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Carlisle Cos., Inc. (CSL)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is JP and I will be your conference operator today. At this time, I would like to welcome everyone to the Carlisle Company's fourth 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. 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 fourth quarter 2023 Earnings Call. I'm Mehul Patel, Head of Investor Relations for Carlisle. We released our fourth quarter and full year 2023 financial results today and you can find both our press release and a 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 results and accomplishments followed by Kevin, who will provide an overview on our financial performance and an update on our outlook for 2024. Following our prepared remarks, we will open up the line 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 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.

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 fourth quarter 2023 earnings call. Turning to Slide 3, I would like to start by extending my sincere appreciation to all of our team members for their dedication and commitment in executing our Vision 2025 strategy over the past five years and helping to drive significant progress and value creation during 2023. The past year represented a challenging and dynamic year for Carlisle. The first half of the year was impacted by continued destocking in our markets and related challenges driven by supply chain constraints for many building products, including ours in 2022. Despite those first half challenges, markets began a return to a more normalized order pattern beginning in the third quarter of 2023. This resulted in the second half of 2023 that was marked by increasingly positive momentum.

In addition to delivering a record fourth quarter, Carlisle finished 2023 with one of the most significant events in our 106 year history. The completion of our well-communicated pivot from a diversified industrial portfolio of businesses to our pure play building products company. Accompanying that strategic pivot was the successful achievement of our goals under Vision 2025 and the much anticipated release of our Vision 2030 strategy, which builds on Vision 2025 as new key initiatives such as an increased emphasis on innovation and further unlocks the full potential of our pure play building products portfolio. We are very pleased to have finished 2023 on a record note, despite the very dynamic and uncertain market conditions we experienced through the year.

Our fourth quarter results surpassed the expectation we communicated on our last earnings call in October, largely driven by better than expected CCM sales and better profitability in CWT. We achieved record fourth quarter adjusted EPS of $4.17, which was an increase of 30% year-over-year. Our EBITDA margin of 26.4% improved by an impressive 440 basis points year-over-year on 2% lower sales, clearly demonstrating our ability to maintain our margins through economic cycles. In the fourth quarter, we benefited from more favorable weather conditions, solid contractor backlogs, stronger operating efficiencies and the power of the Carlisle experience to drive favorable price to value in our businesses.

CCM and CWT continue to produce industry leading margin and EBITDA results despite lower volumes and continued to deliver consistent value creation. The strength of our building products segment financials are now fully unmasked and on display with the pivot. Looking at our full year 2023 sales, despite a 16% decline in sales, we maintained an EBITDA margin in excess of 25%. Importantly, most of the lower volumes were mainly attributable to channel destocking, interest rate driven project delays and weather headwinds we experienced predominantly in the first nine months of 2023. We are very pleased to be entering 2024 on a positive note with destocking behind us and with positive momentum. Furthermore, we achieved a stellar ROIC for the year of 27%, which is aligned with our stated goal under Vision 2030 of exceeding 25% per year. This performance is a testament to our focused execution at CCM and CWT. The efficiencies derived through the Carlisle Operating System, the Carlisle Experience, and our ability to price our products consistent with the value they create for our customers reinforced daily by delivering an innovative and compelling value proposition.

Now let's turn to Slide 4 and slide 5. Following the release of our Vision 2030 strategy in December, we were pleased to announce in late January that we had reached an agreement to sell our CIT business to Amphenol for just over $2 billion. The sale of CIT represents the final step in our successful strategic pivot from a diversified portfolio of general industrial businesses to a premier pure play building products company. This sale is an important milestone in that it showcases our financials and allows our building products segment's historical track record of growth and best-in-class returns to be clearly seen. With the expected proceeds from the CIT sale, combined with our 15% plus free cash flow margin, we now have an even stronger capital base that provides exceptional flexibility to execute on our highest returning capital allocation priorities and supports the investments contemplated in Vision 2030.

In 2018, we embarked on our Vision 2025 journey with the goal of being superior capital allocators while seeking to drive five-plus percent organic growth, leveraging that growth into earnings, making synergistic acquisitions, driving efficiencies through the Carlisle Operating System, investing in talented people, returning capital to our shareholders, and ultimately creating value for all our shareholders.

During 2021, to further demonstrate our desire to be a superior capital allocator, we made the decision to pivot our portfolio to our highest returning building products businesses. Since the introduction of Vision 2025, we have nearly doubled revenue in our building products segment, more than doubled EBITDA in those segments and increased free cash flow by over 200%. Furthermore, we exceeded our earnings target of over $15 per share three years ahead of our commitment in our Vision 2025 plan. We are proud of these accomplishments which we view as significant milestones that validate our strategies and actions over the last six years and clearly demonstrate our commitment to an ROIC focused capital allocation strategy.

One of our key drivers of success is our ability to offer a compelling value proposition through what we call the Carlisle Experience. The Carlisle Experience can be defined simply as getting the right product to the right place at the right time. In other words, delivering on our commitments to our customers. We complement the Carlisle Experience with a strong focus on innovation, and specifically innovation that delivers energy efficient and labor saving solutions. This focus has aligned well with the increasing demand for green buildings and products, the increasing needs of customers to reduce GHG emissions and to conserve energy. And the need for our customers to address the forecasted significant labor constraints through improved job site productivity.

As we move on from the success of Vision 2025, we now turn our attention to Vision 2030 and our emphasis on our building products portfolio of businesses. As we stated in our Vision 2030 video released in December, we plan to continue to deliver on our foundational strategies that produced such positive results these last few years under Vision 2025. Coupled with major secular tailwinds, we are committed to delivering innovative building envelope solutions, driving above market growth and unlocking additional value for shareholders in this next important phase of Carlisle's growth journey. The key pillars of Vision 2030 include enhanced levels of innovation, a continued emphasis on synergistic M&A, attracting and retaining top talent and holding steadfast to our sustainability commitments.

As we look to fulfilling our commitments under Vision 2030, a key lever in our pursuit of higher margins will be increased spending on innovation. As such, Carlisle is differentiating itself with a goal of investing 3% of sales to drive the creation of new products and solutions that add value through advancements in sustainability, energy and labor efficiency. Additionally, we aim to continue to enhance our customer relationships through continued investments in the Carlisle Experience. This includes advancing our digital experience for customers and is exemplified by our recently released mobile friendly Customer Success Portal at CCM. This portal provides Carlisle customers with a unified and mobile platform for real time engagement, including access to product catalogs, personalized pricing, order status, delivery tracking and enhanced communication with our customer service and operations teams.

Overall, we delivered a strong finish to 2023, maintained our historically strong margins and exited the year on an extremely positive note. Our Vision 2030 strategy is in place and we are now a focused and simplified building products company. We are motivated to leverage the industry megatrends, drive innovation and demonstrate margin resiliency through economic cycles to deliver superior ROIC and compounding EPS growth. With our solid foundation and a strong team in place, we are confident in achieving our goals set under Vision 2030.

As we begin 2024, we are optimistic about the positive momentum building in our end markets. The inventory destocking headwinds we faced over the past year, largely in commercial roofing, are now behind us, setting the stage for a more normalized buying profile in 2024. We expect combined benefits from the tailwind of prior year customer destocking and a strong backlog of reroofing projects due in part to constrained labor to collectively mitigate potential risks in the year ahead. As such, we have a positive growth outlook for 2024 that we believe is reasonable, achievable and fully supported by our Vision 2030 strategic objectives.

Kevin will touch further on our 2024 growth expectations and outlook later in the call. Now please turn to slide 6, as I share some updates on our progress with Carlisle's sustainability initiatives. Sustainability is a core focus for our organization. We seek to positively impact the environment while creating value for all our stakeholders through our three pillar sustainability strategy. The three pillars are; manufacturing energy efficient products, minimizing our value chain, greenhouse gas emissions, and diverting waste and end-of-life materials from landfills.

Under our first pillar, we provide end users access to solutions that drive energy efficiency in their buildings. As an example, adding one inch of polyiso insulation to a 50,000 square foot roof can save building owners as much as $110,000 in avoided energy costs over the service life of the building.

Our second pillar reducing our operational and value chain emissions, helps Carlisle reduce our carbon footprint and the negative environmental impacts. As an example, let's take our blowing agents in our spray-foam operations. We finished the year converting over 50% of our HFC legacy spray foam products to a more environmentally friendly HFO formulation, amounting to over 250,000 metric tons of greenhouse gases avoided, a compelling achievement. As a reminder, HFCs are 1000 times more carbon intensive than HFOs. Carlisle also obtained five additional ISO 14001 certifications through 2023, bringing our enterprise wide total to 2026. Additionally, our Montgomery polyiso plant recently obtained ISCC+ certification, clearing the plant to run bio-based [ph] MDI and polyiso (00:13:32) on a mass balanced approach. This is a pivotal achievement in Carlisle's ability to manufacture and extend the credits of bio-based polyiso to its customers.

Lastly, our third pillar focuses on the reduction of construction waste entering landfills. As an update here, Carlisle's rooftop takeoff program diverted over 1 million square feet or 120 metric tons of reclaimed insulation and membrane materials from landfills throughout 2023. We have also expanded incentives for the program, which we believe will further expedite its growth and adoption amongst our customers. I personally take great pride in Carlisle's sustainability legacy spanning over 100 years. Carlisle's commitment to operating efficiently, minimizing waste and offering solutions to empower end users and reducing energy consumption has been ingrained in our culture and will be essential to our success in the future.

And with that, I'll turn it over to Kevin to provide additional financial details as well as our 2024 outlook. Kevin.

Kevin Philip Zdimal

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

Thank you, Chris. Looking at our fourth quarter results on slide 7. Despite a 1.9% decline in revenue, we were able to expand our EBITDA margins by 440 basis points to 26.4%. Furthermore, we achieved record fourth quarter earnings with an adjusted EPS of $4.17, an increase of 30% year-over-year.

Looking at our segment highlight, starting with CCM on slide 8. CCM delivered fourth quarter revenues of $816 million, up 1.9% from the fourth quarter of 2022. The increase was driven by favorable weather and the return to normalization of order patterns, including the end of destocking in the channel. CCM EBITDA increased 12% to $255 million, with EBITDA margin up 270 basis points to 31.2%. This was driven by a combination of leveraging higher volume growth, favorable input costs and realizing cost savings through the Carlisle Operating System.

Moving to slide 9. Revenues at CWT decreased 11% year-over-year, primarily due to the well-known declines in residential demand and the exit of a non-core business in the first quarter of 2023. However, despite the revenue decline, we were able to drive EBITDA growth of 54% to $69 million. This represented an EBITDA margin of 22.2%, expanding and an impressive 940 basis points from the fourth quarter of 2022. The margin improvement was bolstered by operational efficiencies gained through targeted restructuring actions, strategic sourcing and the realization of synergies from the Henry acquisition. Synergies now exceed $50 million significantly above our deal model estimate of $30 million.

Slide 10 provides a year-over-year fourth quarter adjusted EPS bridge items for your reference.

Moving to slide 11 through 13, Carlisle ended the fourth quarter of 2023 with $577 million of cash on hand with $1 billion of availability under a revolving credit facility. We generated operating cash flow from continuing operations of $1 billion and invested $142 million in capital expenditures. Our free cash flow margin was 20% in 2023, and we ended the year with a solid net leverage of 1.6 times comfortably below our two to three times long term target. Our disciplined capital allocation framework remains focused on delivering ROIC in excess of 25%. As stated in Vision 2030, we continue to focus on being a superior capital allocator by investing in our high ROIC building products, businesses, making synergistic acquisitions that deliver significant opportunities for value creation and repurchasing shares given our attractive valuation.

We deployed $900 million toward share repurchases during 2023 and paid $160 million in dividends. This represented our 47th straight year of dividend increases. Expanding on share repurchases at the end of the fourth quarter, we have $7.4 million shares available under our share repurchase program. Notably, the $2 billion of expected proceeds from the CIT sale provides us with additional dollars and flexibility to execute further share repurchases and fund our high returning capital allocation priorities. Overall, we believe our pristine balance sheet, conservative leverage profile and ample liquidity positions us to drive additional value creation in 2024 and beyond.

Turning to Slide 14 to see our full year 2024 financial outlook. We expect 2024 revenues to increase by approximately 5% versus 2023 and EBITDA margins to expand by 50 basis points. We remain focused on disciplined pricing as we leverage greater operational efficiencies and effectively manage costs through our continuous improvement efforts. Additionally, we expect to deliver free cash flow margins of 15% and ROIC in excess of 25%. As such, we expect double digit EPS growth in 2024. This is directly aligned with the objectives outlined in our Vision 2030 strategy and a positive first step towards a $40 plus EPS target.

Looking at the components of the outlook for CCM, we expect year-over-year revenue to grow approximately 6% in 2024. The primary drivers are the tailwinds from the return to normalization in order patterns that was absent during 2023 due to destocking. For CWT, we expect year-over-year revenue to grow approximately 4% in 2024.

Strong sales execution on key growth initiatives and stronger trends in residential should more than offset any headwinds posed by non-residential markets.

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 am grateful for the hard work and dedication of Carlisle's employees that was demonstrated throughout 2023. As they have in the past. Our teams demonstrated their resilience, perseverance and a commitment to excellence and delivering value in a difficult environment. I would also like to specifically call out and thank John Berlin and the entire team at CIT for their many years of significant contribution to Carlisle. CIT was one of the longest owned assets in the Carlisle portfolio and began with our acquisition of the Tensolite Company in 1959. Through a commitment to innovation, industry leading operations and a unique combination of organic growth and synergistic acquisitions, CIT embodied the key tenets of value creation at Carlisle. We wish John and the entire team the best as they become part of the Amphenol family. Turning to 2024, we have entered the year with significant, positive momentum and a clear focus on the goals outlined in our recently launched Vision 2030 Growth Strategy.

We are confident that our ability to innovate with a focus on energy efficiency and labor saving solutions puts us on the right path to drive above market growth and in return, drive superior financial results. The improved profitability by our simplified building products portfolio, a robust free cash flow engine and the expected proceeds from the sale of CIT leave us well positioned to achieve significant value creation for shareholders and deliver another year of industry leading ROIC in excess of 25%.

That concludes our formal comments. Operator, we're 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] One moment, please, for your first question. Your first 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

Hey, guys.

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

A

Hey Tim.

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

Q

Good afternoon. Nice job. Maybe just to start on CCM, is there a way to maybe bridge some of the underlying assumptions on the 6% revenue growth? So, just really kind of interested in how much you're kind of baking in for the lapping of destocking, kind of what the underlying implied kind of volume growth is, what would kind of be on the roof for sell through? And then how are you thinking about pricing as well?

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

A

Yeah, Tim, so overall, expecting CCM to be up about 6% in 2024. We have the destock benefit. That's about a 11% benefit. And then pricing, we expect to be down really from the carryover from 2023, which is about 2% to 3%. And then the overall end market also down about 2% to 3%.

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

Q

Okay. Okay, good. And then, I guess, on pricing, what do you think the industry's kind of stands there? I guess, we've heard mixed anecdotes around where kind of pricing stands and just kind of curious how you see I mean, you said carryover pricing, which would assume that maybe things have stabilized. But just kind of curious on your comments on price?

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

A

Yeah, I think, Tim, we thought 2023 given the significant sales declines, we saw pricing held up really well through most of the year. It fluctuated, but I would say it was stable. When we look back, we've got a couple of components in there, too. We've got the core roofing, we've got [ph] CAM (00:24:46), we've got Europe and we've got some mix. And so, I think overall, I'd characterize it as stable and we go into this year, I think it'll be pretty much the same thing. That's what Kevin's talking about with the 2% to 3%. But again, it's early. It's Q1, it's January. But I think definitely given all the declines last year, I thought the pricing held in there and maybe that gets to some of this pricing to value in what we're providing and others are providing.

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

Okay. Okay, good. And then just on, I guess, reroofing, how much visibility do you kind of walk into a year with on the reroofing side? I'm just trying to kind of think through the ability of a building owner or contractor to kind of push that around based on other dynamics. But how would you kind of think about kind of the underlying reroofing backlog and just your visibility to that as you go into 2024?

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

Well, I think it's still, there's a good backlog. Obviously, when new construction was cooking there, we had some backlog. We've got the labor constraints. We tend to look at on a macro level, we've gone through the chart with looking back 20 years and what's coming due. We know we have our share of the market that when it is warranted, we also know when those roofs are coming due. We think that the average roof of the industry is a 20 year roof based upon warranties. I mean, there are longer warranties you can buy, but on average they're about 20 years.

So, we track all that. I think the thing is, you're talking about a very dispersed demand palate as across the entire United States in this reroofing. And you've got some things in there where you can patch and some people will repair and replace early, others may delay on a variety of functions. But I think overall, we try to get a sense through surveys. We talked about two surveys we did last year with about 600 contractors, talking about what was happening in their markets around the country and then obviously, Steve Schwar, Frank Ready and their sales teams are out there every day talking to them.

So, we think the visibility is pretty good. I think those other things just create some difficulty in pinning it down. So, as we go in, as Kevin said, we're looking at that 11% on the tailwind from destocking. And I think if we look at the industry in general, we're back at that mid-single digits that we've been at historically. The combination between reroofing and new construction and we think reroofing is holding up well.

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

Okay. So then just to confirm, if volumes should be down 2% to 3% and then just based on your mix, I mean, you probably have reroofing flat to up some and then new construction kind of down in the high single-digits or something like that?

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

Yeah. Yeah. I think going into new year, that's how we're thinking about it. Little pressure on new construction from interest rates and the economy and then reroofing picking that up with the backlogs. Yeah, exactly.

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

Awesome. Thanks for the time, guys. We'll talk soon.

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

Thanks, Tim.

Operator: Your next question comes from the line of Bryan Blair from Oppenheimer. Your line is now open.

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

Q

Good afternoon, guys. Nice finish to the year.

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

A

Hey Bryan. Thanks.

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

Q

Your guidance strikes us as a touch conservative, especially given the momentum you have coming through Q4 and knowing the comps that you finished, but it's early and leading some uncertainty to the upside is certainly fine. But the level set on the framework, maybe walk us through how you're thinking about the cadence of sales and margins throughout the year. And if you can speak to those dynamics by segment, that would be extremely helpful.

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

A

Yeah. So, let's start with sales, and how we're looking at sales is really what our historical seasonality has been. So, if you go back pre-COVID, the three-year average on sales at CCM, the first quarter is typically about 20% of full-year sales. Then the second quarter is about 29%. Third quarter was 27%, and the fourth quarter was 24%. And those were the historical averages. And we think 2024 is going to be a more normal year and that's what we're expecting on the CCM side.

For CWT, they're pretty much the same on a quarterly. The only difference is the first half of the year, whereas CWT historically has been a little bit stronger in the first quarter, so about 22% of sales and then 27% of sales in the second quarter, and then the second half of the year was the same as CCM.

Then if you look at the EBITDA margins, overall, we would expect really the incrementals that we've talked about to drop through based on those numbers at CCM. It's about 40% incrementals. CWT, low- to mid-30s and incrementals, only different side of all of that is the first quarter for CWT. That one is based on just how the numbers are playing out. If you look at it, CWT should increase a couple of hundred basis points in Q1. So, that's the one exception to what I just talked about. And that improvement is really from the carryover of all the synergies that they picked up in 2023.

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

Q

Okay. Appreciate the detail. That's very helpful. And how did price-cost shake out for CCM and CWT in 2023? And then what have you baked into guidance on that front? And just running the simple math, we assume that all of growth is volume-based. And thinking about the normalized incrementals that you just referenced, the 50 basis points seems to come exclusively from growth in that drop through, but I suspect price-cost remains a good guy for you guys coming into the year. And it's certainly typically a lever for the Carlisle story. So, just curious how you're thinking about that, but starting with how price-cost [indiscernible] (00:31:17) last year?

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

Yeah, for 2023, we had given a range in the third quarter and we hit the top end of that range where we came in for CCM, $80 million benefit. That's for the full year. CWT for the full year was $40 million benefit. As we get into 2024, as you said, maybe a little, the numbers were conservative. This is one where we're pretty much looking at price-cost to be flat, for both segments and offsetting that 2% rate, 2% to 3% price down. So, obviously, there's a benefit of the rise to make that a flat number.

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

Okay. Understood. Appreciate the clarification. And then last one, staying on the margin bridge, how much of a step-up in R&D expense are you factoring in for this year? We know the 3% target kind of medium to long term. How is that being phased in and what's the near-term focus for the team with kind of come to the conclusion that it's more evolutionary focused in terms of product development for the time being and perhaps more revolutionary over time? Just curious about the [indiscernible] (00:32:33).

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

Yeah. So, R&D expense overall is about 80 basis points as a percent of sales. And we're looking to nearly double that in 2024.

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

Okay. Understood. Thank you.

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

Yeah. Thanks, Bryan.

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

Operator. Everyone can hear the operator was dropped from the call, so we're just waiting to have the operator rejoin and then we'll resume the questions. So, if you can hear, please be patient and we will get this technical issue resolved momentarily. Thank you.

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. Glad you've got the technical issues fixed. So, just I want to talk a little bit about cash, you're about to receive almost $2 billion in proceeds. So, just – and you did a lot of share buybacks already. But what's the appetite this year for share repurchases? And then what are you seeing from an M&A pipeline perspective? And then just ultimately, how are you thinking about the optimal capital structure for your business?

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

A

Yes. So, from the cash, one piece we do have in 2024 is $400 million of debt coming due in the fourth quarter. So, we'll use some of the cash there. We have dividends. That's about $160 million. And then at that point, we'll invest in R&D and some of the capital expenditures, capital expenditures we put out $160 million to $180 million. And then it comes down to share buybacks versus acquisitions. We've been doing about $400 million a year in share buybacks. We'd expect to do that. Plus, we're allocating right now is about a half of the CIT proceeds to put that also towards share buybacks this year.

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

A

I can talk about the pipeline if you want.

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

A

Yeah. Go ahead.

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

A

Saree, did you want to ask any more about the share repurchases? You got three things that I think maybe we just pause and make sure you got everything you need on share repurchase.

Saree Boroditsky
Analyst, Jefferies LLC

Q

Now, that's good, M&A pipeline next would be great. Thanks.

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

A

Yeah. And then we'll get this optimal capital structure. Yeah, the M&A pipeline has been a little bit, I think all the way around slow. We are seeing deals. We'd like to see more. Hopefully we see things free up a little bit more as the spring gets here, interest rates change a little bit. But I think we're following kind of the same pattern you're seeing with everyone else that is 2023 was not a great year for M&A and probably not a great year for people selling their businesses.

So, we're still optimistic there are things out there we can add to the building products portfolio in the envelope. I mean, as a reminder and as we said in Vision 2030, we're going to be really – we have some really specific hurdles. Four of them, we want to have organic growth story within the asset that we're buying. We want to make sure that they're really hard synergies like we had with Henry. Not just sales synergies and things that are hoped for, but real raw material savings and plant, savings like we did with Henry. We want to have a really good management team.

And this is the one that I think in the Henry acquisition has been the hardest in the past, is to get that type of management team that we had coming in with Henry that just right off the bat picks up the integration playbook, which is number four, and then they run with it and we get, I don't know if you've heard recently, but the synergies we estimated of $30 million with the Henry deal, now we've exceeded $50 million. And a lot of that really is to that great management team, that great integration playbook and no pause once they were acquired.

So, when you layer those things on, I think we're a little bit more picky the most. But I think Henry's a great example of what we want to do with M&A. And I think there are more out there like that, just harder to find. And then Kevin will pick up on the capital structure.

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

A

Yeah, capital structure. we're looking to have net debt to EBITDA in the range of one to two times and the times looks like above that if it's the right acquisition like we did with Henry. And then our plan is to pay that back within 18 to 24 months to get us back in that one to two times net debt to EBITDA ratio.

Saree Boroditsky
Analyst, Jefferies LLC

Q

And so, I guess given where kind of the M&A pipeline is, you talked about half of the proceeds for buybacks. So, within your guidance, you have about $20 million of net interest expense. But given that you're expecting to hold on to some of those cash proceeds, should you not realize some interest income on that? And how do you think about earnings interest income within your guidance? Thanks.

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

A

Yeah. So, interest expense is around $70 million and then we have about $50 million of interest income. So, $70 million, $50 million and then the net $20 million.

Saree Boroditsky
Analyst, Jefferies LLC

Q

Okay. Thanks for the questions.

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

A

All right. Thanks, Saree.

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

Hi. Great. Thanks for having me on. I'm just wondering if you could just speak to a little bit more of your view of the market in CCM being down 2 to 3 points? I appreciate that, the view is that the repair side could be flat to slightly up and then new down high single digits or so. But just curious as to where are you seeing maybe some upside or downside risk to that market outlook? Would it be more repair versus new, anything you could add as to how you're assessing variance around the market outlook?

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

A

Yeah, I think, Garik, the biggest thing for me is this idea that this interest rate environment that we've been facing in the economy. I mean, we're not unique in this idea that we're going into the year, first, we hear there's going to be three interest rate cuts. Okay, that's super positive. We like that. Then we hear now we're going to pull back on that. I think Neel Kashkari came out Minneapolis Fed and said maybe it's too soon to talk about that.

So, we've got that. We've got the economy that everybody's on pins and needles about with, obviously, employment and other things like that. So, I think as we sit here, the hard thing for us to do is to be sitting in January, which is in the first quarter our lightest, as Kevin mentioned, 20% of overall sales and trying to forecast that with what the real construction season is going to be in the spring and summer.

So right now, we're saying, as we did, on the 2030 video, that things are relatively stable and they're moving along as we expect. And so, we're kind of looking at historical averages. We're looking at what we get from the market, what our sales teams are telling us, what we're seeing in project pipeline. We also give to things like that before we actually read your reports. When you do your surveys and your pulse checks and those kind of things and take all that into account.

So, I think the biggest thing for us is just it all feels optimistic right now. And we like that. But when we get down to granularity, looking at the economy be the biggest readable. And then we look at specifically into some of the verticals. And when you look at 2024, we see that continued, I'd say pressure on warehouses specifically. But to call out one that seems to be the biggest decliner would probably be warehouses. I think Dodge has it somewhere in the high teens, low 20s forecast for 2024. Education looks pretty good. Retail stores, healthcare, we still think there's a trend there. And it seems to be happening with an aging population that we'll see more long-term care. Medical seems to be good. There seems to be a lot of money in medical. And then we get the reshoring of manufacturing, which I think Dodge estimated was somewhere around 8% in 2023.

And then I think the last one really is the office buildings. And we don't deal in the tall buildings that we had city cores and there was a lot of distress there with the work from home. But we're more in the low three, four storey buildings and we think that's good. Suburban office buildings have been pretty good.

So, that's kind of how we see the verticals. And then I think we just layer in the reroofing on top of that and obviously, that's a little bit less vertical dependent and more dependent on the age of the roof.

So again, optimistic about 2024. I think specifically if we are continuing to see the economy perform as it is and we do get a couple of cuts, it could be a pretty good year going forward, especially with the fact that I would say that there's been – we had the destocking, but we haven't really had in this winter period a return to restocking, which typically back four or five years ago before COVID, there was always a loading in the spring, in the March-April timeframe. So, there may be some of that too if the economy turns around and things look good.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Thanks for all that and I appreciate the plug. I guess final question is just on CWT, maybe similarly, you touched on some of these things in the prior answer, but your comment on the 3Q, you specifically indicated that there were some more project delays you anticipated in CWT. It's always more on the commercial side than residential, but just curious, has that maybe pacing continued or maybe from the sounds of it, you're seeing some stabilization. Just wondering if you could address some of those project delays in CWT and what occurred in the fourth quarter?

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

A

Yeah. Hey, Garik, Mehul here, I'll take that one. So, overall to your point, 2023 was very challenging given the dynamic nature of the macro environment. That's what impacted the project delays in 2023. The way we see it now, it's basically stabilized. I think more or less, the economy is kind of what it is around higher interest rates and what's going on with non-residential. So, I characterize it as being stable.

And then overall, on the CWT side, specifically on the commercial side, we're mainly focused around the institutions, medical, education and government. So, those tend to be a little bit more stable as well.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Understood. Thanks for that. I'll pass it on.

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

A

Thanks, Garik.

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 and thanks for taking my questions.

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

A

Hi Dave.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Just to start off with a quick one – hey Chris, any sense of what benefit the extended days in December may have represented this quarter?

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

A

Yeah, we think it picked up probably about two days of positive weather.

David S. MacGregor
Analyst, Longbow Research LLC

Q

For two days. Secondly, I wanted to ask you about market share in CCM. And clearly during the pandemic, you guys won share. And so, I guess the question is if the market is stabilizing, how do you defend that share now that they want it back and they're likely prepared to use price to get it? And then maybe within the context of that answer, you can just talk about what you're expecting in terms of CCM market share in 2024.

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

A

Yeah, I think for market share I don't know, I don't want to get contentious. I would say that during COVID, I would say there were a couple of phases to it and maybe in the first phase when we came out, if you might recall, we had actually built inventory going into COVID when others were declining. And when we came out, we captured a lot of share.

So, there was demand, we had it. Others weren't able to provide. And that was part attributed to our belief in the Carlisle Experience providing a lot of value to our contractors, right place, right product, right time, right. So, we picked up share then. Then we did get through and as the time went on, we had others that implemented different types of techniques to get out into the market and to sell things they handled their approach through direct sales to contractor may be different or they funded distribution in a different way? And I think you're right. As we chose a path under, I think we call it our MSP program, we made some decisions. And one decision was, we felt it was better to, I would say, be more democratic in our approach to funding distributors. We didn't put all the eggs with the biggest distributors or contractors. We made sure that all of our longstanding customers got a little bit so that everybody could survive.

So, we may have suffered a little bit there. And then I think there was some pricing as we came out into 2023 that some attempts to gain share through that in the first quarter – in the first quarter of the year, which exacerbated the destocking. But ultimately things got, as we've already touched on, it was a very stable year for pricing, so things came back.

And so, really when I look at the time I've been CEO to now, 2014 to 2024, I would say that overall market shares have remained relatively stable. There's ebbs and flows and each segment is very specific, TPO is different than EPDM. EPDM is different than PVC. But on the whole, I think one of the reasons it stays relatively stable for us is our great network of architect specifications distributors and then this warranty and specifying these things and viewing the whole thing as a system, which is what Mehul talks a lot about with Henry as well, and this idea that we're having a specified system.

So, I don't think 2024 will be any different. I think 2024 will probably play out in a similar way and market share will be relatively consistent around the big buckets of our business. The three roofing membranes, the insulation, so the accessories, adhesives and sealants for that.

David S. MacGregor Q
Analyst, Longbow Research LLC

Great. Thank you for that. And then last question I had for you is just with regard to the backlog that you referenced in your prepared remarks, can you size that roofing backlog for us? And what would it normally be? So to what extent are you above normalized levels and how are you thinking about getting a burn rate on that?

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

No, I think – I would add more, I guess without – I don't want to share too much and I would go back to maybe more of a public figure. And I think it's ABI think has...

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

ABC contractor.

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

A

ABC contractor. So, that 8.6 that Kevin references is pretty similar to what we've seen for the last few years. 9.1, I think was there for a while. I don't think it's really dipped below 8.5. So, I think backlog has remained relatively consistent, which is kind of what we talked about with labor constraints that people are putting roofs on, but there's a healthy backlog of demand there.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Got it. Thanks very much.

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

A

You bet. Thank you.

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

Adam Baumgarten
Analyst, Zelman & Associates

Q

Hey, good afternoon. Just looking at the margin guidance, the EBITDA margin expanding overall 50 bps, is that a bit more weighted or higher than the total company at CWT given the stronger starters relatively balanced across both businesses for the year?

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

A

That's relatively balanced across both CCM and CWT.

Adam Baumgarten
Analyst, Zelman & Associates

Q

Okay. Got it. And then just a couple others. One, you mentioned the positive weather in 4Q just a moment ago, was weather a headwind perhaps in January? And then also just on CapEx, kind of coming up a good amount and then you guys noted some growth investments. Can you give maybe some more specifics on where you're spending that incremental CapEx?

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

A

Yeah, the CapEx is going to be a couple of key areas. One, R&D, we're going to continue to invest in the innovation and doing expansion there. We have certainly with CLS, there's always cost reduction programs, whether it's through automation and those types of investments. And we also – for future growth, there will be some capacity, not new lines or anything like that, but additional investments that will enhance some of our growth overall.

Adam Baumgarten
Analyst, Zelman & Associates

Q

Okay. Just on the January weather, if that was anything notable?

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

A

Not really. I would say not that we've heard from the divisions. I think one thing is this rain in California and this atmospheric river that they talk about. I know Frank and the CWT team do a lot there on the retail side. Once those kind of things hit, obviously, Lake Superior and things like that, and that tends to be something that gets stocked up. So, probably would have more of an impact here as we get into February a little bit further.

Adam Baumgarten
Analyst, Zelman & Associates

Q

Got it. Thanks.

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

A

Yeah.

Operator: [Operator Instructions] There are no further questions at this time. Please continue.

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

Thanks. Operator. Well, that concludes our fourth quarter 2023 conference call. Appreciate all the questions and the interest and looking forward to talking to everyone soon. Thanks very much.

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