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Carlisle Cos., Inc. (CSL)

Q2 2023 Earnings Call

CORPORATE PARTICIPANTS

Jim Giannakouros
Vice President-Investor Relations, Carlisle Cos., Inc.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

Kevin Philip Zdimal
Chief Financial Officer & Vice President, Carlisle Cos., Inc.

Mehul Patel
Incoming Vice President-Investor Relations, Carlisle Cos., Inc.

OTHER PARTICIPANTS

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Garik Shmois
Analyst, Loop Capital Markets LLC

Saree Boroditsky
Analyst, Jefferies LLC

Dan Oppenheim
Analyst, Credit Suisse Securities (USA) LLC

Adam Baumgarten
Analyst, Zelman Partners LLC

David S. MacGregor
Analyst, Longbow Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is JP and I will be your conference operator for today. At this time, I would like to welcome everyone to the Carlisle Companies' Second Quarter 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, we will conduct a question-and-answer session.

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

Jim Giannakouros
Vice President-Investor Relations, Carlisle Cos., Inc.

Thank you. Good afternoon, everyone, and welcome to Carlisle's second quarter 2023 earnings conference call. We released our second quarter financial results after the market close today and you can find both 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, Chair, President and Chief Executive Officer; and Kevin Zdimal, Carlisle's Chief Financial Officer. Today's call will begin with Chris providing highlights of our second quarter results and a discussion of our current business outlook, and Kevin will discuss additional financial details and our updated outlook for 2023. Following our prepared 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 today will include forward-looking statements based on current expectations. Actual results could differ materially from these statements due to a number of risks and uncertainties, which are discussed in our press release and SEC filings. As Carlisle provides non-GAAP financial information, we've provided reconciliations between GAAP and non-GAAP measures in our press release and in the appendix of our presentation materials, which are available on our website.

And with that, I will turn the call over to Chris.

D. Christian Koch

Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

Good afternoon, everyone, and thank you for joining us on our second quarter 2023 earnings call.

The second quarter proved to be a nice recovery story for Carlisle with our performance evidence of the team's collective efforts to improve earnings and create value for all our stakeholders. We are grateful to all Carlisle employees for their continued perseverance in the face of significant challenges and for their contributions to making the second quarter a success. Most important is our team's commitment to continuously improving our businesses.

As you know, in 2021, we decided to pivot Carlisle's portfolio of diversified industrial businesses towards becoming a building products pure-play. Our recently announced sale of CFT represents another important step towards fulfilling that goal. Our building products businesses represented over 90% of our segment EBITDA from continuing operations in the second quarter of this year, providing further evidence that our pivot is almost complete.

We continue to believe that a pivot towards an innovative building products portfolio with a focus on providing energy-efficient solutions will allow our shareholders to benefit from the significant trends in greenhouse gas reduction and increased demand for green buildings and products, especially ones that require less labor to install.

Our recently announced sale of CFT continues one of the themes we brought to Carlisle under Vision 2025. That being our desire to be a superior capital allocator, and in turn, drive superior shareholder returns. This goal was a primary factor in our decision to use the proceeds of the announced sale of CFT towards share repurchases this year. When combined with our share repurchases to date, our total capital devoted to buybacks in 2023 will be approximately $900 million.

At CCM, despite continued channel destocking activity in the second quarter, our teams collectively drove improved sales and excellent profitability. Margins improved significantly from a combination of volume increases, price discipline, cost management and efficiency gains through COS. The last three quarters of destocking at our distributors and contractors has been a challenge that was made more difficult by the uncertainty related to its quantity and duration.

As we enter the second half of 2023, we have performed substantial work to understand the levels of inventory at distributors and contractors, and reconcile that with current demand levels. Based on this work, we believe that the vast majority of destocking issues related to supply chain constraints from 2021 and 2022 are now behind us.

In CCM, as in all of our Carlisle segments, we enter the second half of 2023 with our efforts focused on leveraging solid underlying demand, capturing raw material gains and maintaining a positive price/cost relationship. Taken together, these areas of focus give us confidence that we will deliver another solid earnings performance for Carlisle shareholders in the third quarter.

Our outlook would be even more optimistic if it weren't for some near-term headwinds impacting the building products businesses. First and foremost, well-known and well-published information about this year's extreme temperatures across much of North America have negatively impacted contractors' days on the roof.

Here in the Phoenix area, for example, we have had over 26 days of 110 degree-plus temperatures and excessive heat warnings. These elevated temperatures have played a role in our contractors' ability to safely install roofs on schedule. Certainly, every roofing contractor in Carlisle's sphere of business is putting employee safety and well-being first.

In addition to the unique weather situation, we have seen an uptick in delays in projects due to growing economic uncertainty, tighter financing conditions and the ever-present tight labor market for roofing contractors. Even with these headwinds, we still anticipate continued strong demand for our energy-efficient building products, particularly for non-residential reroofing products.

We remain very bullish on Carlisle's value creation runway, given strong and sustainable underlying reroofing demand, accelerating price to value gains through new and innovative products, and an increasing awareness by architects, building owners, contractors, local governments and others for the need to drive efficient energy usage, upgrade the energy efficiency of our buildings and decrease carbon emissions.

Additionally, we believe that in both the non-residential and residential construction markets, our ability to exceed the expectations of our customers and distribution partners through the combination of the Carlisle Experience and our Carlisle Operating System will drive significant opportunities for share and margin gains that will deliver increased returns for our shareholders.

Our confidence in Carlisle's future rests on a multiyear backlog of reroofing projects in the US, supporting a healthy baseline of activity for our largest business, CCM, which has recently been further enhanced by the Inflation Reduction Act and its emphasis on utilizing a significant pool of assets to drive investment and energy savings. Solid non-discretionary repair and remodel demand throughout the residential building envelope that makes up approximately 50% of CWT revenue and provides reliable through-the-cycle sales growth. Our industry-leading ability to meet the well-known growing need for energy-efficient solutions for buildings and to drive a reduction in carbon-related emissions from buildings that as many of you know account for close to 40% of global energy emissions.

Carlisle's robust pipeline of proprietary, innovative new products coming to market, accelerated by our increased investment in R&D, our collective team's subscription to delivering the best-in-class Carlisle experience to all our stakeholders, and the financial flexibility and strategic optionality afforded us by Carlisle's fortress balance sheet and excellent cash flow generating ability. This strong financial position allows for Carlisle's disciplined, value-creating acquisition strategy, ability to comfortably fund internal growth initiatives and consistent and reliable return of capital to shareholders in the form of a growing dividend and opportunistic share repurchases.

Turning to our results. Please turn to slide 3. In the second quarter, we delivered consolidated sales of $1.5 billion, adjusted EBITDA of $385 million and adjusted EPS of $5.18. I'm very pleased with the second quarter results as they are a superb reflection of our earnings power as a company and have resumed the continuous improvement trends we were on, especially as it relates to margins.

CCM's channel destocking was, as we believe, transitory. And while it was a challenge and caused some temporary impacts to CCM, it did not affect our fundamental business model. We remain focused on delivering products that support increasing demand for energy-efficient buildings and meeting contractors' needs for innovative labor-reducing products.

Turning to CWT. Revenues in the second quarter were generally in line with our expectations, while profitability was exceptionally strong. The CWT team continues to execute exceptionally well on realizing the synergies planned with the Henry acquisition and an outstanding job of integrating the legacy CCM businesses into the new segment of CWT. Needless to say, these efforts are delivering returns ahead of the original deal model.

The team is also doing an excellent job of taking cost out through footprint reduction, leveraging customer relationships to drive increased sales across their businesses, improving efficiencies in our plants and managing price cost effectively. Building on the solid performance in the second quarter, we expect this positive EBITDA growth story to continue for the rest of the year and now expect CWT's EBITDA to grow year-over-year despite the organic revenue declines expected for 2023, a truly outstanding accomplishment in a tough environment and with a relatively new management team.

At CIT, we continue to benefit from the restructuring actions taken during the COVID pandemic that are now returning significant margin dollars to CIT, as aircraft build rates rebound. The team has done an excellent job optimizing its manufacturing footprint and improving on its product mix, which positions us well to leverage the recovery that is underway in aircraft production. CIT's backlog is notably higher than pre-pandemic levels, giving us confidence that CIT has significant growth potential for the foreseeable future. Taken together, CIT is leveraging sales extremely well in 2023 with EBITDA up 520 basis points year-over-year in the second quarter, and we expect to continue that solid leverage going forward.

Please turn to slide 4. In line with our strategy to pivot to a pure-play premier building products company, we signed a definitive agreement to sell Carlisle Fluid Technologies for $520 million, with an intention to redeploy this capital into share repurchases in 2023. The sale of CFT represents another significant step forward in our efforts to build a diversified portfolio of premier energy-efficient building envelope solutions and demonstrates our commitment to being capital allocators of the highest order. On a pro forma basis, we now expect sales from our building products businesses to constitute approximately 84% of consolidated Carlisle revenue in 2023, this up from 56% in 2016.

Please turn to slide 5. I'm pleased to share with all of you on the call today that our newest polyiso manufacturing facility in Sikeston, Missouri, is operational and began shipping product for sale in July. In addition to employing the latest advancements in green building technology, such as solar power generation and energy base load control systems, the facility will lower the carbon footprint of our supply chain and will improve lead times to customers. We're proud that Sikeston was designed and built to the highest current sustainability standards, including LEED Platinum specifications, which is a globally recognized symbol of certified sustainability achievement.

Please turn to slide 6. Our results continue to demonstrate that Vision 2025 has been the right strategy for Carlisle. In addition to our world-class teams and proven business model, we've benefited from a strong balance sheet and excellent cash flow generation to provide both financial and strategic flexibility to execute and achieve our ambitious goals. Our business portfolio transformation sets the stage for a more focused, higher-returning and better understood path for future sustainable value creation at Carlisle.

The pillars of Vision 2025 are really well-established and remain core to Carlisle's strategy going forward. Over the last few years, despite the multiple challenges our teams have faced, we continue to be guided by the clarity of mission, as outlined by our strategic vision first announced five years ago.

As we approach the completion of many of the milestones and goals of Vision 2025 last year, including exceeding our goal of $15 of GAAP EPS, we were simultaneously working on the successor to Vision 2025, a new strategic plan that will be introduced formally later this year. Vision 2030 will be a plan committed to many of the same principles and pillars we used to establish Vision 2025. And with it will come new levels of performance and expectations that are a required part of our culture of continuous improvement and of our Lean Sigma initiatives under COS.

As a reminder, the foundational pillars of sustainable value creation at Carlisle under Vision 2025 include: one, drive mid-single digit organic revenue growth; two, utilize the Carlisle Operating System, or COS, to drive continuous improvement and greater efficiency in our operations; three, build scale with synergistic accretive acquisitions; four, maintain a returns-focused capital allocation strategy, including organic investment to drive growth, a disciplined approach to our aforementioned M&A strategy and returning capital to our shareholders.

Notably, thus far in 2023, we've returned $327 million to shareholders with share repurchases of $250 million and $77 million paid in dividends. And of course, none of this could be possible without continuing to rely on, invest in and develop our exceptional talent.

Through the execution of Vision 2025, Carlisle has built a solid foundation, leveraging a diversified workplace, decentralized management style, entrepreneurial spirit and a culture of continuous improvement, which will continue to guide our value creation journey in 2023 and beyond and absolutely be core to our Vision 2030 strategic plan.

And with that, I'll turn it over to Kevin to provide additional financial details as well as our updated 2023 outlook. Kevin?

Kevin Philip Zdimal

Chief Financial Officer & Vice President, Carlisle Cos., Inc.

Thank you, Chris.

For segment highlights, please turn to slide 7. CCM delivered second quarter revenues of $948 million, down 15% from the prior year. The decline was due to continued destocking in the channel, disruptive weather and some project delays. Adjusted EBITDA margin was strong at 31%, as we had positive price costs in the quarter.

Moving to slide 8, revenue at CWT decreased 20%, primarily due to continued softness in residential demand. Adjusted EBITDA margin was 22.5%, expanding 390 basis points from the second quarter of 2022. Echoing Chris' comments earlier, the team continues to benefit from its focus on integration of Henry, accelerated capture of targeted synergies, effectively rolling out COS and significant investment in operations throughout CWT to drive greater efficiencies in our businesses.

Moving to slide 9. CIT revenue increased 3% in the second quarter of 2023, reflecting strength primarily in our commercial aerospace platforms, as we benefit from the rebound in demand for new aircraft. Adjusted EBITDA margin expanded 520 basis points to 18%, driven by price realization, leverage on restructuring activities and efficiencies gained from COS. Slide 10 provides a year-over-year bridge items to second quarter adjusted EPS.

Moving to slides 11 and 12, Carlisle ended the second quarter of 2023 with $379 million of cash on hand and $1 billion of availability under our revolving credit facility. We generated cash flow from continuing operations of $196 million and invested $30 million in capital expenditures. We deployed $200 million toward share repurchases and paid $38 million in dividends. As of the end of the second quarter, we have 2.3 million shares available for repurchase under our share repurchase program.

Turning to slide 13. We have provided our updated 2023 financial outlook. For both CCM and CWT, we now expect revenue to decline year-over-year in the low teens range for the full year 2023. For CIT, we now expect revenue to increase year-over-year in the mid-single digit range. For total company, we now expect year-over-year revenue to decline in the low double digits. We attribute the lower revenue expectations to the same items that prove to be headwinds in the second quarter, namely destocking in the channel, disruptive weather and some project delays.

Given the solid execution by our teams across Carlisle, we now have a more favorable outlook on full-year EBITDA margins. Despite the double-digit revenue decline, we expect consolidated margins to decline only 50 basis points year-over-year in 2023. We remain focused on disciplined pricing, which is leading to better price cost capture this year, operational efficiencies and managing costs through our continuous improvement efforts.

With that, I turn it over to Chris for closing remarks.

D. Christian Koch

Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

Thanks, Kevin. In closing, I once again would like to express my thanks and appreciation for the excellent work by all of our Carlisle employees in the second quarter. Their perseverance and just plain hard work has returned us to delivering the results we've come to expect.

I'd like to take a moment to share some important organizational changes that are occurring this week. First, all of you know Jim Giannakouros, our Vice President of Investor Relations. Jim has decided to leave Carlisle to pursue other opportunities. Jim was a covering analyst when I became CEO back in 2016, and I remember the dinner we had in New York in May of 2018, where I asked him if he wanted to join Carlisle and make our Investor Relations department the best there could be in the industry.

Since then, he has made significant contributions, enhancing and professionalizing our investor relations function here at Carlisle as well as having an extremely positive influence on the corporate and segment finance teams. Jim has lived up to the promise of developing a truly world-class Investor Relations department and he will truly be missed. I wish him nothing but success and happiness in his future endeavors. And I know all of my fellow Carlisle employees feel the same way. Thank you, Jim.

Stepping into the role of Vice President of Investor Relations will be Mehul Patel, who joined us when we acquired Henry Company in 2021. Mehul was most recently Vice President of Finance for CWT and many of you may have already met him, as he's been representing Carlisle at investor conferences and road shows for the past year. I am very excited to have Mehul backfill Jim's role and I know he will do an excellent job with the investment community.

Additionally, Kelly Kamienski, who has been at Carlisle since 2016 and most recently serving as our Chief Accounting Officer, will be taking on the role of Vice President of Finance for CW. And replacing her in her role as CAO will be Steve Aldrich, who has been at Carlisle since 2012 in various finance positions, most recently as our Vice President of FP&A. I'd like to congratulate Kelly, Mehul and Steve on all their accomplishments and wish them the best of luck in their new roles.

With Vision 2025 objectives and our core values well-ingrained throughout Carlisle, I remain extremely optimistic for the long-term success of Carlisle. We will continue to benefit from the flexibility afforded us by an incredible brand and reputation, and take advantage of our strong capital position and superb cash flow-generating capabilities. Despite near-term and potentially growing economic challenges, we will continue to drive a culture of, first, a pursuit of excellence in everything we do, of continuous improvement, of an entrepreneurial mindset and a commitment to superior capital allocation.

We also believe the secular growth afforded us by both non-discretionary reroofing demand and increasing needs for improving the energy efficiencies of buildings paved the way for long-term and significant value creation. We'll continue to take the necessary actions to navigate an increasingly complex operating environment, continue to deliver the Carlisle Experience to our customers and create value for all stakeholders of the company.

And that concludes our formal comments. Operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. [Operator Instructions] Your first question comes from the line of Bryan Blair from Oppenheimer. Your line is now open.

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.
Q

Thank you. Good afternoon, guys.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.
A

Good afternoon.

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.
Q

I was hoping you could provide a little more color, walk us through how the quarter played out for CCM, specifically in terms of destocking, we know has been a headwind for a while. How did that influence April and May operations relative to June? What's your sense of where channel inventory now stands and how does that impact your progression into Q3?

Kevin Philip Zdimal
Chief Financial Officer & Vice President, Carlisle Cos., Inc.
A

Yes, several things there. The first on the destock. Yeah. So, that destock going into the quarter, we were expecting around $100 million and we're slightly above that for the quarter, about $120 million in the second quarter of destock. Remaining destocking, we think, we have around $50 million to go in the third quarter, that continues from some of that, the weather and as Chris mentioned, as far as labor on the roof, has been a challenge for the contractors. So that's delayed a piece of that.

As far as going through the quarter, I mean, April, May, June, no significant differences. I mean, it ramped up in the second quarter as we'd expect versus the first quarter. So, nothing of note there.

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.
Q

Okay. Understood. And we can obviously back into a second half figure, given your revised CCM sales outlook for the full year, but how should we think of the sales cadence Q3, Q4? Obviously, there's noise that has impacted operations through Q2, a bit into Q3 that you just walked through and then easy comps start to kick in, in Q4. If you could quantify expectations anymore that would be helpful.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.
A

Yeah, Bryan, Chris. I think that Q3 is going to look a lot like Q2 with a couple of exceptions. Obviously, Kevin talked about that a little bit of continued destocking. Obviously, one of the things that we haven't talked about that should be talked about is that in addition to the destocking, now we have this idea of a restocking. The demand is still there, but I think there are a couple things, before Kevin gets into a few more items on this, that I think you need to be aware of, which is that I think there's been a hesitation to load in the type of stock that we've seen in the past.

So, my assessment after doing the work is that we're going to see a little bit of a slow start post July 5, but the demand will pick up as people get more comfortable with the quarter, as we get closer to the end of the year and jobs, obviously, start to – weather has less of an impact on the jobs and those pick up as well as distributors get a bit more comfortable with bringing inventory. And I think with interest rates rising, obviously, the carrying cost of having inventory is higher.

Also, we have this idea that's been put out there, you all analysts have talked about it, too, that there might be some pressure from some of our competitors to lower price, which we didn't see in the quarter, by the way, pricing was flat. But I think that might be causing people to pause a little bit to say, will I be able – will I be putting in high-cost inventory when there might be lower cost inventory coming. I don't see that happening, but that concern could be there.

And then I think we also have to look that it's been a very good, I think, as you saw by OC's results with their residential shingle business. It's been good for them, bad for weather, but a good spring in terms of roofing in the resi side. And I think that also has consumed a little bit of that working capital that goes to inventory in the form of increased resi shingles and that.

So I think when we look at the third quarter, it plays out the same as kind of the second quarter demand. Underlying demand is still good. Pricing should be flat, and we still see the trends continuing. So just a little color from me there, but, Kevin, I don't know if you want to add anything.

Kevin Philip Zdimal
Chief Financial Officer & Vice President, Carlisle Cos., Inc.
A

Yeah. So, that all shakes out to the third quarter being a couple percent. 2%, 3% better than the second quarter. And then, as you look to the fourth quarter, typically, we're down fourth quarter versus the third, about 15%, but without the destock in the fourth quarter, it'll be less than that 15% down in the fourth quarter.

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.
Q

Very helpful color. Margin performance was definitely a highlight of Q2 and that was across the board.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Yeah.

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.

Q

But with the scale of CCM, obviously, are needle moving to have some margin upside relative to expectations. I assume that price cost was a solid lever there. Kevin, I believe the last quarter, you guided to $40 million to $60 million full year benefit for price cost. Wondering if you could give us an updated figure on that and also offer a little directional insight as to how we should think about the margin cadence for the year and netting to the 50 basis points improvement on a consolidated basis relative to the prior guidance.

Kevin Philip Zdimal
Chief Financial Officer & Vice President, Carlisle Cos., Inc.

A

Yeah. So, on the price cost, as you said, we were at $40 million to $60 million in our previous guidance there. Now we think we're around $60 million to $80 million. So we've upped that number and that dropped right to the bottom line. We're talking down 50 basis points this year. So maybe looking at those margins, we think we can get to CCM margins right to about 30% this year for the full year.

And then, as you look to CWT, I think we can get them to up maybe 350 to 400 basis points on the year. And then CIT would be up to about 17% for the full year, so 250 to 300 basis point improvement there.

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.

Q

Excellent. Appreciate the detail. Thanks again, guys.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Yeah. Thanks, Bryan.

Operator: Your next question comes from the line of Tim Wojs from Baird. Your line is now open.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Hey, guys. Good afternoon.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Good afternoon.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

And Jim, it's been good working with you and best wishes on the new ventures. Maybe just starting off, Chris, just on the backlog, I guess how – what are you kind of hearing when you're talking to contractors and distributors about the backlog? And I guess when you think about days on the roof and maybe the heat playing – having an impact on some of that, I mean, how do you kind of triangulate between that versus just maybe kind of a weaker demand backdrop?

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Yeah. Tim, thanks for that question, by the way, and thanks for acknowledging Jim and I appreciate that. We did a lot of work in the second quarter. I'm not going to go into all the detail. It'd be too long in this call, but we could take it up later around. We spent a lot of money in and a lot of time and effort into understanding that. And a lot of that came out of the fourth quarter and the first quarter, where we didn't feel we had all the information we should have had. So we've done a couple of things. One was we enacted a Net Promoter Score for Carlisle and that's been very helpful to us. That's ties into what was actually happening in our perception vis-à-vis our competitors done by a world-class organization. We talked to over 600 contractors, distributors and other points. We've got a very good data set there, started that actually back in April.

At the same time, we started to look at this backlog thing. We really wanted to understand – obviously, we didn't understand completely in Q4 the level of inventory that was out there. We think we had a good handle on distribution. I think what we missed in some ways was the inventory that was on the contractor and maybe at the job site. So as we went through, we did that. And that also was about probably about 600 contacts, 500, 600 contacts that we've been updating through the quarter.

So, I think, we've got a good handle on where the backlog is. I've got a good confidence there on this statement that people have been reducing. And I think it would be misleading to say it's over. That's a tempting thing to say the destocking is over. It will spill into Q3, what I would say is there are pockets of that, though, obviously, all distributors are not alike. And you go to the Northeast and there was a lot of rain in the second quarter and we think that impacted it. So maybe they didn't destock as fast as somebody might have somewhere else.

So, I think, we've got a good handle on backlog. I think the backlog is, as I said, coming down. And I really do believe that part of this issue with a little bit lower demand to us in Q3 and Q4 is really going to relate to that idea of how quickly the distributors want to stock back up. And we're getting back to normal. When you look at the fourth quarter, we just see those same demand patterns going that Kevin has talked about on numerous occasions and you all have the graphs on that. But I think when we get to 2024, we're going to see that normal cadence [audio gap] (00:33:11) that idea of then a more traditional load in from distribution as we get into the season in 2024. Really, as you know, that's kind of been missing through the whole thing. We missed it when COVID hit, in February, we never got the big load in. And we really rolled right into that heavy demand through 2022 where everything went out to distribution and not really in an organized fashion. It was more of whatever you could get.

So, I feel pretty confident about what we're seeing and that the underlying demand is really good. I'll give you two other things on that. I know I'm extending the question. But this demand, when Jim talked about reroofing, I mean, we know that's there. We've talked about it. We understand the length of a – a life of a roof. We understand how roofing – building owners feel about warranties on that. And I think our reroofing estimates are pretty good.

When we move to this energy efficiency thing, I just saw a couple of data points that air conditioners, for example, Department of Energy just released today, 6% of all electricity consumed in the United States or produced, it goes to electric – or goes to air conditioners. You're putting that on a grid that already has issues. And then we've got significant warming trends. And then I saw that GM, Hyundai and Honda are building another 30,000 plugs by 2030, but would take us a 60,000 in 2030 to drive electric vehicles, but, in fact, we need 182,000.

So, I think, when we look at what the solution's going to be, it's going to be around green installations, it's going to be around making buildings tighter, and that falls right into what CCM and Henry deliver. And so I think we've seen that and I feel very good about that underlying demand and that that'll continue.

And then, just quickly on the days on the roof, a couple of data points. People we've heard – throughout the southern states from Southern California to Florida, we've heard that they're trying to work earlier but shortened days. As you start to get into the noon, 1:00, it's just too hot on a roof. And so we've seen some compression there. And you can't really do it in the dark, so you get some compression around the workday.

And then something I heard recently was people are also trying to get the work done in three days and that there may be some changes in order pattern during the summer here, where we're seeing a lot of activity, Monday, Tuesday, Wednesday. But then as we get to Thursday, Friday, the crews are just not as effective. They're worn out. They're hot and people are handling it that way.

So when we think about how many days on the roof, I can't give you a number for that, but it's got to be kind of like what we would see with a heavy rain or something like that, where we would probably, say, two to three days in the quarter.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.
Q

Okay. Okay. All right. No, that's all helpful. I appreciate that. And then maybe just on CWT, just I guess what drove the margin upside, I guess, there in the quarter? And I guess, as you think about kind of the full year kind of margin expectations in that business, I mean, is that a good jumping off point on a go-forward basis?

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.
A

Hey, Tim. We happen to have Mehul with us. We didn't announce him in the beginning of the call and I think I'm going to turn that call over there to Mehul, let him have a shot at it and then we'll get Kevin back him up.

Mehul Patel
Incoming Vice President-Investor Relations, Carlisle Cos., Inc.
A

Perfect. Thanks, Chris. Tim, nice to meet you. Great question, Tim. So, overall, for CWT, as Kevin mentioned, so overall, really strong performance on margin. To your first question, in terms of what's driving it, there are several factors. One is really strong pricing discipline. We're leveraging our investments in sales excellence and ability to influence in-market demand with our mostly internal sales force. So in a declining raw material environment, that's creating a positive tailwind for us.

The second thing is dampening out inefficiencies from 2022. Obviously, there are significant supply chain challenges that sub-optimized our ability to supply from the optimal plant. So that's correcting now and we're doing a good job getting back to normal there.

The fourth thing, Kevin and Chris talked about synergies. We're doing a really good job executing that above the deal model. So that's creating a positive tailwind. And then lastly, really strong performance on our plants in a declining volume environment. We're really taking advantage in making the right calls, right adjustments, really variabilizing our costs as much as possible, which is helping us in a declining volume environment.

Lastly, to your question in terms of a jumping off point, all these things I mentioned, they're going to stay. So I think this is a good margin for us for 2024 and there's continuing to be upside as well, right? As we try to continue to drive continuous improvement, the COS system that Carlisle has, the Henry team is embracing it, that's going to continue to provide tailwinds for us to drive margins up even further year two, year three and forward.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Okay. Sounds great. Thanks so much, guys. Appreciate it.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

A

You bet, Tim.

Operator: Your next question comes from the line of Garik Shmois from Loop Capital. Your line is now open.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Oh, hi. Thank you. Just wanted to follow up just on the CCM margins in the 30% that you're speaking to for this year. Just curious if you could speak to maybe your confidence in that as a jumping off point moving forward in light of some of the competitive pressures, Chris, that you acknowledged recognizing your pricing is flat right now, but it seems like maybe the market is bracing for a little bit lower price.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Yeah. I think it's a good – I think it's very sustainable. In fact, I would be disappointed if we didn't return to some of the margins we've seen in – that we saw in 2022. I think some of the things that we've talked about, number one, I know there are one-off bidding that people are talking about in terms of pricing, lack of pricing discipline. But what I'd tell you is those tend to be infrequent and that the general consensus out there is that there is good pricing discipline.

I think we have – as we talked about earlier, when we saw some management changes in one of our competitors and we saw a different organization purchased one of our competitors, I think I'll give them both compliments, I think those were upgrades into both situations and sure both those parties understand what value creation is about and how to drive value creation for those companies, which I'm assuming they want to do.

We also look at new products. We've got things like the 16-foot line. We've got our [ph] cab group, too. (00:39:55) We've got the APEEL product. We continue to work on new coatings in Henry. We continue to make gains in different channels. And I think what we're finding is that our products and the value proposition we have are really becoming ROI-based. This idea of energy efficiency and that a roof is not just a roof, but a roof now is a key component of lowering energy consumption, and driving an ROIC means that you start to shift off of this idea that we have some – in some way, a roof can be exchanged between Carlisle or someone else. I mean, each one of us is going to bring added value through that.

We talked about the Carlisle Experience. I think the Carlisle Experience, to a certain degree, was very positive in terms of pricing. I think in the pre-2019, we used to say we would get – there was a 5% to 7% premium to our products on the Carlisle Experience just because contractors could rely on the right product, the right place the right time. And when you were spending a third on materials and two-thirds on labor, if you have labor sitting around, it wasn't a good value, you'd be better to pay the 5% to a company that gets you the product when you need it.

Obviously, COVID came along, changed that, upended it. There was a lot of confusion. And as we return and as we talk about this third quarter and people wanted to be more efficient with their inventory, obviously, we pay kind of a penalty because if you deliver faster and you could supply just-in-time product, there's kind of a weird benefit to – not benefit, but penalty on that, which is that people then will rely on us and not put us into inventory.

So we're still going to be working on the Carlisle Experience and we still think in an increasing demand world, like we have around ESG and other things, that new products, superior customer service will continue to differentiate product. And so, I like that. On the other side, on the COGS side, you can see what we're doing in raw materials. We're using them a lot more efficiently. You can see what we're doing in automation in Sikeston. You visit – which we hope people will visit the Sikeston facility, you are seeing the latest generation of ISO, polyiso production, and it is extremely efficient.

And so, I think when you look at those things, we look at the margins in 2022 and think that's what we're aspirational to. So, I don't really look out to the next few years and think we'll see anything lower than the margins we've seen this year of 30%.

Garik Shmois Q
Analyst, Loop Capital Markets LLC

Got it. No, that's helpful. My follow-up question is on CWT. I was wondering if you could maybe go into the revenue guidance revision in a little bit more detail, and kind of appreciate the, I guess, weaker housing market, but the builders have been certainly more optimistic of late. So, just wondering if you're seeing any of that as an opportunity and just any additional color on the change in the CWT revenue guidance would be great.

Mehul Patel A
Incoming Vice President-Investor Relations, Carlisle Cos., Inc.

Yeah. So, Tim (sic) [Garik], a couple of things. One is project delays that is impacting the CWT business, both on the commercial and residential side. So, that's a key driver for the change in overall guidance. The second thing, there is still some destocking to a lesser degree, not even close to what we're seeing on the CCM side, but nonetheless, similar reasons is negatively impacting CWT. And then, lastly, with the raws coming down, there are still pockets for reducing price, but nonetheless, it's still a positive from a price/cost standpoint.

Garik Shmois Q
Analyst, Loop Capital Markets LLC

Got it. Okay. Thanks...

D. Christian Koch A
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

And Garik, that was Mehul you heard, by the way.

Garik Shmois Q
Analyst, Loop Capital Markets LLC

Yes. I appreciate the answer. And, of course, I'll give my best to Jim as well and look forward to catching up down the road and working with Mehul in the future.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc. A

Thanks, Garik.

Operator: Your next question comes from the line of Saree Boroditsky from Jefferies. Your line is now open.

Saree Boroditsky
Analyst, Jefferies LLC Q

Hi. Thanks for taking my question. So, maybe a little switch to kind of focus on 2024 a bit. So, given the impact of destocking this year in CCM, how should we think of this as a tailwind into next year? And if we're in a flattish demand environment, what could you see from sales growth in that segment?

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc. A

Saree, Chris. Thanks. I'll turn it over to Jim for a more technical answer to this. But I think right now, and you know what my answer is going to be, and I'm sorry, but it's like 2024 is too far out. We don't really want to make any statements around – I don't think the – getting too refined. What I would say is, I think, directionally, you are correct. I mean, obviously, if you think about legacy demand in the CCM markets being in that, let's call it, that mid-single-digit historical as a market growth and then we saw COVID take it down and then we saw the rebound in 2022 and we get back to that mid-single digits for the market, and we see that happening, obviously, not having the inventory and getting through the destocking should produce a nice tailwind in 2024 for us. And then we still do think that with the macro trends around [ph] ESG (00:45:17), the Investment Reduction Act (sic) [Inflation Reduction Act], things like this, the reshoring, the things we're hearing that 2024 should be, I'll call it, a more normal and also a more productive year than I'd say 2023 was on the top line.

Saree Boroditsky
Analyst, Jefferies LLC Q

Given that more productive outlook into 2024, obviously, margins, I think you mentioned 30% of CCM for this year. How do we think about operating leverage as we head into next year then, as you start to see the benefit of some growth?

Kevin Philip Zdimal
Chief Financial Officer & Vice President, Carlisle Cos., Inc. A

Yeah. We should see 40% incrementals on that growth. And as you said, and adding to Chris' piece on the top line, that destock should have a plus 10% impact on 2024 versus 2023.

Saree Boroditsky
Analyst, Jefferies LLC Q

Perfect. I appreciate the color. And Jim, you'll be very missed and we wish you the best of luck in your next endeavor.

Jim Giannakouros
Vice President-Investor Relations, Carlisle Cos., Inc. A

Thanks, Saree.

Operator: Your next question comes from the line of Dan Oppenheim from Credit Suisse. Your line is now open.

Dan Oppenheim
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thanks very much. I was wondering if you can talk a little bit more in terms of CWT in terms of, I guess, curious about the project delays that were mentioned. I think residential is, what, a quarter of CWT, but only a portion of that is in new residential. And I guess, sort of wondering about it overall, like the significance of sort of in the revenue guidance of lower volumes from residential versus product delays versus some of the pricing?

Mehul Patel
Incoming Vice President-Investor Relations, Carlisle Cos., Inc.

A

Yeah. So, this is Mehul here again. For CWT, the project delays overall, I mean, it's not like a significant amount of the change. I would say, from a percentage standpoint, I would attribute maybe 20% of it to project delays. And that's going to come through a combination of labor, stability in labor. On the construction site, the challenge is getting labor. So projects are getting extended out and it's taking longer to get on to the next project. The second thing is financing, right, both on the commercial side, which is also another 25% of our in-market exposure for commercial starts. Financing is creating project delay just from taking longer to get projects financed.

Dan Oppenheim
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. That's great. And then on the margin side, you talked about some of the continuous improvement and sort of being a tailwind. With some of the restructuring, are all the benefits to the restructuring sort of in place now? Is that what we saw in the margins this quarter will sort of be set or was that sort of still some to come as we go into 3Q here?

Mehul Patel
Incoming Vice President-Investor Relations, Carlisle Cos., Inc.

A

Yeah. It'll continue to benefit us as we go forward. And that was my earlier comment on we still have continuous runway to continue to expand margins on CWT.

Dan Oppenheim
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you.

Operator: Your next question comes from the line of Adam Baumgarten from Zelman & Associates. Your line is now open.

Adam Baumgarten
Analyst, Zelman Partners LLC

Q

Hey. Good afternoon, everyone. Just on the project delays, maybe on the commercial side, are there any specific end market verticals that are weaker than others as you look across it? And also, are you seeing flat out project cancellations at this point?

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Adam, yeah, good question. I haven't seen really anything on cancellations. I'm sure there are probably some out there, but I would say they'd probably be the third sigma, where somebody, it's not really related to anything other than they're just not good business people. And that's a bad joke. But we do – if I say there aren't any there, somebody will find one.

When we look at the segments, I think this year, we've seen some negative impact on the warehouses. I think that's been somewhat well publicized around what's happening with Amazon warehouses and things like that. So it's been a little bit down there, although we have places around the country like Phoenix here where warehouses continue to be established. So there might be some movement there regionally.

Education has been a good story this year. Especially starting the year, educational work has actually improved pretty significantly since 2021 and is at about the same pace of growth as 2022. We look at office buildings. Obviously, that's another one that's pretty well advertised around work-from-home and that, although I would say that the decline is less than I would have thought. And I think we attribute a lot of that to when you're putting a flat roof on an office building like us that we think of, they tend to be three, four-story buildings, one story building, may be manufacturing attached or something like that or warehousing. And so, I think we have a little bit of a less of a work-from-home impact than, say, the central business district of San Francisco or Manhattan where we're seeing some tough times in office buildings, but doesn't really reflect the [indiscernible] (00:50:28).

Stores have been kind of a little bit down, but not too bad. And then healthcare has actually been a good story. And I think that's another vertical that as we look at aging population and we look at extended care and we look at our healthcare system, I think we'll continue to see money put into expansions. I know here in town, we've got a lot of expansions with the Mayo Clinic, and I think in Rochester as well, they've talked about a big building expansion. So that one is doing well.

And then I think when you look at more of the multifamily housing and that, obviously, there's not enough of that stock in this country, and I think that'll continue to be a good tailwind with the impact, though, of interest rates probably causing some of those projects to come under question if rates stay at their 20-year high, like they are as announced today. Hopefully, that gives you enough color.

Adam Baumgarten
Analyst, Zelman Partners LLC

Q

Yeah, it's great. That's helpful. And then just on the step-up in share repurchases you guys are implying in the back half, any guidance on how you expect that to phase in, in 3Q and 4Q?

Kevin Philip Zdimal
Chief Financial Officer & Vice President, Carlisle Cos., Inc.

A

Relatively balanced based on what we have remaining to purchase.

Adam Baumgarten
Analyst, Zelman Partners LLC

Q

Okay, great. Thank you.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

A

You bet. Adam.

Operator: Your next question comes from the line of David MacGregor from Longbow Research. Your line is now open.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yes. Good afternoon, everyone.

Jim Giannakouros
Vice President-Investor Relations, Carlisle Cos., Inc.

A

Hey, David.

David S. MacGregor
Analyst, Longbow Research LLC

Q

And Jim, good luck to you, man.

Jim Giannakouros
Vice President-Investor Relations, Carlisle Cos., Inc.

A

Thank you, David.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Exactly. So I wanted to just ask you about the main components within your cost basket. We talked about price cost and thank you for the detail on that. But if we could just isolate the cost basket for a second and just talk about how prices you may see trending on the main components there?

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Well, I don't think we really like to get into that, but I would say you can look at MDI. That's obviously a big one that we track. I think there's a mistaken correlation there that a lot of people have to the price of oil. I mean, MDI really more correlates to what's happening in the cracking facility and what demand major chemical companies are seeing and petroleum companies on other feedstocks that come off of that, but MDI is seeing some reduction. I think we look at polyethylene, that's another one. EPS bead is a big one. We've got our synthetic and natural rubbers that we see some oils. I think just overall, again, we're seeing very positive there.

I mean, in a sense, it relates to some of the demand factors that are occurring throughout the world. I don't think that a poor European economy hurts us because I think that takes out some demand and people are looking for places to put their production. I think China, certainly the chemical – petrochemical industry in Taiwan and in China is probably also looking for places to put that.

So I think, generally, we're seeing those declines. Again, MDI has been a pretty good one. I'll leave it at that. But I think overall, as you look to the second half of the year, you could see why we've upped that. And to Kevin's point, it's $60 million to $80 million, but we're probably looking more at the upper end of that range, more like the $80 million than the $60 million. So I know that didn't give you enough, but, hopefully, that helps you from a directional perspective.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yeah. Okay. Thanks for that. And then just with respect to CWT, you talked about the fact that – or Mehul talked about the fact that there was some – still some inventory there to deal with. I'm just wondering if we see an upturn in residential orders coming through, how much of a delay are we looking at before you'll actually see that business hit your book. I guess [indiscernible] (00:54:28) how much inventory do we have to burn?

Mehul Patel
Incoming Vice President-Investor Relations, Carlisle Cos., Inc.

A

Yeah. Typically, for us, once a residential project is started, our products would go on somewhere between five and six months after the start. So you kind of think of that in terms of where residential starts are and improvement there in terms of how long it takes us to trickle through for our products to go on the project. I think as far as inventory goes, yeah, I think as in the residential market, it seems like it's kind of bottomed right now. As it improves, it should help us on the inventory side, definitely.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Yeah. And David, the only thing I would say and Mehul knows a heck of a lot more about it than me, but I think one of the things we have to segregate in CWT is this idea of putting it on new construction and then this idea of repair and remodel. So we can see in half of our business upticks in demand as quickly as a weather event occurred in California on a Friday and on Saturday morning or Sunday morning, we could have an out-of-stock position at Home Depot and be having to respond to that.

So, I think as you spend more time with Mehul understanding that the difference between that new construction and that whole side of it, then that repair and remodel that we do a lot of work, taking care of roofs before they get a new roof put on. So I think that's an important relationship to understand because it does impact what happens to sales. I think a five to six-month delay probably is a little bit at the long end on the – when you aggregate the whole business.

Mehul Patel
Incoming Vice President-Investor Relations, Carlisle Cos., Inc.

A

Yeah, absolutely. So, when we talk about those residential starts, you got to remember, that's 25% of the business. The other 25% on the residential side and there's also 25% on the commercial side that's all R&R, and a big component of that is really non-discretionary roof coating projects. Products that when you have a leak on your roof, you're not going to have a choice but to use those products. So the demand should be stronger in those areas, especially when there's weather events and high rain events.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Great. Okay. Last question for me – thank you for that detail. Last question for me is just on the operating leverage. And clearly, you guys have done a tremendous job this quarter of managing decremental margins. There's been quite a bit of discussion on price costs. So, I think, we're good there. But just on the volume leverage, I know there was a previous question, maybe I'll come at it a slightly different way here. But I'm just trying to get a sense of – you've clearly found something different in terms of managing your fixed costs and your leverage. And I'm just trying to get a sense of how sustainable that might be going forward and whether we should be talking about updating our sense of what volume leverage is in these individual businesses.

Kevin Philip Zdimal
Chief Financial Officer & Vice President, Carlisle Cos., Inc.

A

Yeah. And at CCM side, certainly, I think that new number for incrementals, for sure, is 40%. I mean some of that was a little bit higher than that on some of the decrementals just from some of the absorption issues that you have there. But going forward, we're expecting that 40% on the CCM side. And as far as CIT, they should also be in the 40%-plus range. And then CWT is a little bit lower than that, right, more in the 30%.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Yeah. And David, I will look back to when we started in 2016, where we were in adjusted EBITDA, when we talked about sustainability, I think this is really where – and I'm glad you brought it up because it talks about the power of COS and the power of what we're doing from a Lean Sigma perspective, what our leadership is doing around continuous improvement, automation, things like this. I mean those margins – those adjusted EBITDA margins at CCM back in 2016 were probably in that 21% range. We're now 2022, you're up over 30%. And it's been a pretty steady progression to get there, it didn't go from 21% to 30%, it went through 23% and 24%.

And so, I think, that, to me, when I look back at that almost eight-year run of continuous improvement across a variety of volume levels tells me that these are very sustainable. And the team knows for me that we got to get better every day. So I think we would continue to think we'll have more gains. And obviously, as you get into the 30s, they get tougher and tougher to get, but the team continues to add to the remarkable EBITDA journey – positive journey that they've had.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Great. Thanks, guys.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Yeah.

Operator: There are no further questions at this time. I will now hand over to Chris. Please continue.

D. Christian Koch
Chair, President & Chief Executive Officer, Carlisle Cos., Inc.

Well, thanks, JP. Appreciate it. This concludes our second quarter 2023 earnings call. I want to thank everybody for their participation. I do want to once again thank Jim for all the good times and great work he's done and everything he's contributed, been a big part of Carlisle. And I know going forward, he'll be very interested in what we do and we'll be keeping in touch. And then, Mehul, thanks for being on the call and taking up those questions so quickly. You're in. So here we go. And thanks, everybody. Look forward to speaking to you at the next earnings call.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.