it is not our practice. So I guess when we go into, we can have specific questions around what we're seeing from different raw materials and things like that. We look at freight is definitely going to a bit of a headwind throughout next year, and we are seeing some headwinds at CCM and our raw materials as MDI goes up and so does oil-based costs.

### Neil Andrew Frohnapple

Analyst

#### Question:

Okay. And Bob, I guess on that, within CCM, I mean, could you provide an outlook for 2018 as it relates to the net raw material price impact to EBIT that you would expect? I think you guys talked about a \$50 million headwind for 2017. So if you can provide what you're projecting for this year, I think that would be helpful.

### Robert M. Roche

Chief Financial Officer and Vice President

#### Answer:

Yes, Neil. As we came into this year and we talked about on the last call, we are expecting about \$10 million. Things were really stable. And of that \$10 million, we expected most of it to be in the first quarter, and this is as of we're entering November, December. Since then, the oil markets have gone a little haywire on us and we have 2 force majeure out there for MDI. And as we sit here, I'm going to say, as of 3 days ago and up to today, we're expecting somewhere in the \$40 million range for the year. And offsetting that, we're expecting, we did -- the industry has -- we have announced a 6% price increase on TPO and polyiso and some of the other industry participants have as well as the distribution has announced price increases to offset some of that as well.

**Neil Andrew Frohnapple**

Analyst

**Question:**

Okay, but that \$40 million, that's just raw materials. You're not anticipating any sort of price realization, is that correct?

**Robert M. Roche**

Chief Financial Officer and Vice President

**Answer:**

Yes. Well we were expecting price realization. At this point, we just announced that it's not effective until March 1, we don't have a great estimate of what's going to stick. I mean, I guess, in a perfect world, and what we would want to happen as we go back down to the \$10 million of net price cost, but we don't have any data beyond that right at this point.

**Neil Andrew Frohnapple**

Analyst

**Question:**

Okay. And then one final one on CCM. The mid-teens sales growth outlook, I mean, just doing the math on what Accella is going to contribute for the year, I mean, that alone should contribute like mid-teens growth. So -- but I think the press release said you guys would expect mid-single-digit organic sales growth. So I mean can you help out? Am I missing something there?

**Robert M. Roche**

Chief Financial Officer and Vice President

**Answer:**

No, I think Accella is going to be right on track with where we thought. I mean it could be mid- to high-teens when you put in the organic and then

what we talked about for Accella.

**Operator**

Next question comes from the line of Jim Giannakouros from Oppenheimer.

**James Giannakouros**

Executive Director and Senior Analyst

**Question:**

Balance sheet, obviously, strong. I had a much lower net interest expense number for next -- for 2018. Correct me if I'm wrong, did you plans change on paying down some debt post-Accella? What am I -- or am I missing something there?

**Robert M. Roche**

Chief Financial Officer and Vice President

**Answer:**

Yes. We never had plans to pay down any of the debt going into Accella. I mean, we always talked about using our capital for organic acquisitions, repurchases and dividends. And then as we see fit, we'll pay down debt if we don't have any organic and/or M&A things in the pipeline. But we continue to be active and look for M&A.

**James Giannakouros**

Executive Director and Senior Analyst

**Question:**

Got it. Okay. And I know you just reiterated your confidence in Accella's top line. Is that \$0.09 or \$0.10 accretion number that you put out there still good for '18?

**Robert M. Roche**

Chief Financial Officer and Vice President

**Answer:**

Yes. Everything we talked about on Accella when we announced it is still on track.

**James Giannakouros**

Executive Director and Senior Analyst

**Question:**

Okay. And I'm sorry, this is some housekeeping stuff. COS expected benefits in '18, you had a stellar year in '17. Should we be expecting a similar

magnitude in '18?

**D. Christian Koch**

Chief Executive Officer, President and Director

**Answer:**

Yes. I think we have to -- yes, this is Chris, Jim. We want to see continued improvement with the COS through the business enterprise. So the March and the expectation is to continue forward with further gains.

**James Giannakouros**

Executive Director and Senior Analyst

**Question:**

Okay. And then in CFT, you had a little bit more growth than I had anticipated, but you didn't have the related leverage there. I wonder if you could speak to kind of puts and takes there. I know that you've been in restructuring mode, but at the same time, you're investing in new products, focused areas of growth. Can you kind of give us some finer points on how much of a margin headwind those growth investments are? And where exactly you're putting money to work?

**Robert M. Roche**

Chief Financial Officer and Vice President

**Answer:**

Yes, Jim. We did invest in a lot of areas. We're doing vertical integration investment, we have leadership upgrades. A lot of other things going on, we invested in the restructuring in the back half, which we gave you those numbers. And then also, in the fourth quarter, as we have a some mix going on. A lot of our sales are in the transportation market in Asia, which those margins, while they're good, they are a little lower than the overall margins. We like the business, but they are a little lower margins. So that's what we saw in the fourth quarter, and we see that carrying a little bit into the first quarter with the same mix in first quarter of '18.

**Operator**

The next question comes from the line of Charles Brady of SunTrust.

**Charles Damien Brady**

Managing Director

**Question:**

So just on SatCom and CIT. You've talked about kind of what your expectation is going forward. I wondered if you can speak to that for what's

embedded in the assumption of SatCom specifically in ~18.

**D. Christian Koch**

Chief Executive Officer, President and Director

**Answer:**

Yes, Charley. We see things continuing as we expected. I think just to reiterate the projections we made at the -- in that second quarter conference call, we were pleased in the third quarter CIT delivered and then again in the fourth quarter on what we were seeing in the outlook. We've got a good backlog, and I think we'll be in that \$80 million to \$90 million sales range for 2018. And as we've said before, we expect these margins to be pretty healthy.

**Charles Damien Brady**

Managing Director

**Question:**

Okay. And then just on the interest expense line, the delta between the, I guess, 65 to 70, is that a function of -- you're obviously not changing the debt level, of just a rate change over the year? What's the \$5 million delta?

**Robert M. Roche**

Chief Financial Officer and Vice President

**Answer:**

Well, some of the, I'm going to say, the down to 60 could be if we end up with excess cash throughout the year as we sell foodservice and depending on timing of future acquisitions, we can end up with some interest income that will drive it down a little bit.

**Operator**

Next question comes from the line of Tim Wojs from Baird Equity Research.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

So maybe just looking at capital deployment, could you just kind of walk through how you guys are thinking about redeploying the proceeds from foodservice? I think if you buy stock back with the proceeds, you probably get pretty close to offsetting the dilution. So -- and you guys have plenty of capacity just based on your revolver and your free cash flow. So maybe why not be more aggressive on the buyback near term to offset that dilution?

**Robert M. Roche**

Chief Financial Officer and Vice President

**Answer:**

Yes. Tim our thought now is we have some things going on in the pipeline. We're hoping to close on the M&A front. We want to grow the business, add EBITDA to the business. So as we sit today, we're going to continue with our repurchases. As we talked about, we got further authorization. But we are thinking about using a lot of that foodservice to remix the portfolio and do further M&A throughout the rest of the year.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Okay. Is there any expiration on the -- any kind of modeling in terms of how we should think about what you guys might buy back in '18?

**D. Christian Koch**

Chief Executive Officer, President and Director

**Answer:**

I don't think '18 -- Tim, this is Chris. If you go to the presentation, I think we said over the planning horizon we wanted to target \$1 billion, approximately \$1 billion of buybacks. I can't give you the timing on that, but that's the general view over that horizon. And obviously, Bob has put in place plans and prescribes buying that will occur through the year. So yes, we'll just stick to the \$1 billion target over that planning horizon.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Okay. Okay. And then I guess when we think about the portfolio in general, I mean in the 2025 Vision, I mean there's a little less discussion on Brake & Friction. Is that a business that you guys still view as core or is that something that potentially could be not part of the portfolio over time?

**D. Christian Koch**

Chief Executive Officer, President and Director

**Answer:**

Yes. We look at that, we've talked about Brake & Friction, we've talked about the high variability in sales over the long term, this is -- so these are cyclical markets we serve. We also really talk about the ability to grow these

platforms. Under the 2008 vision or 5, 15, 15, 30, 15 vision, we looked at \$500 million platforms, and we had a few more. I think as we go forward, you could see by the direction we're looking at fewer and larger. And it really comes down to scalability. Can we take that business to \$1 billion plus. And I think as we sit here today, we're pleased with the recovery in the markets, but we look at Brake & Friction very closely over the coming year to see if it still fits with the vision we have and the portfolio that we've got.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Okay. And then the last one for me, just you had the, I think it was \$54 million or something like that in terms of restructuring for '17. What's the right way to think about the payback on that in terms of the savings you would see through the P&L on those restructurings in '18?

**Robert M. Roche**

Chief Financial Officer and Vice President

**Answer:**

Yes, I mean, we got -- yes, if you look at '18, I mean, we -- let me break it down by business, because if we normally look for a 2- to 3-year payback, a couple of things going on with '18 -- or '17 with some of the longer-term projects, the China move for CIT is a little longer payback, not quite as robust with all the costs involved there and then the savings and the high wage inflation. So we look -- we think that's going to be a little longer period. And then the Tulsa to Medina really isn't going to kick in until late in '18 until we get that stuff moved. So that's another one that takes a little while. On the other hand, the CFT stuff should be kicking in, in the second quarter. As we stabilize through the first quarter, we're going to see that going into the second quarter. So we would see of the \$50 million, while we think it would be a 3-year payback normally, we're looking at probably 4 to 5 on average for that because of things I talked about.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Okay. But it's fair to think that could be a \$10 million to \$15 million tailwind over the next few years.

**Robert M. Roche**

Chief Financial Officer and Vice President

**Answer:**

Yes. I think '18 is going to be a little lighter or, yes, a little lighter on the end of that, but I think '19 is going to be even higher, because like I said, a lot of savings are going to come out of that China facility and out of Brake & Friction, and that's really going to kick in, in '19.

**Operator**

Next question comes from the line of Liam Burke from FBR Capital Markets.

**Liam Dalton Burke**

Analyst

**Question:**

On the Fluid Technology business, in general, how has pricing been and the market?

**D. Christian Koch**

Chief Executive Officer, President and Director

**Answer:**

Pricing has been pretty good. That's one of the things we've talked about when we were looking at this business. I think for the full year, Liam, I'm going to say it was somewhere between 1.4% and 1.6% in 2017. And we have pricing actions that were being taken to repeat similar levels in 2018. So pricing has been pretty good. Bob referenced the lower margins in Asia. We introduced our smart pump in the automotive industry with great success, and we've had some challenges there with competition. But overall, the pricing for the business has been good.

**Liam Dalton Burke**

Analyst

**Question:**

Great. And I know it's a much smaller part of the business on CCM, but how has Europe been developing? I know you mentioned that it was up 50% in the release, but is it developing on plan? And do you see more growth there?

**D. Christian Koch**

Chief Executive Officer, President and Director

**Answer:**

Yes. Europe has been a good story for us. The sales haven't been as high traditionally as some of the other parts of the world. We're seeking to drive that though. I mean, our expectations in Europe are that the EPDM and product line will take off, we've got a unique type of EPDM over there that

our teams are using. We're investing in our Waltershausen facility, as you know, to support that growth. So I think the growth rate now is a little bit less than we've wanted. But as we look forward, I'd say we see some good trends on the horizon.

## **Operator**

Next question comes from the line of Joel Tiss from BMO Capital Markets.

### **Joel Gifford Tiss**

MD & Senior Research Analyst

#### **Question:**

I just wondered inside of CBF, which end markets have the lower margins? Like where is the weaker mix coming from there?

### **D. Christian Koch**

Chief Executive Officer, President and Director

#### **Answer:**

The weaker mix at CBF really would be around our industrial, especially I'll call it that, our performance business, we have a high performance business there and maybe some on highway. The aircraft, I think as we've discussed over the years, has traditionally been a very profitable business. Mining has been very profitable. When we see the levels return to the 2011, 2012 type of volume, mining is profitable. And then construction and agriculture tend to be pretty consistent in that middle range.

### **Joel Gifford Tiss**

MD & Senior Research Analyst

#### **Question:**

Have you shared at all net proceeds, like how should we be thinking about the net proceeds from the food business?

### **D. Christian Koch**

Chief Executive Officer, President and Director

#### **Answer:**

Well, Bob just touched on it. There was a question earlier on whether that was all going to go to share buybacks or not. I think Bob pretty well stated that our original plans for capital are probably the same with the foodservice proceeds, Joel. So we're thinking invest in the business, make sure we continue our nice trend, 41 consecutive years of raising the dividend. Share repurchases will be part of it, of course. But also that merger and acquisitions activity that we talked about within CCM, CIT and really in Fluid Technologies,

is going to be a big focus, too. So I would see the redeployment leaning more towards acquisitions.

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Question:**

I was referring more to the after-tax proceeds. How much do you expect to get after tax?

**D. Christian Koch**

Chief Executive Officer, President and Director

**Answer:**

I'm sorry, Joel. About \$640 million. I apologize.

**Operator**

Next question comes from the line of Kevin Hovevar from Northcoast Research.

**Kevin William Hovevar**

VP & Equity Research Analyst

**Question:**

I just wanted to follow up on Neil's question earlier, and make sure that I was understanding this right. So in the CCM segment, you're guiding to mid-teens sales growth, and I think you said mid-single-digit organic growth. And I think Accella acquisition is supposed to add mid- to high-teens to 2018. Am I -- which would suggest that the organic growth would be kind of flattish? Am I misinterpreting something here? I just want to make sure that I'm understanding that correctly.

**D. Christian Koch**

Chief Executive Officer, President and Director

**Answer:**

No, I think you want to look at CCM forecasted growth, that organic in that mid-single-digit range, okay, somewhere between, I'd say, 4% to 6%. And when you look at Accella, when you think high-teens that's a good place to start. And then if you think about the mix of CCM business, of what Accella will be, and that I think last year sales were around \$430 million being added to CCM's \$2 billion, we should be right in that, I would say, low to mid-teens sales growth.

**Kevin William Hovevar**

VP & Equity Research Analyst

**Question:**

Okay. And then in terms of -- could you give a little color on how some of the product lines are doing? So you grew volumes real strong in the fourth quarter in the U.S. and CCM up 11%. And I believe that that's well in excess of the market, which -- and you've done a really good job of growing above the market this year. So wonder if you can comment a bit on the product lines. I think EPDM particularly have been gaining share. So kind of wondering if you can tell us -- give us a little color on how the product lines are doing in there.

**D. Christian Koch**

Chief Executive Officer, President and Director

**Answer:**

Yes, I'll be happy to do that. Generally, across the big product lines, we're seeing that low to mid-teens growth in those. In EPDM, it's been interesting. You're aware of the issues that have going on in the marketplace with competitors, and we did in the fourth quarter see that I would say EPDM rates were significantly higher into the double digits growth rates in the fourth quarter, much higher than they traditionally have been. And I think we've characterized that market in the past as a very low growth market. So obviously, that's coming from share gains. TPO continues to be right on track with what we've seen in the past. PVC is making nice strides for it, too, as we enter that market with our own production a few years ago, and we're seeing great traction there. Our polyiso business, good consistent growth. And then when you look through waterproofing, Europe okay growth and meeting our expectations. But in terms of the big 4, EPDM, TPO, PVC and polyiso, very good growth.

**Kevin William Hocevar**

VP & Equity Research Analyst

**Question:**

Got you. And then on Brake & Friction, you had \$84 million in sales this quarter and \$1 million loss. There were some restructurings in there. And I think excluding that it would've been a little positive like \$1 million or something. And then the last one -- if I look back to the last time you were kind of around the similar sales level in the first half of [ '18 ], you're getting about \$8 million of EBIT per quarter. So I wonder if you could help me bridge a little bit what the difference is? And I think with the mix, maybe that's the answer with aerospace being down, but wondering if you can help me bridge a little bit of that, the difference in earning based on that similar sales level?

**D. Christian Koch**

Chief Executive Officer, President and Director

**Answer:**

Yes. I would pick it up, first, where exactly you did. I think it's great understanding of what we've been doing. The aircraft business has been significantly impacted, and that was our highest margin business over the years. And so that's, I would say, the main driver to it. I think also the mining business has not recovered as quickly as, say, construction and mining also at the right volume levels starts to pick up speed on the EBIT as we get that volume back as we've talked about. So I think you're right on the mix there, and I would point to those [ too ].

**Operator**

Next question comes from the line of Jim Giannakouros.

**James Giannakouros**

Executive Director and Senior Analyst

**Question:**

Quick follow-up here. To the extent that you can comment, I mean, how things started off this year particularly in CCM appreciating, that you're in a seasonally soft period, but your -- but the last 2 years have been blowouts just because of the mild winters that we've had, specifically in the U.S. So tough comps from a volume and from a margin perspective. Any color to help us kind of, off the bat, type of model you guys, would be helpful.

**D. Christian Koch**

Chief Executive Officer, President and Director

**Answer:**

Sure. I'll just give a couple of comments, and Bob could jump in, too. We see the trends, that were in the fourth quarter continuing into the first quarter. The trends you mentioned year-over-year in the first quarter have continued, and we have continued to have higher percentage growth rates year-over-year in the first quarters. And I think my guess is that a lot of that has to do with the project backlog and the tight labor markets and our contractors wanted to get on the roof as quick as possible in the season to drive those projects that are either in backlog or to get a jump on the season. So we're looking at, I think, from the ABI, pretty good results there. The regional average is, I think, South 56, West 53, Midwest 52, Northeast was around 50. Those are good. We see good demand out in the marketplace, as you could tell by our fourth quarter pricing has remained relatively stable. So I think the first quarter outlook is favorable. Bob, do you want to add to that?

**Robert M. Roche**

Chief Financial Officer and Vice President

**Answer:**

Yes. I mean, we're seeing continuing strength as we expect for the full year. We don't expect that a lot different in the first quarter, now even with the strong growth it's still our seasonally lowest quarter. So we have some absorption headwinds there, and we talked about the raw materials. But from a revenue perspective, we're feeling pretty good with growth.

**Operator**

There are no other questions at this time.

**D. Christian Koch**

Chief Executive Officer, President and Director

**Answer:**

Well, thanks, Christie. This concludes our fourth quarter 2017 earnings call. I want to thank everyone for their participation, and we look forward to speaking with all of you on the next earnings call. Thank you.

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