

Carlisle Companies Incorporated NYSE:CSL

FQ3 2021 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.75	2.99	▲ 8.73	2.70	9.18	NA
Revenue (mm)	1267.11	1315.60	▲ 3.83	1286.95	4743.02	NA

Currency: USD

Consensus as of Oct-22-2021 11:36 AM GMT

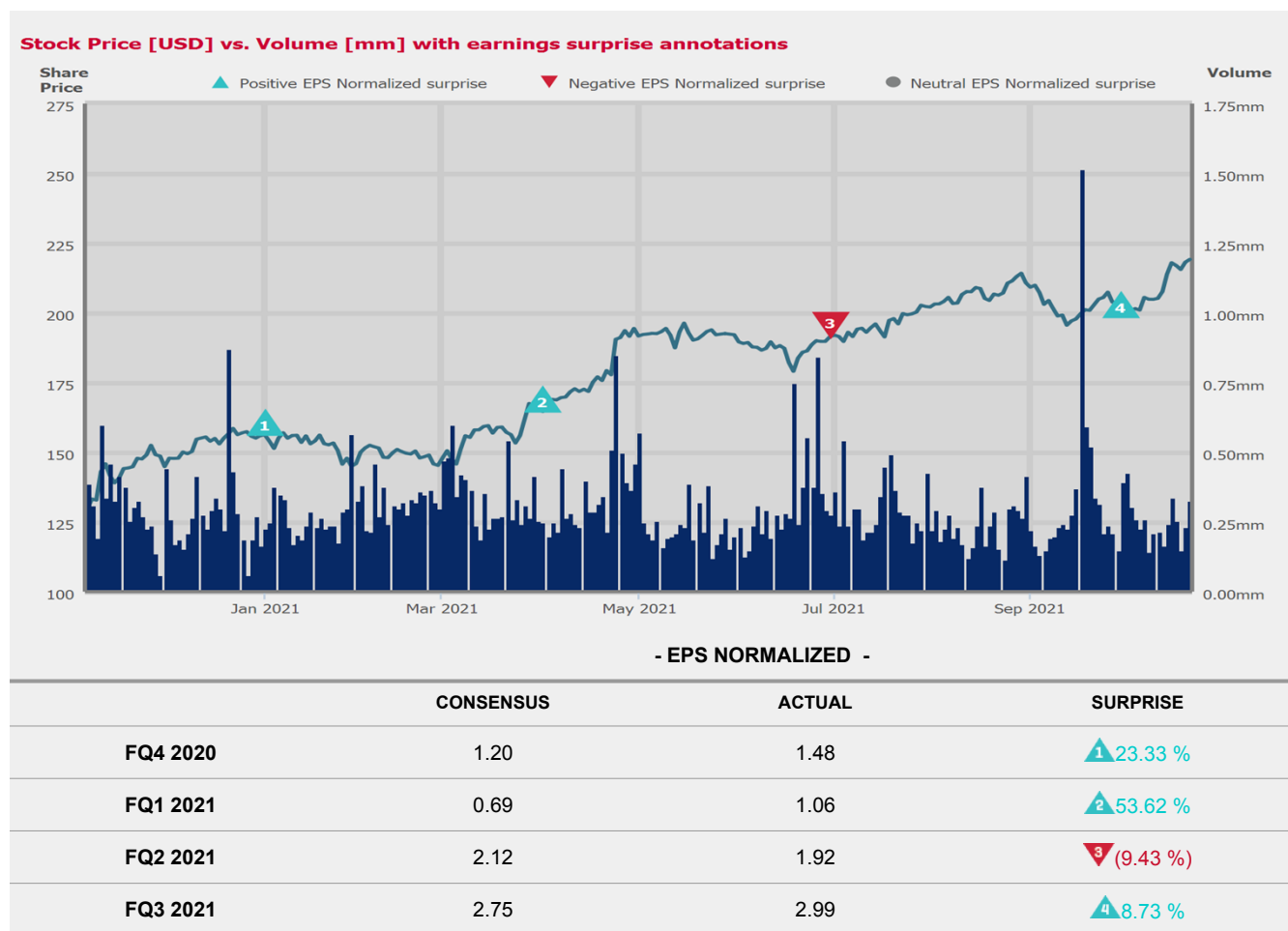


Table of Contents

Call Participants	3
Presentation	4
Question and Answer	10

Call Participants

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Chairman, President & CEO

James Giannakouros
VP of Investor Relations and FP&A

Robert M. Roche
VP & CFO

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Loop Capital Markets LLC, Research Division

Saree Emily Boroditsky
Jefferies LLC, Research Division

Timothy Ronald Wojs
Robert W. Baird & Co. Incorporated, Research Division

Presentation

Operator

Good afternoon. My name is Bethany, and I will be your conference operator today. At this time, I would like to welcome everyone to the Carlisle Companies Third Quarter 2021 Earnings Conference Call. [Operator Instructions]

I would like to turn the call over to Mr. Jim Giannakouros, Carlisle's Vice President of Investor Relations. Jim, please go ahead.

James Giannakouros

VP of Investor Relations and FP&A

Thank you, Bethany. Good afternoon, everyone, and welcome to Carlisle's Third Quarter 2021 Earnings Conference Call. We released our third quarter financial results after the market close today, and you could find our press release and earnings call slide presentation in the Investor Relations section of our website, carlisle.com.

On the call with me today are Chris Koch, Chairman, President and Chief Executive Officer; and Bob Roche, our CFO. Today's call will begin with a business update from Chris, highlighting third quarter results, current trends and context around our continued progress towards achieving our strategic plan, Vision 2025. Bob will discuss the financial details of Carlisle's third quarter performance and current financial position. Following Chris and Bob's remarks, we will open up the line for questions.

But before we begin, please refer to Slide 2 of our presentation, where we note that comments made on this call may include forward-looking statements based on current expectations of future events and their potential effect on Carlisle's operating and financial performance that involve risks and uncertainties, which could cause actual results to be materially different. A discussion of some of these risks and uncertainties is provided in our press release and in our SEC filings. Those considering investing in Carlisle should read these statements carefully and review reports we file with the SEC before making an investment decision.

Today's presentation also contains certain non-GAAP financial measures. We've provided a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financials in our press release and in the appendix of our presentation materials.

With that, I introduce Chris Koch, Chairman, President and CEO of Carlisle.

D. Christian Koch

Chairman, President & CEO

All right. Thanks, Jim. Good afternoon, everyone, and thank you for joining us on our third quarter 2021 earnings call. I can start by saying I hope all of you, your families, coworkers and friends are returning to some semblance of your pre-pandemic lives while remaining safe and healthy.

As you all know very well, the challenging and uncertain environment that we have experienced since the pandemic began in early 2020 continued through the third quarter of 2021. This year has truly been a story of 2 halves. When we entered 2021, global prospects remained highly uncertain, new virus mutations were occurring, and we were slowly and unevenly emerging from lockdowns.

Entering the second quarter, the rollout of vaccine started to gain momentum as access to vaccines became widespread and the extraordinary stimulus being injected into the global markets took hold. We began to turn a corner and slowly return to our pre-pandemic activity, which in turn drove increased economic growth in the world that was woefully unprepared to absorb the rates of gain.

And during factory shutdowns, stressed labor markets and lack of supply manifested themselves in increased inflation, the major challenges to normal business operations. These dynamics, coupled with the Delta variant spiking in the summer months and effects of Hurricane Ida made the third quarter even more challenging.

Thankfully, as we exited September, we seemed to be past the Delta outbreak peak, and we're optimistic that recently enacted remedies to ensure stability in labor markets and easing of constrained conditions in our supply chains will take hold.

Carlisle's team leveraged our continuous improvement culture, exhibiting grit and determination to deliver on the Carlisle Experience, which I'm happy to report drove outstanding performance, including record third quarter revenue. Simply put, we have asked a lot of our employees over the past 1.5 years, and the team has risen to the occasion every time, especially in the third quarter.

There's no doubt, everyone at Carlisle is working on solutions and innovative approaches to help alleviate the pressures and deliver for our stakeholders as strong order trends across our businesses suggest demand will remain strong as we close out 2021 and continue through 2022. That said, we do expect supply chain issues to ease slightly in the fourth quarter and gain more traction early next year, with a better balance being achieved perhaps by mid-2022.

Please turn to Slide 3. Over the last several years and in particular through the pandemic, Vision 2025 has ensured clarity of mission and consistent direction for our entire organization. In the third quarter, we successfully delivered on our key pillars of Vision 2025, including driving organic growth in excess of 5%. In the third quarter, we delivered over 19% organic growth for the company. As we rebound off the COVID-induced lows in last year and look forward to the prospects for growth across our business segments, we remain very confident in our ability to generate targeted mid-single-digit organic growth CAGR through 2025.

An important component of organic growth is demonstrated price leadership. We've always focused on earning price in the marketplace by delivering on the Carlisle Experience, which means providing our distributors, contractors and other channel partners with innovative products of the best quality at the right place, at the right time and as efficiently as possible. We couldn't do that without diligent planning and collaboration with our suppliers to ensure a steady flow of our necessary inputs.

And while extremely challenging in the third quarter, this collaboration proved particularly valuable in this uncertain environment. Our ability to anticipate these challenges, especially this year, and maintain a proactive posture on pricing has enabled us to provide a high level of service to our channel and to our end user contractor base.

Through a disciplined and proactive approach, we are successfully navigating the current inflationary environment. In the third quarter, we more than offset the significant raw material and freight cost increases experienced in CCM with pricing and notably are on track to be price-cost neutral for the full calendar year 2021.

Another important pillar of Vision 2025 is to build scale in our higher-returning businesses through acquisitions. Since the inception of Vision 2025, we've expanded into polyurethanes with the 2017 acquisition of Accella. We've moved into Architectural Metals with the 2018 and 2019 acquisitions of Drexel and Petersen, respectively. And most recently, expanded into weather, vapor, air and energy barrier systems with the acquisition of Henry Company in the third quarter.

Henry not only clearly demonstrates our strategy of expanding further into the Building Envelope, but also highlights our drive to increase the content of energy-efficient products in our portfolio. As a reminder, buildings account for approximately 30% to 40% of annual global greenhouse gas emissions. Henry's weather, vapor, air and energy barrier systems contribute to the reduction of these emissions.

One example of this is Henry's Air and Vapor barrier product called Blueskin. Blueskin prevents uncontrolled air leakage and can yield up to 30% savings on heating and cooling costs. With accelerating demand for energy-efficient products made for more sustainable buildings in the future, we will continue to emphasize the development of products that help reduce the carbon emissions of buildings, positively impacting the environment.

Finally, in the third quarter, we also continued to execute on our Vision 2025 capital deployment strategy. Despite closing on Henry, which was the largest acquisition in Carlisle's history, we continue to repurchase shares, spending \$25 million during the third quarter and bringing our total repurchases year-to-date to \$291 million. As a reminder, since 2016, we have had over \$1.8 billion in share repurchases.

We also anticipate continuing our long history of consistently raising our dividend, which we did again in August, marking the 45th consecutive year of increases. We are very proud of the near half century of stability in our business model that affords us the ability to consistently return capital to shareholders.

Turning to Slide 4 and transitioning to our ESG efforts. As we close out 2021, we continue to make steady progress and are performing audits to establish baseline data at our manufacturing facilities, identify opportunities for energy, waste, water and greenhouse gas reduction and establish achievable reduction targets for the future based on real, measurable and impactful actions.

With the Carlisle Operating System core to our culture as a key driver of our success, continuous improvement applies to our ESG efforts as well. We're utilizing the Carlisle Operating System toolkit and processes to establish ESG goals and targets, which among many benefits will result in meaningful reductions in our emissions and energy consumption. We will set and publish these targets in the coming year.

Citing a few notable ESG projects with impactful results that progressed in the third quarter. We started recycling production materials made of paper such as facer, cardboard, office wastepaper from our Carlisle, Pennsylvania campus back into our polyiso insulation products in mid-2020. Throughout 2021, we've expanded this program to 3 more CCM manufacturing sites around the U.S. And through the third quarter, we have recycled nearly 1 million pounds of what would have been waste back into our insulation products.

Another effort has been to upgrade our factories with more efficient LED lighting. Throughout 2021, we have added LEDs and motion controls at many factories, saving more than 3.5 million kilowatt-hours of electricity, which translates into a reduction of close to 1,300 metric tons of greenhouse gases.

In an exciting new program, we plan to upgrade our expanded polystyrene facility in Dixon, California, to enable production using 100% recycled materials by the end of next year. We'll have the ability to recycle as much as 150 tons of our production and customer scrap annually, which avoids significant waste from entering landfills. Subsequent expansion of the facility will provide for the recycle of any EPS product away from any source.

I was in Dixon this fall -- or at the beginning of this fall, and I was really pleased with what the team was doing and the fact that this initiative was driven by the folks in the facility there. And we're proud to see ESG moving through our entire company with such momentum.

Turning to Slide 5. Our performance in the third quarter of 2021 evidence is solid execution. Revenue increased 25% year-over-year with organic revenue up over 19%. All segments contributed to this growth. Adjusted EPS increased 27% year-over-year to \$2.99 as higher volumes and price and cost discipline more than offset inflation during the quarter.

And let me provide some additional divisional highlights, starting with CCM. Our Construction Materials business delivered an outstanding quarter despite the severe challenges across its supply chain. CCM's organic growth in the third quarter was over 23% year-over-year. And notably, organic sales were close to 14% higher than the third quarter of 2019. CCM continues to benefit from a growing backlog fueled by the strong reroofing cycle in the U.S., which we estimate will grow from a market size of \$6 billion to \$8 billion in the next decade and with an ever-increasing emphasis on the energy efficiency of buildings, our proactive pricing actions and our investments in expanding our presence in the Building Envelope.

We believe CCM's third quarter results on top of their performance through the pandemic support our view that replacing a roof can only be postponed for so long, ensuring that the underlying demand trends are very much intact.

On Slide 6, you can see how we're continuing into and expanding the Building Envelope, providing solutions from the ground-up. Our increasing focus on the Building Envelope is exemplified by our recent acquisition of Henry, which delivered excellent results in its first month with Carlisle where the integration thus far has been very smooth. As the integration has progressed, we've really become more appreciative of Henry's seasoned management team, which is executing all fronts -- on all fronts and already proving to be a great addition to Carlisle.

With similar cultures around innovation, pricing to value, focus on customers and continuous improvement and strong results out of the gate, we are increasingly confident in Henry's ability to exceed our preliminary forecast of \$1.25 in adjusted EPS accretion in 2022.

We're also pleased with our other growing platforms that represent our initial expansion efforts into the Building Envelope. Please turn to Slide 7. Architectural Metals and polyurethanes were both up over 35% in the quarter and continue to progress well on profitability improvements. And regarding our presence and our expansion geographically, our new CCM European leadership team continues to make really good progress growing the core business, improving their

profitability and driving new energy-efficient product introductions. And our recent investments to expand our capacity in our Waltershausen, Germany facility will only serve to support that growth.

Lastly, on CCM drivers, given our history of price leadership, proactive approach to pricing coming into 2021 and actions taken year-to-date, we're very pleased that pricing more than offset raw material and freight cost inflation in the quarter. Our multiyear focus on price began in 2016, gained traction in 2017 and continued to evolve. This evolution has resulted in a more robust and comprehensive pricing management philosophy and execution at CCM, which demonstrated its power during the inflationary environment in 2021.

And finally, I'd like to take a moment to note that our results could not have been generated without the stellar work of our sourcing team at CCM. They're doing an excellent job ensuring CCM is able to produce all it can, especially as demand across product lines is showing no signs of slowing. Ultimately, their hard work contributes significantly to our ability to deliver the Carlisle Experience.

Moving to Slide 8. At CIT, third quarter revenue grew 6% year-over-year, evidence of continued progress in both CIT's Commercial Aerospace and Medical Technology platforms. The Commercial Aerospace backlog has now reached levels not seen since May of 2020, which is a significant milestone. We're encouraged by the growing demand related to narrow-body production, driven by a steady rebound in air travel domestically. And longer term, when demand for wide-body production returns, CIT is well positioned to capture and leverage that growth.

Over the last several quarters, CIT has taken significant restructuring actions such as closing our facility in Kent, Washington to drive improved profitability. The impact of these actions has shown over the past several quarters, driving CIT's profitability on an adjusted EBIT basis to swing positive during the quarter.

Now on the Medical side, record revenues supported CIT's sequential and year-over-year revenue growth as hospital capital spending has resumed. Longer term, as our Medical business gains momentum and adds to its record backlog, we believe the platform is well positioned to drive and leverage mid- to high single-digit annual growth going forward.

On CFT, given its reenergized commitment to new products, improved operational efficiencies, price realization from earning the value of innovation and an improved customer experience, CFT generated revenue growth of 9% year-over-year and adjusted EBIT growth of 16% year-over-year in the third quarter. CFT is benefiting from increasing industrial capital expenditures across its end markets despite supply chain issues in the automotive markets. It's also making solid progress integrating and growing its newer platforms of Sealants & Adhesives, Foam and Powder.

With the focus on innovation, a leader cost structure and a push into automation, we are optimistic about CFT's ability to generate sustainable value creation by driving and leveraging solid growth and healthy incremental margins. We expect the team to continue executing on its Vision 2025 growth strategy and to deliver continued improvement in the fourth quarter and certainly next year and beyond.

And with that, I'll turn it over to Bob to discuss our financial performance in greater detail. Bob?

Robert M. Roche
VP & CFO

Thanks. As Chris mentioned earlier, we had a strong third quarter. There are some items -- several items that I'm especially pleased with: CCM's ability to offset challenging operating cost conditions by focusing on delivering Carlisle Experience, the growing backlog at CIT and CFT, our successful senior notes issuance, our disciplined approach to capital deployment in the form of share repurchases and dividends, continued investment in our high ROIC businesses to drive organic growth, and finally, our portfolio optimization actions, including divesting CBF and the acquisition of Henry Company.

Please turn to revenue bridge on Slide 9 of the presentation. Revenue was up 25% in the third quarter, driven by volume growth at all of our businesses, price and the acquisition of Henry. Organic revenue was up 19%, driven by CCM, which delivered 23.3% organic growth. Acquisitions contributed 4.8% of sales growth for the quarter, and FX was a 30 basis point tailwind.

On Slide 10, we have provided an adjusted EPS bridge. We can see third quarter adjusted EPS was \$2.99, which compares to \$2.35 last year. Volume, price and mix combined accounted for \$2.15 of the year-over-year increase. Raw material, freight and labor costs were a \$1.75 year-over-year headwind. Acquisitions contributed \$0.15. Interest and tax

together were a \$0.05 tailwind. Share repurchases contributed \$0.06. COS contributed \$0.09. And higher OpEx was an \$0.11 headwind year-over-year.

Now let's turn to Slide 11 to review the third quarter performance by segment in more detail. At CCM, the team again delivered outstanding results, with revenues increasing 29%, driven by volume, price, contributions from Henry, along with a 10 basis point foreign currency translation tailwind. All of CCM's product lines delivered double-digit percentage growth. CCM effectively managed raw material inflation headwinds experienced in the quarter with disciplined pricing, proactive sourcing and allocating products to the strategic customers.

Adjusted EBITDA margin at CCM was 22.6% in the third quarter, a 240 basis point decline from last year, driven by higher raw material prices, labor inflation and a return to more normalized SG&A spending, partially offset by volume, price and COS savings. We continue to anticipate net neutral price cost for the full year. Adjusted EBITDA grew 16.6% to \$240.5 million, again demonstrating the earnings power of our CCM business.

Please turn to Slide 12 to review CIT's results. CIT revenue increased 6.1% in the third quarter. As we expected, CIT returned to growth and promisingly returned to profitability on an adjusted basis. CIT's Commercial Aerospace backlog has consistently grown in 2021 and has now surpassed second quarter 2020 levels.

CIT's Medical platform continues to build a robust pipeline of revenue-generating products with increasing backlog. The team delivered record sales in this business in the third quarter, and we continue to expect sequential improvement from pent-up demand as the impacts of COVID on hospital CapEx and postponed elective surgeries ease.

CIT's adjusted EBITDA margin improved year-over-year at 13%, driven by Commercial Aerospace and Medical volume recovery, along with COS, partially offset by raw material and labor inflation. Given the positive indicators and actions undertaken in 2020 and 2021 to rightsize the business, we are optimistic that CIT is positioned to leverage a return to growth over the coming quarters and years.

While mix influences and timing of channel inventory depletion are our biggest watch items, we remain confident in CIT's ability to manage through these, ensuring greater leverage to the recovery in the coming quarters and years, with the line of sight to profitability exceeding pre-pandemic levels as demand returns.

Turning to Slide 13. CFT's sales grew 9.4% year-over-year. Organic revenue improved 6.3%. Additionally, acquisitions added 0.9% in the quarter, and FX contributed 2.2%. CFT is well positioned to accelerate through the recovery due to continued stabilization in end markets, driven by an improved industrial capital spending outlook, coupled with new product introductions, which have included \$12.4 million of incremental new product sales in 2021 year-to-date, along with pricing results.

Adjusted EBITDA margins of 15.3% or 40 basis point decline year-over-year. This decline was driven by labor inflation and higher operating costs, partially offset by volume, price and mix.

On Slides 14 and 15, we show selected balance sheet metrics. Our balance sheet remains strong. We ended the quarter with \$296 million of cash on hand and \$1 billion of availability under our revolving credit facility. We continue to approach capital deployment in a balanced and disciplined manner, investing in organic growth through capital expenditures and opportunistically repurchasing shares, while also actively seeking strategic and synergistic acquisitions.

In the quarter, we repurchased 124,000 shares for \$25 million, bringing our 2021 year-to-date total to 1.7 million shares for \$291 million. We paid \$28 million in dividends in the third quarter, bringing our '21 total to \$84 million. We invested \$34 million of CapEx into our high-returning businesses to drive organic growth, bringing our 2021 total to \$89 million. Finally, we had a successful debt issuance of \$850 million of senior notes at a weighted average coupon of 1.6%, which lowered Carlisle's cost of debt from 3.35% to 2.85%.

In addition, as has been noted, we completed the purchase of Henry Company for \$1.575 billion. Henry is expected to deliver approximately \$100 million in free cash flow on our first full year of ownership. We expect meaningful cost synergies of \$30 million annually by 2025. Finally, we expect Henry to be immediately accretive to Carlisle's EBITDA margin, adding over \$1.25 of EPS in 2022.

Free cash flow for the quarter was \$82 million, a 55% decline year-over-year due to increased working capital usage related to our 25% revenue growth in the quarter.

Turning to Slide 16. You can see the outlook for 2021 and corporate items. Corporate expense is now expected to be approximately in the \$120 million to \$122 million range, slightly lower than our previous estimate of \$125 million. We expect depreciation and amortization expense to be approximately \$230 million, which now reflects the Henry acquisition. We expect free cash flow conversion to be in the 105% to 110% range, slightly lower than our previous estimate, primarily due to high-cost raw materials that we are holding in inventory.

We now expect capital expenditures of approximately \$125 million, lower than previous estimates mostly due to timing. Net interest expense is now expected to be approximately \$94 million for the year, higher than previous guidance due to our debt issuance in the quarter. We continue to expect our tax rate to be approximately 25% for the year. And finally, we expect restructuring expense to be approximately \$15 million to \$20 million in 2021.

And with that, I'll turn the call back over to Chris.

D. Christian Koch
Chairman, President & CEO

Thanks, Bob. Entering the third quarter, we continue to be optimistic about the remainder of 2021 and the first half of 2022. There are numerous reasons for this optimism, including record backlogs at CCM, supportive trends in CIT's aerospace markets, growing strength at CFT, improvements in our supply chain, the impact of positive and proactive pricing actions and significant traction on our ESG journey, all the while leveraging COS and the Carlisle Experience to deliver innovative products to our customers.

For these reasons, we're confident in our continued ability to deliver results for all Carlisle stakeholders.

For full year 2021, we anticipate the following: at CCM, the underlying reroofing trends that have provided a solid foundation for growth over the past decade picked up in the second half of 2021 after a pause in 2020. Through the pandemic, we continued to invest in CCM in order to ensure we would be ready when demand returned.

In addition, our expansion further into the Building Envelope, the increasing importance of energy-efficient products, contributions from Henry and our proactive pricing actions have positioned CCM well for continued growth over the coming quarters. Considering this momentum, we are increasing our anticipated revenue growth to mid-20% in 2021.

At CIT, we are encouraged by the recovery in narrow-body commercial aircraft. While this first step to recovery is encouraging, demand for wide-body aircraft, driven by international travel, remains muted in 2021. We anticipate this demand will return to previous levels as COVID concerns subside and countries relax their travel restrictions.

In addition, CIT's Medical business has built a record backlog. Taken together and coupled with significant restructuring at CIT over the past 18 months, CIT is now positioned to take advantage of the ongoing recovery. We continue to expect sequential improvements and now expect CIT revenue will only decline in the mid-single-digit range in full year 2021.

At CFT, with end markets strengthening due to increasing industrial capital expenditures and improvements in the team's execution of our key strategies, including new product introductions, accelerating growth in our new platforms and price discipline, we continue to expect mid-teens revenue growth in 2021.

And finally, for Carlisle as a whole, we are now increasing our expectations to deliver high teens revenue growth in 2021. As we progress through the final quarter of 2021, we are tracking to deliver a record year despite one of the most challenging time periods in our history. We remain committed to our Vision 2025 goals of \$8 billion in revenues, 20% operating income and 15% ROIC, all driving to exceed \$15 of earnings per share by 2025.

Despite the continued uncertainties around COVID, stressed supply chains, raw material shortages, labor inflation and winter weather, Carlisle's resilient employees have adhered to our COVID protocols, shown respect for each other in the workplace, focused on safety, most importantly, remain focused on delivering results for all our Carlisle stakeholders. With that, we'll conclude our formal comments, Bethany. We're now ready for questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Bryan Blair with Oppenheimer.

Bryan Francis Blair

Oppenheimer & Co. Inc., Research Division

So maybe dig in a little more on the CCM's underlying demand trends and outlook, last quarter, you had cited orders close to -- I think it was 2x normalized levels. How did 3Q trend compare to that? What kind of momentum do you have into 4Q, understanding that's a seasonally lighter period we're now in? And how is your team thinking about the disconnect that we've had, at least over the recent past in terms of order rates versus revenue?

On that front, is there any further clarity on the percentage of firm orders adding to pent-up demand and backlog entering 2022 versus the double order when that was there in response to supply concerns?

D. Christian Koch

Chairman, President & CEO

Bryan, let me -- first just let Bob jump in. I think the demand has just continued. We see more traction as we progress into the Q3 and as we enter Q4. And we've seen backlogs increase, and we've seen orders push out. I think we're now into the second quarter of 2022, something that in the past, that length of ordering or at least that time period of delivery has not really been seen before in a large scale.

So yes, the demand continues. I think fourth quarter will be an abnormal fourth quarter in the sense that, yes, we have been seasonally affected in the fourth quarter usually. But I think with the backlog, it will be as much as we can get shipped and as much, really importantly, as roofers can put down. I mean, obviously, they have work that needs to get done. And we're going to be constrained -- or they're going to be constrained by 2 things, I think, labor availability and then weather. So stay tuned. But I think should we have a good fall and good early winter, and by that, I mean open days on the roof, I think things will continue in a positive direction.

And then on the double booking in that, I think our team has done something very interesting, which is they've put in some -- and I'm not going to go into details, but they've put in some mechanisms that have really taken out that double booking in our bookings. And even with doing that, things remain strong and lead times continue to extend. Bob, do you want to add anything?

Robert M. Roche

VP & CFO

No. You covered it, Chris.

Bryan Francis Blair

Oppenheimer & Co. Inc., Research Division

All good to hear. And you're obviously putting through a lot of price, encouraging to see price-cost back into positive territory. As prices continue to climb, have you sensed any pushback in the channel? Are there concerns about demand destruction with potentially shifting project economics going forward?

D. Christian Koch

Chairman, President & CEO

No, I don't really think so. I think people understand that it's in a very inflationary time. I think the key thing now is can you get product, I think it gets passed on early in the year, I would say there was more pushback in the first quarter where the demand hadn't picked up yet. But as things have accelerated, I think people are focused on getting jobs done.

I think also, I'll give a tip of the hat to the guys at Greco today and David Lowe who made a nice comment that people do a fair job of recapturing the costs, right? But we still have to make sense to what the end user customer is doing at the decision point of sale. And I think our CCM team has done a really good job of that, of balancing that idea that it's not like we made big gains in price over raws. We're saying we're neutral.

So we're attempting to secure raw materials, so they can complete their jobs, and not trying to take advantage of the situation. So again, they've been making decisions to come to Carlisle consistently, and we haven't seen any degradation in jobs or movement of jobs due to price.

Bryan Francis Blair

Oppenheimer & Co. Inc., Research Division

Understood. And your commentary on early-stage Henry integration was very positive. Any other color you can offer there? And specifically, what drives your confidence in or increasing confidence in exceeding the \$1.25 in year 1? And specifically, does that contemplate any price-cost tailwinds? Or was your commentary independent of that lever?

D. Christian Koch

Chairman, President & CEO

Yes. I would say that, first of all, our confidence in this is we've gotten -- we've had a lot of confidence going in as we did our due diligence and looked at what the Henry team has done over at least the last 6 years. And we talked about that on the call after we purchased them and Bob's talked about it and Jim, I know, has too.

We've gotten to know the team better. I can tell you that, and we are very impressed with Frank Ready and the team that he's assembled. They've stayed on post the acquisition. They're doing a great job. They continue to operate. There hasn't been any delay. We've had a really good job by our corporate integration team, supporting the CCM and Henry folks, and things have gone really smooth. So it's a tip of the hat to both teams and how quickly they've come together and really focused on growth in that.

In terms of the pricing in that, I would say that Henry is a premium brand. It's well recognized by their end users. It's demanded by their end users. And I think they've had the same success as CCM has had. And going to their channel partners and saying, we're seeing escalating raw material costs. We're seeing availability struggles that we need to pay more to get that product, but we can get it to you and they're fulfilling, but they're having to fulfill at a higher cost.

And I think the channel partners and end users have understood that, and we've just seen good execution there. So I think, in general, a great team, continued execution on what they were doing anyway and really good integration is just increasing our optimism for 2022.

Operator

The next question comes from the line of Saree Boroditsky with Jefferies.

Saree Emily Boroditsky

Jefferies LLC, Research Division

Can you just talk through your increase in guidance for CCM sales to be up mid-20%? How should we think about the contribution from Henry in your assumptions on price versus volume? And then any color on the carryover of pricing actions into 2022?

D. Christian Koch

Chairman, President & CEO

And maybe I'll take the first one on the carryover, and Bob can handle the previous one. The pricing actions, again, we talk about being neutral. We do think those pricing actions will carry through as long as demand holds up, which it is. And I think we will see if there is any continued increase in either labor or freight or raw materials or any of that, we will obviously take actions to offset that. But I don't see any issue with that carrying through, and I think it will probably carry through at least to the first half of 2022.

So that's pretty much just what we've been doing and been pretty consistent through the year on price and why we're driving price. And I think it's been clearly communicated to the channel as well and to -- and everyone understands. And Bob, you might want to address that next comment of Saree's.

Robert M. Roche

VP & CFO

Yes. Saree, the -- I'm going to say the guidance for base CCM continues to be the high teens, and then we're adding in Henry to the tune of 5% or 6%.

Saree Emily Boroditsky
Jefferies LLC, Research Division

Understood. And then you made a comment about orders going out to the second quarter of 2022. How does that work from a price-cost perspective? Do these orders go out the prior pricing levels, so there should be more of a lag in realized pricing than is typical?

D. Christian Koch
Chairman, President & CEO

No. In fact, Saree, what's really happened recently has been that a lot of these orders are being priced at the time of shipment. So we'll see that those orders are really -- they're placed, but they're not being given pricing that we're going to have to recognize later. If there is escalation, we'll price to that escalation.

Operator

The next question comes from the line of Garik Shmois with Loop Capital.

Garik Simha Shmois
Loop Capital Markets LLC, Research Division

You cited weather as a headwind in the release. Is that mostly on the supply side with the storms in Gulf Coast? Was there a cost impact, if so? And also, do you see any push out of demand, given some of the weather headwinds that you might have experienced. And I guess what I'm ultimately getting at is it possible that all to quantify how much the weather impacted the margin side?

D. Christian Koch
Chairman, President & CEO

Yes. It's interesting, Garik, if it was a normal quarter, we probably would have been able to quantify. We would have said something like 2 or 3 days off the roof, but we didn't, I think, with everything else going on and all the puts and takes. It obviously impacted demand. If there's a hurricane coming through the central part of the United States, obviously, we're not going to have people on roofs. They're going to be taking care to be safe and other things like that.

I would say, though, it probably impacted the supply chain that was already under stress, even more than it did demand. And so yes, the demand gets pushed out. As we said, if you're going to reroof a roof or if you're going to do a job, you're going to have to do it. And if you can't get it done that day, you've got to do it in the future. And then on the supply chain, I think it's just, as I said, it aggravated the situation more, probably put a little bit greater upward pressure on either supply availability or pricing or maybe both.

Garik Simha Shmois
Loop Capital Markets LLC, Research Division

I was wondering if you could maybe provide a little bit more color on what you're seeing on the supply chain? Your degree of confidence that it will return to some sort of normalization in 2022 would be helpful.

D. Christian Koch
Chairman, President & CEO

Right. Well, I think from the base premises, if we look back at 2020, when we look at the costs that we had on unit cost across MDI, TPO, polyol, EPDM, those things, those were supplied at a certain level with certain capacity there. And really, the only thing that happened was we had COVID and people had more restricted work days. They shut things down, things like that. And price is escalated.

When we look at the pricing escalation, most of it was done between the latter part of Q2, I would say probably June, and then into Q3 and accelerated a bit into Q4. As they had to hire, you can see the rising cost of labor, you have to start up factories, you have increased shipping costs. I think we saw that this doesn't affect us necessarily directly. But freight from

containers from China had gone from, let's say, \$4,000, \$5,000 to \$25,000 on the spot market, I think. So you see this happening.

And I think our thought is that these things will get worked out. We know in the Port of Long Beach, I think they've gone to 7 day a week, 24-hour day work. They're going to see some reduction in the backlog there over time. It will take time to do it. And we think that plays out in the rest of the economy.

And by the time we get to Q1, those same trends that were there in 2019 and the capacity and everything else comes back. And really, we haven't seen the growth that would tell you that we've exceeded some of those capacities. And so I think we go back to kind of '19 and we see some stabilization and reduction in at least in the lack of availability and hopefully some pricing as well.

Garik Simha Shmois

Loop Capital Markets LLC, Research Division

Okay. And then just my last question. Just in CCM, just given the momentum in your backlog, how much in this do you think is just underlying demand and just kind of the natural part of the commercial roofing cycle that we're in versus your ability to continue to take market share, just given your capacity and service levels?

D. Christian Koch

Chairman, President & CEO

Yes. I wouldn't read too much into market share in the June through current date time frame. I think we don't have a lot of really concrete data that we've gained share. I think what we've seen anecdotally is that we've had more people that previously were with competitors come and ask us for products. So that would tell me that we're maybe in a little bit of a better position than others, but I can't back that up with anything on numbers.

So I look back to the way it was, like I said, in '19 before COVID hit. And I don't think with the competitors there that the markets have changed that much so that going forward, we'll see significant changes in market share. So I think it's really been -- demand has accelerated because last year went down and projects were delayed and projects were pushed aside and projects were postponed. And then we came back, as we said, in the first quarter. We thought things were going to be strong this year. We built inventory. We raised prices because we anticipated as the vaccines took hold and as reopenings occurred, that demand would pick up.

And as we've always said, with 70% of our business being in reroofing that these things have to get done and it would have to pick up some time. And so I think a lot of this demand is spread evenly across all of our competitors and ourselves, and it's just a response to the 2020 downturn. And that great mid-single-digit underlying trend that was there post 2010 just continues.

Operator

The next question comes from the line of Tim Wojs with Baird.

Timothy Ronald Wojs

Robert W. Baird & Co. Incorporated, Research Division

Maybe just sticking on supply a little bit more on availability. Have you had any meaningful challenges actually getting supply in terms of commodities?

D. Christian Koch

Chairman, President & CEO

Yes. I would say, yes -- yes, definitely. I'm not going to point out which ones. But yes, there have been some instances, and that's why we pointed to our sourcing team. They've done a heck of good job scouring the globe, trying to find stuff to make sure we can meet our customer demand.

Timothy Ronald Wojs

Robert W. Baird & Co. Incorporated, Research Division

Okay. I mean has that -- is that what the easing is as you think of like Q3 to Q4, as actually the availability?

D. Christian Koch

Chairman, President & CEO

Yes, I think that's the first. I think that, absolutely.

Timothy Ronald Wojs

Robert W. Baird & Co. Incorporated, Research Division

Okay. Okay. And then, I guess, just in the off-season, I mean, historically, you guys have used it as a time to build more inventory? I'm just trying to think about as you prepare for next season, particularly in the membrane part of the business, how you're thinking about kind of that pre-season inventory build to support next season? If you just have like a normal build, I guess, or be able to do a normal build?

D. Christian Koch

Chairman, President & CEO

I would think it would be disingenuous to say we're going to have a normal build. I think as we talk about getting everything we can out to keep people working and to keep these job sites and living up to our Carlisle Experience, right? We make a big commitment with that and people expect it. As long as that demand holds, like I said, and the weather is good in the fourth quarter and the first quarter, we're going to be shipping things out to put on roofs and support our contractors.

Now if there are days where we have a long weather periods of snow or that, we'll use that opportunity to build inventory. We're not going to slow down. But I think there will be some opportunity just because of the way the winter is in most of the United States. And -- but I also think if there's any opportunity for people to catch up, they're going to do it. So I think we'll have more information as we get kind of further into the quarter, see how things go. But I think it's going to be tough to build any real meaningful inventory in Q4 and Q1 like we usually do.

Timothy Ronald Wojs

Robert W. Baird & Co. Incorporated, Research Division

Okay. Okay. And then could you just remind us when the TPO and polyiso capacity comes on next year, at least preliminarily?

D. Christian Koch

Chairman, President & CEO

Yes, go ahead.

Robert M. Roche

VP & CFO

Yes. TPO is going to be the first quarter. We're going to be making the normal 12-foot sheets on it, and then going to 16 later in the year as they, I must say, stabilize the production process and get it dialed in. And then the polyiso is going to be late '22, early '23.

Operator

The next question comes from the line of David MacGregor with Longbow Research.

David Sutherland MacGregor

Longbow Research LLC

I guess, Chris, I wanted to ask you about a comment you made earlier with respect to the potential limitations you might face on growth, one of them being installation labor. And I guess, to an extent, you think the installation labor availability [indiscernible] through '22 growth. And what can you do about that? Is there anything -- do you have any options, do you have any levers you can pull to work around those potential constraints?

D. Christian Koch

Chairman, President & CEO

Yes. Well, I think you're right to cite that, it is true. I mean we actually are constrained. We're happy to most times be able to deliver everything our customers can apply to a roof, but we're constrained by their ability to put it down. So that's a

real issue. I don't know how much we can do to alleviate that. But what we can do and what our team is doing is making products to take labor off the roof.

And Bob just mentioned the new 16-foot TPO sheets that are going to be made in Carlisle, PA. And we had a chance to see the progress on that line earlier this year. And it's really remarkable what an engineering feat it is. But more remarkable is the fact that, that's going to get a roof put down faster and allow our contractors to get off the roof quicker. We also have work we've done with CAV-GRIP, one of our adhesives and other things. We just keep trying to make the installation as quick as possible, obviously, still holding all the quality and technical specifications we need, making sure all the product is there.

This is a big one. If you think about that idea that we say getting the product at the right place at the right time, right in the right quantity and all that, we pride ourselves on that, and it makes a huge difference. Because as we know, unless you have all the products there, you're going to have labor standing around and that doesn't benefit anybody.

And then even on cleanup, we've talked about our -- I'll cite a product called APEEL that we've talked about for a couple of years. I thought it was an extraordinary product. It's a thin sheet that goes on that as opposed to having to wash the roof after an installation and clean it and bringing power washers up and that stuff. You simply peel this membrane off and you're on your way.

So I think the CCM team is doing a heck of a job focusing their new product efforts on doing 2 things. One is really that whole ESG thing and making sure that we're making our buildings more energy efficient and people are able to use our products to do that. And then the other one is just to deal with this labor component and take labor out of the process.

David Sutherland MacGregor
Longbow Research LLC

Right. Right. Got it. The second question was really kind of, I guess, at a much higher level. I'm just wondering to what extent you're seeing any change in building codes that would, if anything at all, that might bode well for your business over the next couple of years? Or are building codes relatively static at this point, not an area where you're seeing much revision?

D. Christian Koch
Chairman, President & CEO

No. I think building codes are definitely moving. We've had some incidents that have been positive this year and others that we know about that have been negative for everything from concrete to cladding and things like this globally that I know our building code people and our engineers and architects spend a lot of time trying to make these buildings safe, as energy efficient as they can because there's great returns, and they want their buildings to be the best buildings that are out there.

And look, in our business, one of the biggest ones that happened was a few years ago when we started CCM, going out and talking about the idea of having 2 layers of polyiso and it was increasing the R-value for a very reasonable price. And we used to have a calculator on an iPad that would take the local rebates and things into that and allow building owners to see what adding another layer of insulation would do.

What we found was that soon that became codified. And over the last few years, I think some of the big driver in our increased polyiso sales has been around the codification of that trend to double insulation and build it into the building code because increasing that R-value just had a great return for everyone. So we will see that with some of the Henry products. We mentioned Blueskin. Once people start to see that a new product can help with the energy efficiency of a building, it gets through the architects.

We do a lot of training, train our contractors on it. And then we can drive that through. And I think that type of product, once people get to use it and see the results, then it can move into that code stage. But to have the codes modified and improved is a pretty elaborate process, and they have to make sure they're doing the right thing and testing everything. So it happens, it just happens over time. But yes, we're seeing that.

Operator

There are no additional questions waiting at this time. I would like to pass the conference back over to Chris for any additional remarks.

D. Christian Koch

Chairman, President & CEO

All right. Well, thanks, Bethany. This concludes our third quarter 2021 earnings call. We want to thank everybody for their participation, and we look forward to speaking you -- with you again at our next earnings call. Thanks very much.

Operator

This concludes the Carlisle Companies Third Quarter 2021 Earnings Conference Call. I hope you all enjoy the rest of your day.

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