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Carlisle Cos., Inc. (CSL)

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Ena and I will be your conference operator today. At this time, I would like to welcome everyone to the Carlisle Companies' Third 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.

And I would now like to turn the call over to Mr. Mehul Patel, Carlisle's Vice President of Investor Relations. Mehul, please go ahead.

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

Thank you, and good afternoon everyone. Welcome to Carlisle's third quarter call. I'm Mehul Patel, Head of Investor Relations for Carlisle. We released our third quarter financial results today, and you can find both our press release and the presentation for today's call in the Investor Relations section of our website.

On the call with me today are Chris Koch, our Board Chair, President and CEO; along with Kevin Zdimal, our CFO. Today's call will begin with Chris. He will provide highlights of our third quarter results and accomplishments, followed by Kevin who will provide an overview on our financial performance and an update on our outlook for 2023. Following our prepared remarks, we will open up the lines for questions.

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 appendix of our presentation materials, which are also available on our website.

With that, I will turn the call over to Chris.

D. Christian Koch

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

Thank you, Mehul. Good afternoon, everyone, and thank you for joining us on Carlisle's third quarter 2023 earnings call. In the third quarter, we reached a significant milestone in Carlisle's 105 year history, moving from a diversified industrial portfolio of businesses to a building products portfolio of businesses. The pending sale of CIT will mark the final step in the successful completion of our pivot to become a best-in-class pure-play building products company. Our journey to become a focused building products portfolio began in 2021 when we, as part of our superior capital allocation methodology, made the strategic decision to enhance Vision 2025 and the future of Carlisle by allocating our future cash flow and human capital into investments that would reinforce and expand our businesses that have consistently delivered the highest returns. We're confident that a focused portfolio of innovative products, services and solutions in the building envelope space that drive energy efficiency, labor reduction and are priced to the value provided will benefit our employees, customers and communities, while allowing our shareholders to capitalize on industry-leading returns.

Importantly, we deliver products, services and solutions with a clear value proposition and a significant financial return for end users and contractors alike, ensuring their businesses operate more effectively. When coupled with the Carlisle Experience, these innovative products, services and solutions will create a significant and clear differentiation for Carlisle in the competitive building envelope marketplace of today and tomorrow. This new building products focus of Carlisle and the accompanying key strategic actions will build on the strong foundation of Vision 2025, and will form the key principles of our next strategic plan, Vision 2030, which will be released in December. We are proud of what our team has accomplished under Vision 2025 and look forward to sharing with all of you the next phase of value creation at Carlisle with the December launch of Vision 2030.

Turning to our third quarter results on slide 3. In the third quarter, excluding CIT, Carlisle achieved consolidated sales of $1.3 billion, adjusted EBITDA of $340 million, and adjusted EPS of $4.68 per share. Our sales in the third quarter were negatively impacted by the effect of increasing interest rates driven by the ongoing Federal Reserve actions. In addition to the interest rate impact, the third quarter was also negatively impacted by tighter lending standards and increasingly conservative sentiment at contractors and distributors with respect to their inventory levels as we enter the traditionally lighter fourth and first quarters. We are nonetheless pleased that despite the sales declines, our third quarter margin performance pricing position and market share remain consistent with our expectations.

CCM and CWT together delivered remarkable EBITDA margin performance of 27% in the quarter, marking a 100 basis point improvement year-over-year, as well as a sequential improvement from the second quarter. CCM delivered a second consecutive quarter of 30%-plus EBITDA margins and CWT drove a solid 90 basis point improvement in EBITDA margins sequentially. This performance showcases our ability to maintain strong margins throughout economic cycles. Our market position, brand strength and price discipline complemented by the value we provide to customers through the Carlisle Experience, and efficiency gains driven by the Carlisle Operating System are and will remain pillars of strength for Carlisle's future under Vision 2030.

At CCM, our team remains focused on executing their proven long-term strategies, which have yielded consistent success over the last two decades. This focus involves maintaining our brand strength through the Carlisle Experience, solving end user problems through innovation, and driving efficiencies through COS and operational excellence. One additional market note, the destocking headwinds we faced over the past four quarters largely in commercial roofing are behind us, setting the stage for a more normal 2024 buying profile.

CWT delivered another exceptional quarter with 37% growth in EBITDA year-over-year. Revenues performed largely as expected, reflecting the impact of the challenging residential housing market, but offset by the non-discretionary R&R exposure derived from CWT's commercial and residential roof coating solutions. The CWT team continues to excel in realizing synergies related to the Henry acquisition, achieving operational efficiencies through COS and factory consolidations, and enhancing margins through system selling initiatives. Building on this solid performance in the third quarter, we expect the positive EBITDA growth story to continue at CWT, especially as we continue to invest in operating efficiencies and scale volume through investments and share gain initiatives.

Please turn to slide 4. While we acknowledge the near-term challenges driven by higher interest rates, tighter lending conditions and industry-wide concerns over the timing of restocking actions, we remain exceedingly bullish on Carlisle's longer-term value creation runway. As I mentioned earlier, with our pivot to a pure-play building products portfolio now essentially complete, we are a more efficient and focused organization, positioned extremely well to benefit from the attractive, long-term secular trends that include a robust reroofing cycle, increasing demand for energy-efficient buildings, a significant need for solutions that increase labor efficiency on the roof, and the desire for innovation to deliver value throughout the construction process, and ultimately, building ownership.

I want to spend a minute to highlight our key drivers of success and why we are positioned to win within this backdrop. CCM is benefiting from a multi-year backlog of reroofing projects in the US, with 40% of total roof square footage requiring replacement in the next 10 years. This backlog is helping to ensure consistent and reliable demand. CWT's revenue was 50% derived from repair and remodel demand across the building envelope, and in both commercial and residential markets provides balanced exposure to mitigate the ebbs and flows of the economic cycles. 65% of Carlisle sales are derived from LEED-certified products, clearly demonstrating the growing demand for energy-efficient solutions and integrated systems to reduce carbon-related emissions from buildings. We have a growing pipeline of the innovative products and are significantly increasing our investment in R&D to develop more environmentally-sustainable products, with improved performance and integrated system solutions that are easier to install. In 2023, we have delivered $290 million of sales from products introduced in the last three years.

The Carlisle Experience has established us as a premium brand with a recognized value proposition backed by high-quality products and exceptional service, ensuring we deliver the right products at the right place and at the right time. And lastly, we have significant financial flexibility, thanks to our robust balance sheet and strong cash flow generation, allowing us to fund disciplined value-creating acquisitions, internal growth initiatives, and provide for the consistent and reliable return of capital to shareholders through almost a half century of growing dividends, and in the last five years, significant and opportunistic share repurchases.

Please refer now to slides 5 and 6 for our progress on sustainability. Sustainability is a very important focus for Carlisle. As an organization, Carlisle is committed to being a responsible environmental stakeholder, and we strongly believe that creating more sustainable environment is also productive and economically beneficial for our shareholders. In December of last year, we announced our goal to achieve net-zero emissions by 2050. While 2050 is still quite a few years away, we recognize the need to start taking action today to meet this target on time. To hold ourselves accountable and show measurable short-term progress, we created two near-term emissions reduction targets by 2030 in conjunction with the Science Based Targets initiative also known as SBTi.

First we committed to a 38% reduction in both our Scope 1 production GHG emissions from the manufacturer of our products and our Scope 2 operational GHG emissions from purchased energy in our operations. We also committed to a 48% reduction in our Scope 3 upstream and downstream GHG emission intensity, as we transition to lower carbon feedstocks. To reach these targets, we focused on three pillars. The first pillar is manufacturing energy-efficient products. As an example, in 2022, Carlisle sold more than $3.5 billion worth of LEED-qualified products to the residential and commercial building industry. Our customers will save as much as 155 million megawatt hours over the lifetime of those products, which is enough energy to power almost 14 million homes in the US for a year.

In addition, we converted over 50% of our spray foam blowing agents from traditional HFC formulas to more environmentally-friendly HFO formulations. As a reminder, HFCs are 1,000 times more carbon-intensive than HFOs. So this action resulted in reductions of almost 10,000 tons of Scope 1 GHG emissions and over 200,000 tons of Scope 3 emissions, while at the same time, contributed to over $2 million in annual cost savings. This transition from HFCs to HFOs comes 13 years ahead of the mandated EPA HFC phase-down requirements, positioning Carlisle as a leader in the spray foam insulation sustainability landscape.

The second pillar is lowering emissions across our facilities and manufacturing processes. Carlisle's leadership in driving environmental management at our factories is reflected by our qualifying an additional nine facilities this year to ISO 14001, the environmental management standard. We now have 42% of Carlisle facilities qualified to ISO 14001. This year we also launched energy management programs at our Montgomery, New York and Tooele, Utah plants to drive the necessary enhancements to be prepared for ISO 50001 certification by the end of 2025. Both programs are yielding significant waste and energy savings, ultimately reducing our carbon footprint and returning value to our shareholders.

Earlier this year, we invested over $125 million in our new Sikeston, Missouri polyiso facility. This investment in Sikeston represents the latest in manufacturing advances and is another example of our commitment to reduce emissions from our facilities through the latest advancements in green building technology, including solar power generation and energy baseload control systems. We're extremely pleased that Sikeston meets the highest sustainability standards, including LEED Platinum specifications. We're also pleased that pending final certification by the United States Green Building Council, Sikeston will be the first LEED v4 Platinum manufacturing facility in the entire country. The LEED v4 standard is a performance-based approach to efficiency management that calls for measurable results throughout a building's life cycle, and we are proud to lead our industry in this transformation.

Our third pillar is reducing landfill waste. This includes developing programs and partnerships to recycle and upcycle materials away from landfills. As an example, Carlisle is piloting a program to recover and recycle roofing materials, which has helped divert 95,000 metric tons of waste from landfills since inception of the program this year. These are just a few examples of our ongoing sustainability efforts, and I encourage all of you to take a look at our 2022 Corporate Sustainability Report, which we published at the end of August and is posted on our website. It contains superb information including clear examples of how our products reduce carbon footprint in buildings, reduced emissions in our operations, and how we plan to reduce waste to the landfills.

Please turn to slide 7. Our earnings power and margin sustainability in this challenging environment demonstrates the success of Vision 2025. As a reminder, the pillars for sustainable value creation at Carlisle under Vision 2025 included: one, drive mid-single digit organic revenue growth; two, utilize COS to drive continuous improvement and drive greater efficiency; three, build scale with synergistic and accretive acquisitions; four, maintain a returns-focused capital allocation strategy, including organic investment to drive growth, a disciplined approach to M&A and returning capital to shareholders. And notably, thus far in 2023, we've returned $699 million to shareholders with share repurchases of $580 million and $119 million paid in dividends. And of course, none of this could be possible without continuing to rely on, invest in, and develop exceptional talent.

With Vision 2025 targets achieved and the pivot effectively complete, we will now turn to Vision 2030, the next phase in our 105-year journey as a company. Vision 2030 will continue to build upon Vision 2025, but with a focus on building products. As I mentioned earlier, Vision 2030 will be released in December and will provide comprehensive details about our path to further value creation for all Carlisle stakeholders.

And with that, I'll turn it over to Kevin to provide additional financial details as well as our updated outlook for the fourth quarter. Kevin.

Kevin Philip Zdimal

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

Thank you, Chris. For segment highlights, please turn to slide 8. CCM delivered third quarter revenues of $914 million, down 16% from the prior year. The decline was due to the remaining destock of $50 million that we expected and challenging end markets driven by higher interest rates, tighter lending conditions and project delays. Adjusted EBITDA margin was strong at 32%, as we maintained pricing discipline while holding share, which drove positive price costs in the quarter. In addition, CCM drove cost reductions through operating efficiencies supported by our continuous improvement culture and the Carlisle Operating System.

Moving to slide 9, revenues at CWT decreased 15%, primarily due to residential demand weakness and project delays. Adjusted EBITDA margin was 23.4%, expanding 890 basis points from the third quarter of 2022. The CWT team continues to excel in realizing synergies with the Henry acquisition, achieving operational efficiencies through COS and enhancing margins through system selling initiatives.

Slide 10 provides a year-over-year bridge items to the third quarter adjusted EPS. Moving to slides 11 and 12, Carlisle ended the third quarter of 2023 with $108 million of cash on hand. We repaid our $300 million senior notes on September 1 and have $1 billion of availability under our revolving credit facility. We generated cash flow from continuing operations of $390 million and invested $30 million in capital expenditures. We deployed $330 million toward share repurchases and paid $42 million in dividends. As of the end of the third quarter, we have 8.6 million shares available for repurchase under our share repurchase program.

Turning to slide 13, we have provided our updated Q4 2023 financial outlook. For CCM, we expect year-over-year revenue to decline 3% to 5% in the fourth quarter. For CWT, we expect year-over-year revenue to decline approximately 10% in the fourth quarter. For the total company, we expect year-over-year revenue for the fourth quarter to decline 5% to 7%. We attribute the lower revenue primarily to the challenging markets and overall economic uncertainty which is causing project delays. Given the solid execution by our teams across Carlisle, EBITDA margins are expected to increase approximately 200 basis points year-over-year, despite the lower volume expectations. We remain focused on disciplined pricing, which is leading to better price costs 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 done by all of Carlisle's employees in the third quarter. Their perseverance and commitment to Vision 2025 has allowed us to continue to deliver solid results and maintain an optimistic outlook for the future.

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 begin the question-and-answer session. [Operator Instructions] And your first question comes from the line of Tim Wojs from Baird. Please go ahead.

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

Q

Hey, guys. Good afternoon.

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

A

Yeah. Good afternoon.

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

Q

Maybe just to start, I know you gave us the guidance ranges for Q4, with the segments and kind of total company. I was kind of curious if there were any kind of base case kind of planning assumptions that you'd be able to kind of share on 2024 at all, just kind of high-level puts and takes as we kind of think about revenue and margins?

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

A

Yeah. Tim, kind of early as you know. We're going through our 2024 planning right now and wrapping things up with the divisions. So, we still need to get their final works in that. We'd like to update in greater detail when we launch Vision 2030 in December, so there'll be some more – you know, we'll have another month and we'll have that under our belt, and we'll be able to give you a little more perspective on our outlook for 2024. But I think Kevin will share a few things that might help with our perspective on where we think 2024 is going.

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

A

Yeah. So, on that, we do have some tailwinds from the destocking. So, that will be a positive for 2024. Pricing, that's remained stable where we are in the third quarter, expect that to continue into the fourth quarter and into 2024. So, maybe down a couple of percentage overall. Overall for 2024, the end market demand, as Chris says, too early to discuss that piece of it.

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

A

So, hey, Tim, I think on the pricing thing [indiscernible] (00:22:28) I've been very surprised that all the – we've heard a lot of feedback in the markets around competitor action, but the one thing that's been good going into 2024 is, as you saw, our margins are all the same, our pricing was in fact basically flattened in core CCM for the third quarter, and we've had real stability there. So I think there's been this rationality in the market despite a lot of talk from all of the competitors, despite volumes being down, and I think that's a positive sign going into 2024.

I do think ROS, if we give a little perspective there, may be a little bit of pressure there. I think, again, that's dependent on what's happening in the Middle East. And although we don't have a direct correlation to oil prices, you know that a lot of our ROS come out are indirectly related to oil. So, that, and then we've got some good gains there continuing with CWT. I think that trends you saw in the third quarter with Frank Ready and the CWT team, they're taking action on a bunch of fronts that should help us continue to see that margin expansion and get more to our aspirational levels, which are a lot closer to CCM, for CWT. And then I think lastly, we continue to work on innovation. And I know that should be – there should be some good tailwinds, even though they're not huge, with new products both in CCM and CWT.

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

Okay. Okay. No, that's helpful. Thanks. And then...

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

[indiscernible] (00:23:56)

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

...just given the announcement you guys made last month around selling CIT and kind of moving that to discontinued operations, I mean, can you just maybe elaborate a little bit on what that sale price or what that sale process looks like, and maybe kind of give us a little bit of a timeframe there?

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

Yeah. I think it's a, first of all, pretty conventional process. We think most of the interest would have been and is from strategics. We have a few parties in the process. Process is going very smoothly. We're happy with it. I think we would like to have a contract signed sometime in the fourth quarter. And so you can – that kind of if you work back from that, you can probably tell where we are in the process based on our announcement of when we have done it. And then, I think we'd probably close right after the first of the year. If we can close sooner than that, that would be great. But now it's going well and good interest and exciting process. So it's a great business and we've been pleased by the response.

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

Okay. Okay, good. And then, just the last one for me. I don't think the Fluid sale is reflected in the end of the quarter balance sheet. And I think you were expected or expecting to use the proceeds from that for buyback. So, I guess what would your buyback assumption be in the fourth quarter? I mean, could you actually buy back, you know, the – you'd use all the proceeds in the fourth quarter to buy stock back or does that bleed into the first half?

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

Yeah. So our plan that we talked about on the last call was $900 million for the year. And that was based on, we were planning on $400 million and the additional $500 million for CFT. So, that's really the number that we're looking at is the total of $900 million. And you're correct, we closed on it officially first week of October, but that number of $900 million stays the same.

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

Okay. Okay. Very good. I'll hope back in queue. Thanks, guys.

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

Thanks, Tim.

Operator: Thank you. And your next question comes from the line of Bryan Blair from Oppenheimer. Please go ahead.

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

Thanks. Good afternoon, guys.

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

Hey. Good evening, Bryan.

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

Appreciate all the detail on run rate CCM dynamics. Just to level set, what is your team seeing in the first month of Q4? Does that align with the down 3% to 5% guidance or is there some reliance on further easing of comps in November and December?

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

No, I think, October, actually we're pleased with how October is shaping up. Obviously, with this dynamic environment, I think we have the same concerns you do as to when – you know, what's happening. But it's been positive both from a billings, bookings perspective and what we're seeing going into November.

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

Understood. And price/cost remains a good guy. What has been realized year-to-date, and is there an updated full-year guide on that front?

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

Yeah. So, we gave a range last time for CCM of $60 million to $80 million for the full year, and we expect we can narrow that range to $70 million to $80 million for the year. And, yeah, about three quarters of that has been realized at this point.

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

Q

Got it. Appreciate that detail. And then the last one, the step-up in CWT margin has been nice. And there was obviously a lot of noise playing out quarter by quarter. But if we balanced the second and third quarter of last year relative to this year, 650 basis points or so margin expansion, how should we think of the breakout of the drivers there? Clearly, price/cost has been, again, a good guy for that segment, synergies are reading through. I believe you've exited a less profitable or unprofitable business. Just curious if you can provide any detail on what the drivers are there and what we should expect going forward. Chris, I believe you said that the aspirational margin target is much closer...

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

A

Yeah.

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

Q

...to CCM. So that's quite compelling if you can make that happen.

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

A

Yeah. Kevin will hit you with a couple other ones, but I was really pleased. And one thing I'd like to note is that, you know, and I give a lot of credit to Frank here and the team coming in and Mehul is part of that, coming right into Carlisle from Henry and getting all the synergies we needed. And I think there's still more to be taken out there, and synergies, that will be one driver.

And then, looking at the business and Frank did a really nice job of quickly acting too. We exited a business, a rubber business, we consolidated a few factories and the teams jumped on board with COS. Now, COS is one where I see a lot of potential, because the COS, we've done a lot with plans and assessments and we're just starting to get into spending that capital and I think there's a long runway there with COS. So that's a positive. But I think you'll just continue to see streamlining of the operations, better operations and sales, operating efficiency through COS, and then Kevin's got a couple other things he'll touch on.

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

A

Yeah, [ph] Chris said the (00:29:31) key highlights there, but the other one was selling initiatives, they're doing a good job on that piece of it. Obviously, you don't see at all with what's happening in resi right now, but that's been a positive. And yeah, we expect continue improvement in the 2024, into 2025 as well from that number. So, year-over-year improvement in each of the upcoming years.

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

A

And we've got a little bit of – I hate to be jumping back and forth, but we got a little – we've got some new products too that are very exciting that Frank has. And you know, Henry won the – they were the Supplier of the Year at Home Depot recently. And I think that's another channel that is new to all of us here at Carlisle and I know probably new to you too, but Frank's doing a good job of finding ways to create opportunities with the Carlisle products and bring them potentially into that channel, as well as look at potential acquisitions that could help us strengthen our position there. So, overall, we've got a lot of nice kind of vectors going on here to drive to that aspirational margin of, let's say 30%, 30%-plus.

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

Q

Understood. So, encouraging. Thanks, again.

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

A

Thanks. Yeah, you bet.

Operator: Thank you. And your next question comes from the line of Saree Boroditsky from Jefferies. Please go ahead.

Saree Boroditsky
Analyst, Jefferies LLC

Q

Hi. Thanks for taking my question. Obviously, a large portion of CCM is driven by reroofing demand. Can you just talk about the appetite and the ability of building owners to push out jobs if they decide to patch a roof? And if they do patch it, how much time does that buy them?

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

A

Well, we've got Mehul here who – and by the way, Saree, good afternoon. We have Mehul who's the Henry expert on patching and roof coatings, and I think he can touch on that. I think one of the things for me that's always been a constraining item is the amount of roofs that we put on that are under warranty. And I know Henry has a warranty related to their roof coatings, but I think when we talk about roof warranties, the thing that to me in terms of how far can you push out is always how far do you want to risk that warranty. And generally our warranties are 20 years. And so, people start looking at getting these roofs reroofed at the 17-, 18-, 19-year timeframe, and obviously with the labor constraints we have today, that can be extended.

But I think you can push it out a little bit, but ultimately it's really about the value of what's underneath in your business. You don't want leaks in data centers. You don't want leaks in hospitals or education facilities and those kind of things. And so, I think that pushing it out creates a really – it's pretty big risk profile for people to do it. But when they do it, I think it's, again, probably a small percentage in most cases, now with tougher economic times maybe there'll be more, but hopefully with these Henry coatings. And Mehul, maybe you want to talk about how long those Henry coatings can sustain the life of the roof.

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

A

Yeah, absolutely. So, Saree, on the Henry side, they offer several roof coating applications. They have Roof Mastics, which they could do in the short-term by themselves one or two seasons to restore an existing roof that's not in a horrible shape, that's not damaged or leaking. There are silicone roof coating applications that can extend it further, maybe five years or so. But a lot of these roofs that are getting completely replaced, they're probably past that cycle and you're going to require one or two years of that temporary roof patching solution that Henry offers.

Saree Boroditsky
Analyst, Jefferies LLC

Q

Understood. And then – so, appreciate the color there. And then just to making things clear in the guidance, I think in your 4Q 2023 outlook for adjusted EBITDA up 200 basis points, what's the base case for that? Is that with CIT and CFT, without, can you just help us understand where we're coming from with the up 200 basis points?

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

A

Yeah. That, we're taking CIT out of both the 2022 and 2023 number.

Saree Boroditsky
Analyst, Jefferies LLC

Q

Got it. Okay, that's helpful. And then just last one, can you talk about the competitive environment into next year, just given these potential market headwinds that you've discussed, and maybe think about a framework for how we think about price/cost, and if we do see lower end market demand, given some of your commentaries on oil prices?

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

A

Well, I think you've seen a pretty competitive market this year. I think we have to complement the teams that we're competing against. I mean, as we've said when Elevate was for sale, at the time Firestone and Holcim purchased them, we'd get good operators that would come in. And I think they've lived up to that. And certainly their acquisition of Malarkey and Duro-Last and these things, they've proven they know how to run a good playbook. There GAF is always a good competitor, great quality company. And, so I think we won't see any real changes in the competition. It's tough. It's been tough. And everybody will continue to invest in R&D, I'm sure, and continue to invest in their channel and in factories. So I don't really see much change there.

On the price/cost, I think, as I said, I think we've had pretty good stability there. We may see some opportunity for some price action if ROS were to take a dramatic increase due to what we're seeing in the Middle East or some other disruption. But I don't really see that right now. So I think, all in all, to me, it's going to be a little bit of more in the same. And I just reserve the right there that we're here in October, and we'll have more color on that as we get closer to December and we get through things. So we'll be able to give you more then.

Saree Boroditsky
Analyst, Jefferies LLC

Q

Great. Thanks. I'll pass it on.

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

A

Thanks, Saree.

Operator: Thank you. And your next question comes from the line of Garik Shmois from Loop Capital. Please go ahead.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Oh, hi, thanks for taking my question.

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

A

Hey, Garik.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Just want to follow up [indiscernible] (00:35:33) – hey, good evening. Just on the margin, well, for the fourth quarter, the 200 basis points of expansion you're expecting, would you expect CCM margins to be up year-on-year in the fourth quarter or is all of the gains coming from CWT, just given how strong the margin ramp has been there?

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

A

It's a balance piece between CCM and CWT, where, as I said earlier or last quarter, we're looking at CCM to target 30% for the year on EBITDA. So, that implies improvement in the fourth quarter. And then, yeah, absolutely, with CWT, they continue to improve. Last quarter, we'd said, up to 350 basis points. We're probably more like 400 to 450 basis point improvement year-over-year for the full year for CWT.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Perfect. That's helpful. Wanted to ask just in some of the discussions around project delays in CWT, just want to get more clarity there. Was that mostly on the residential side, given that was the kind of the category that was softer? Or are you seeing project delays on non-residents impacting that segment?

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

A

I'd say it's more on the commercial side, and I'd say more – you've got the factories, the commercial lending standards, things like that are tightening up. We're finding that people need more than one debt source when they go out to do these, where they used to be able to do it with one. And then I think labor, Garik, is always the constraint in all of this. We don't see really labor pools changing much. We think labor continues to be what it is, and we don't see a lot of people being added to the labor roles in the construction industry over the next few years, which, again, is why we placed so much emphasis on the Carlisle Experience and on labor saving products, because we think that's still a gating item.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Got it. Okay, last one for me. Just on inventories in CCM in the channel. Encouraging to hear that destocking has largely run its course finally. As you look to 2024, still a little bit early, but would you expect distributors to manage their inventory in more normal seasonal patterns or just given some of the macro uncertainties at this point as a base case would be prudent to expect distribution to take a more conservative view on their inventories for the time being?

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

A

Well, inventory is a use of cash, right? So, when you have the interest rate levels we have today and the people borrowing and things like that, I think they're going to be managing their inventory levels pretty tightly. It's going to be a line item I think every CEO and business leader is going to be looking at as we get into Q4 and through to Q1, just because, again, those are seasonally light and I think they would be managing the inventories tightly anyway. So maybe you can say that's the double whammy of having a seasonally like couple of quarters coupled with some higher interest rates. But I think as we go into the year, I think we are thinking that 2024 is going to look a lot more like a normal year. We've had the COVID experience and the destocking experience. And then we get back to some level of normalcy and see inventory levels get back up to where they've been historically, say, in 2019 to serve as what we still think is a really positive outlook for the industry longer term.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Yeah. Okay. Thanks for that. Appreciate it. Best of luck.

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

A

[ph] Thanks, Garik. (00:39:16) No problem.

Operator: Thank you. And your next question comes from the line of David MacGregor from Longbow Research. Please go ahead.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yes. Thank you for taking the question and good afternoon, everyone.

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

A

Hi, good afternoon, David.

David S. MacGregor
Analyst, Longbow Research LLC

Q

I wanted to, just quickly, I think I caught the price/cost numbers for CCM, but I missed that you said then for CWT, what would those look like?

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

A

CWT, overall for the full year were $40 million-plus.

David S. MacGregor
Analyst, Longbow Research LLC

Q

$40 million-plus. Okay. Thanks, Kevin. And then just a question on industry capacity, both for TPO and for polyiso. When we get into 2024, what will the industry capacity be up in percentage terms for each of those two categories versus, say, 2022 or 2021 looking back over two, three years?

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

A

Well, you know, I'm looking back here as to what's been added, and I think we've always said this industry has been pretty rational in terms of adding lines. We did add our Sikeston line for polyiso. We did add our 16-foot line in Carlisle for TPO. Obviously no changes in EPDM in the industry. Couple of years ago, we saw IKO add a facility I think in Maryland and I think GAF might have added one in Eastern Pennsylvania for TPO and polyiso. So, I think that's it. PVC, no real additions there that I can think of. So I think industry capacities, still compared to the historical averages, were right in line with where we probably should be given market growth in that. I don't see any massive additional capacity being added or having been added. So I'd say...

David S. MacGregor
Analyst, Longbow Research LLC

Q

I mean, well, you can think about what you've added and what GAF has added, and is there any way to express that as a percentage over a base of, maybe, two years ago or?

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

A

Well, we used to say that one factory, at least in TPO and polyiso added about 5% to 7% capacity to the industry. I think that's probably, you know, as the industry has grown, I mean, I think that's still probably a good number.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Okay. That's really helpful. Thank you. Last question for me is just...

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

A

Yeah.

David S. MacGregor
Analyst, Longbow Research LLC

Q

...you've passing that pivot point now, so congratulations on all the progress on getting to where you are now. Presumably, there's quite a substantial inorganic growth chapter ahead of you. I wonder if you could just talk conceptually about where within your business, you see maybe the opportunities as you have pursued that building envelope vision, what are the big sort of whitespace opportunities for you within that building envelope opportunity?

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

A

Yeah. That's an extended discussion, because the building envelope space stretches from windows, doors, garage doors. I mean, you've got shingles, you've got nails. We could get into all sorts of stuff. But I think for us, if you think about our core and what we do well, it's really going to be around that core building envelope, other roofing ideas, things down the wall, getting into the wall. But, again, that – an idea that I think when we look at things, it's going to have synergies either in channel. So, [ph] is it (00:42:33) something that helps us with the channel? And obviously, my comments on the retail piece and the big box stores in that. And having said that, Frank's opened up a new channel for us there. There's some interesting opportunities there. We look at new products. And there are some things in roofing and there are some things in wall claddings and things like that that we think we have certain processes and raw materials that could be added to that. Like insulated metal building panels are one that obviously we do metal and we do polyiso and those kind of things. So that could be one that we would look at.

But I think you're going to find that there's enough for us to – with channel and with core synergies there to – in products to keep it pretty close to what we're doing now. We think there's enough that it's not going to be too far afield. I don't see us getting in the nails, for example, or getting into some piece of equipment related to cranes or something like that, right. So, it will be a more CCM, CWT looking acquisition, adhesives, sealants, as I said, roofing materials, metal, things like that.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Where are acquisition multiples right now, Chris?

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

A

They're moving, I think. This is one of the interesting things. I think we all knew they were pretty high for the last couple of years. And I think they're moving down. I think for types of businesses we do look at, probably in the 8x to 10x range, maybe 9x to 11x, something like that depending. But I think there's also value to be had a little bit lower as people get more realistic about the surge that came with COVID and what's happening in the markets. I also think same things in the private equity markets around wanting to seeing extended monetization events, the time keeps extending. And so we think there may be some opportunities to generate some lower multiple and opportunities for exit by working in that space.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Great. Thanks very much and good luck.

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

A

Yeah. Thank you, David.

Operator: Thank you. And your next question comes from the line of Adam Baumgarten from Zelman. Please go ahead.

Adam Baumgarten
Analyst, Zelman & Associates

Q

Hey, guys. Good evening.

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

A

Good evening.

Adam Baumgarten
Analyst, Zelman & Associates

Q

Firstly, I guess, on if we think about where you stand today and assuming you have stable price, stable costs on the input side, how would that look in terms of the impact to next year at this point?

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

A

I guess – sorry, you're breaking up there. I think you said, if we look at stable price and stable cost, how does it look for next year? Again, we don't want to get too far into what next year looks like right now given what's happening in the markets. But again, our view on pricing is, this year was a pretty tumultuous year as well and pricing was relatively stable and ROS were relatively stable, in fact, were kind of beneficial, but, again, I think we'll have to wait and see what happens in the markets. But our view into the fourth quarter, as Kevin has dictated or indicated, is good [indiscernible] (00:45:45). We think Q1 of last year wasn't the best quarter. I think we were down about high $500 million in terms of revenue in that. So this year, if our exit point is maybe somewhere in the $650 million, $660 million, $670 million for the fourth quarter, then we think that brings more stability. And so the year could get off to a good start. And then, I think if we can keep interest rates at a reasonable level and we can get some confidence back in the economy and stability, I think it could be a good year.

Adam Baumgarten
Analyst, Zelman & Associates

Q

Okay. Then, I guess, we think about demands into the fourth quarter, given your implied guidance, and if we strip out the destocking in 3Q, it seems like 4Q is maybe a little bit lighter than usual. If you can just kind of walk through the moving pieces there, there's still some other kind of one-off type, you know, like factors in that guidance?

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

A

Yeah. Really. No one-off things. It's just more of the things we talked about, with some of the project delays would be the biggest piece, and that's all around the interest rates and market uncertainty that – or economic uncertainty that people try to delay some of those jobs.

Adam Baumgarten
Analyst, Zelman & Associates

Q

Okay. Got it. Thanks. Best of luck.

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

A

Thank you.

Adam Baumgarten
Analyst, Zelman & Associates

Q

Thank you, Mr. Koch, there are no further questions at this time. Please proceed.

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

Okay. I want to thank everyone for joining us on the call. And we look forward to, first of all, launching our Vision 2030 in December and sharing all those details with you, and we'll be in touch on that. And then, following up with our fourth quarter calls, we end the fourth quarter and move into 2024. So thanks very much and look forward to talking to all of you very soon.

Operator: Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you all for participating. You may all disconnect.