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Carlisle Cos., Inc. (CSL)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Megan, and I will be your conference call operator today. At this time, I would like to welcome everyone to the Carlisle Companies Third Quarter 2026 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, Operator, and good afternoon. On behalf of Carlisle, welcome. Earlier today, we reported third quarter results. The press release and the slides are available on the Investor Relations page of our website. With me on the call are Chris Koch, our Chair of the Board, President and CEO; and our Chief Financial Officer, Kevin Zdimal. Chris will start with his perspective on pricing, raw materials, margins, and competitive dynamics. Kevin will then review our financial results and fourth quarter outlook. And Chris will follow with their Vision 2030 priorities, and then we'll take your questions.

Before we begin, please turn to slide 2. Today's remarks contain forward-looking statements that reflect our current expectations and are subject to risks and uncertainties. Factors that could cause actual outcomes to differ

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are described in our SEC filings and today's press release, and we undertake no obligation to update these statements except as required by law. We will also refer to non-GAAP financial measures with reconciliations in today's presentation and press release.

With that, I'll hand the call to Chris, starting on slide 3.

David Christian Koch

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

Thank you, Mehul, and good afternoon, everyone. Our third quarter results build on the strong demand we saw in quarter 2. Despite significant market volatility, we maintained high-single-digit growth and importantly, demand remained resilient through our pricing actions. We remain focused on superior capital allocation and our path towards $40 of adjusted EPS in 2030.

With that, let me turn to the key areas of focus as we enter the fourth quarter: price-cost, margins, demand, and the competitive environment. Let me start with pricing. We addressed the cost increases that began in quarter one with multiple price increases and freight surcharges. Historically, price realization has lagged cost increases by approximately three to six months, primarily because we honor existing quotes and firm orders already in our system.

On our quarter two call, we said we expected price-cost to be close to parity in quarter three and then turn slightly positive in quarter four. Unanticipated cost increases in quarter three did not change the shape or the direction of that curve, but pushed the timing of achieving parity out by one quarter. Price realization and our freight surcharges are gaining meaningful traction, and we now expect to reach price-cost parity as we exit 2026. Pricing has not had a detrimental impact on demand, and we saw no additional pre-buying in the quarter.

Our July outlook assumed raw material and freight costs would stabilize. Instead, oil and diesel costs rose further, pressuring petrochemical-based raw materials, freight, and virtually all of our costs. US diesel reached record levels of about $6.50 per gallon in late September and was approximately $6.35 as of yesterday, roughly 75% higher than one year ago.

Reaching parity as we exit this year assumes stability in input costs and freight and no further deterioration in global markets. We would expect the pricing we now have in place to be a tailwind in 2027. That brings us to margins. Adjusted EBITDA held at $348 million on 9% revenue growth as volume leverage and Carlisle Operating System productivity helped offset inflation. Due to the unexpected cost increases in the third quarter, margins declined more than we expected. We view the pressure as a timing issue, not a structural one.

The drivers of margin expansion remain intact, and those are increasing price realization, freight offsets, Carlisle Operating System productivity, CWT efficiency programs, operating leverage, and new products. As costs normalize, we would expect margin expansion to resume. And with that, our Vision 2030 targets are unchanged. On the demand side, reroofing at CCM continues to be a consistent mid-single-digit contributor, as it has been for decades. Despite seeing some pre-buying activity ahead of the price increases in Q2, our channel inventories remain at normal levels.

We confirmed this through hundreds of Carlisle market survey interviews and real-time feedback from our almost 1,000-person sales force. Data centers continue to build momentum, driven by our newly formed and dedicated data center market team. Our premium TPO portfolio and our manufacturing capacity is benefiting data center customers as PVC supply remains constrained and as these customers discover the excellent attributes of TPO

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for data center roofs. We thus expect the trend towards premium TPO systems on data centers to continue to increase.

These factors help offset softness in new construction, which is a positive, as our near-term outlook does not assume a recovery in new construction markets overall. At CWT, where residential is roughly 45% of revenue, share gains and cost actions are offsetting residential softness in sales. We also expect no near-term recovery in residential end markets as mortgage applications, list price, and home sales have declined sequentially.

On the competitive front, our distribution relationships remain healthy, productive, and aligned. We continue to monitor new market entrants and their investments, but we have not seen any meaningful impact from them on our volumes.

Finally, capital allocation. Our balance sheet is strong. Repurchases are on track for $1.2 billion this year. And we are proud to be a Dividend King with 50 consecutive years of dividend increases. And of course, our M&A criteria have not changed.

With that, I'll turn the call over to Kevin to cover the financials, and I will return to discuss our progress towards Vision 2030 before we end the call.

Kevin Philip Zdimal

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

Thank you, Chris, and good afternoon, everyone. I will review our third quarter results and then discuss our outlook for the fourth quarter. Let's begin on slide 3. Our third quarter results demonstrate our team's ability to execute with discipline through macroeconomic challenges. Revenue increased 9% to $1.5 billion, and adjusted EPS increased 6% to a third quarter record of $5.92. Demand remained healthy and our strategic initiatives once again drove above-market revenue growth in both segments. Price realization also contributed meaningfully and increased throughout the quarter. Importantly, we have not seen a material change in demand from our pricing actions or geopolitical developments. We have also not seen a meaningful increase in project delays or cancellations.

Higher input costs remained the primary challenge in the quarter. Renewed escalation of the conflict in the Middle East drove petroleum-based raw material, diesel, and freight costs higher than we anticipated in our July outlook. On our July call, we expected price cost to be neutral in the third quarter and positive in the fourth quarter. However, costs continued to increase which pushed our recovery timeline out one quarter. Expect to reach price-cost parity as we exit 2026. As we have seen in prior inflationary cycles, price realization typically lags rising costs, and that timing pressured our margins in the third quarter.

Turning to slide 4. Third quarter revenue increased 9% to $1.5 billion. Healthy reroofing demand, strong volume, and price realization that increased through the quarter more than offset continued softness in residential and non-residential new construction. Adjusted EBITDA was essentially flat at $348 million, with an adjusted EBITDA margin of 23.8%, down 210 basis points year over year as raw material and freight costs increased faster than price realization during the quarter. Higher volume, disciplined cost management, and Carlisle Operating System productivity helped offset that inflation and held adjusted EBITDA in line with the prior year.

Record third quarter adjusted EPS of $5.92 increased 6% year-over-year, driven by higher segment earnings and an 8% lower diluted share count from share repurchases, partially offset by higher interest expense from the notes we issued in August 2025 and higher corporate compensation and benefit costs compared to the prior year.

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Moving to CCM on slide 5. CCM revenue increased 8% to $1.1 billion, driven by strong volume growth and price realization that built throughout the quarter. Reroofing demand remained healthy, growing mid-single digits, while new construction declined mid-single digits, and our end market grew low single digits overall. Chris will discuss the strategic initiatives behind our above-market growth.

On our second quarter call, we noted that customer pre-buying ahead of announced price increases contributed a couple of percentage points to CCM's growth. Our strong third quarter volumes confirm that the vast majority of that growth came from end market demand. Channel inventories are at normal levels for this time of year and October, bookings remained strong.

CCM adjusted EBITDA increased 1% to $306 million, with an adjusted EBITDA margin of 28.2%, down 200 basis points year-over-year. The margin decline reflects further raw material and freight inflation from where we started the quarter, which outpaced our price realization. This was partially offset by operating leverage on higher volume, Carlisle Operating System productivity, and cost controls.

Turning to CWT on slide 6. Revenue increased 9% to $379 million as share gains and weather conditions that drove demand for roof coatings more than offset continued softness in residential and non-residential new construction. CWT adjusted EBITDA increased 13% to $68 million, and adjusted EBITDA margin was 18%, up 60 basis points year-over-year. Structural cost savings and higher volume drove that improvement, more than offsetting raw material and freight inflation that outpaced price realization.

Importantly, the structural efficiency initiatives at CWT are substantially complete and the benefits are building. Our investments in automation, footprint consolidation, and in-house expanded polystyrene resin production are contributing, and synergies from our recent insulation acquisitions are beginning to show in our results. Together with our October pricing and updated freight surcharges, these actions position CWT for stronger margin performance in the fourth quarter and into 2027.

Turning to slide 7 and our financial position. As of September 30, 2026, we had $547 million in cash and cash equivalents and $1 billion available under our revolving credit facility. Net debt to EBITDA was 1.8 times, within our target range of 1 to 2 times. This balance sheet strength provides significant flexibility to continue investing in organic growth, pursue disciplined M&A opportunities, and return capital to shareholders.

Moving to cash flow on slide 8. Third quarter operating cash flow from continuing operations was $314 million, and free cash flow from continuing operations was $277 million after $37 million of capital expenditures. The year-over-year decrease primarily reflects higher working capital to support increased sales and higher raw material costs. For the first nine months, free cash flow from continuing operations was $407 million, and we expect a strong fourth quarter consistent with our normal seasonality.

During the quarter, we repurchased $350 million of shares, bringing year-to-date repurchases to $850 million. Including $140 million of dividends, we have returned $990 million to shareholders so far in 2026. We also increased our quarterly dividend by 14%, marking our 50th consecutive annual increase. We remain on track with our full-year repurchase target of $1.2 billion while preserving the capacity to pursue acquisitions that meet our criteria.

Turning to our fourth quarter outlook on slide 9. We expect consolidated revenue to grow high single digits year-over-year, with both CCM and CWT up high single digits. At CCM, pricing and reroofing demand are expected to more than offset slower new construction. At CWT, pricing and share gains are expected to more than offset continued softness in end markets.

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We expect fourth quarter adjusted EBITDA margin to be flat year over year as the benefit of our pricing actions continues to build against elevated input costs. For the full year, we expect ROIC of approximately 25% and free cash flow margin of approximately 15%. In both segments, we expect price-cost to improve as realization builds, and we expect the benefit of our pricing actions to carry into 2027. Consistent with our approach throughout the year, our outlook does not assume a recovery in new construction.

Turning to our Vision 2030 financial goals on slide 10. We remain confident in our long-term targets of $40 of adjusted EPS and ROIC above 25%. Our path is founded on above-market organic growth, Carlisle Operating System productivity, disciplined capital return through share repurchases and targeted synergistic M&A when the right opportunities are available at the right price. These are flexible, independent levers, and our strategy does not depend on all of them contributing significantly in every year. As we demonstrated under Vision 2025, when we exceeded our EPS goal three years ahead of schedule, the trajectory toward the target can accommodate choppy periods.

With that, I'll turn the call over to Chris.

David Christian Koch

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

Thank you, Kevin. The third quarter again demonstrated our focus on managing what we can control. Despite renewed escalation in the Middle East driving higher input costs and soft new construction, both CCM and CWT grew faster than their end markets. Revenue increased 9% and we delivered record third quarter adjusted EPS. Our teams priced for value, maintained spending discipline, delivered the Carlisle experience, and continued investing for long-term growth.

Now I'd like to cover our progress on Vision 2030, starting with growth and innovation and then pricing actions behind our fourth quarter and 2027 outlook. Re-roofing anchors our business, and this quarter has returned to the consistent multiyear mid-single-digit growth that we are used to experiencing from a dip to the low-single-digit growth that we saw in the first half of this year.

Since we introduced Vision 2030, re-roofing has grown every year through very different market conditions. Why is that? Because more than 70% of the non-residential building stock in North America is over 25 years old. And for a building owner, replacing a roof is not a discretionary decision. That recurring demand gives us a steady base in any market.

New construction remains soft, and geopolitical developments and recent interest rate increases have made the timing of a recovery less certain. But our plans do not depend on a market recovery. Carlisle's built to outgrow its markets and perform throughout the cycle, not just at the peak. And that strategy is delivering results. CCM revenue increased 8% and CWT increased 9%, ahead of their end markets, all the while, price increases were moving through the market. Customers continue to choose Carlisle for the Carlisle experience, which is the right products in the right place at the right time, supported by our experienced employees.

Of all our Vision 2030 levers, innovation is the one I'm most excited about because its impact compounds over time. And importantly, innovation clearly delivers on the idea that price to value is a key attribute of differentiation and margin expansion, especially when customers experience the value to their business that new products provide. Over the past year, our voice of the customer process, grounded in outcome-driven innovation, has generated hundreds of new product ideas and validated active projects in our stage-gate pipeline. And those products will drive measurable benefits to our customers.

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That work is translating into more new products in the market. We've launched 9 of our 12 planned projects for 2026. The remaining launches are on schedule, and we remain on track to generate 25% of total sales from products introduced in the past five years. A solid example of innovation can be found in two of this fall's launches that will take primer out of the job: Blueskin SA HPX for commercial walls, which can be applied without primer year-round, and VapAir Seal TR Plus for roofing, which requires no primer on approved substrates. Both eliminate an installation step and create value for our contractors.

On the retail front, Home Depot now carries Henry's UltraTouch, made with 100% recycled denim insulation in over half its stores. And sales continue to improve in stores that have carried it for a year or more. This month, we also launched the paper-faced version for markets where building codes require moisture control, with a broader rollout planned for February.

Our other recent introductions including SeamShield, RapidLock, VP Tech and APEEL, continue to gain traction with contractors looking to get their crews to the next job faster. The expansion of our Research and Innovation Center that we broke ground on earlier this year will help us sustain an increasing cadence of new product introductions, shorten our time to market, expand margins, and strengthen the proprietary capabilities that differentiate Carlisle.

That work now has new leadership and has demonstrated our commitment to a robust succession planning process. Dr. Justin Skaife joined Carlisle in September as Senior Vice President of Research and Development, succeeding Dr. John Dobson, who retired as planned after roughly 15 years across Henry and Carlisle. I want to thank John for his contributions and welcome Justin to the team.

Turning to the pricing actions behind our fourth quarter and 2027 outlook. At CCM, three price increases are now in the market from April, July, and August, and we've executed freight surcharges for a third time. At CWT, our second waterproofing increase is in effect in October, along with updated freight policies. On the supply side, the force majeure declarations on MDI and polyols that were declared in May have begun to lift. Because of this, we expect MDI pricing to ease as we exit the year.

We are hopeful that as we exit 2026, we will also see resolution to the global conflicts currently underway and with that resolution, a meaningful cost relief as we move through 2027. As those costs normalize, the pricing now in place should become a tailwind for our margins next year. Our experience would suggest that margin expansion follows cost normalization after a period of raw material inflation. However, if costs remain elevated or increase, we will evaluate further pricing actions as we have in the past cycles. Our approach remains disciplined and deliberate, and we like where we stand heading into 2027.

Through all of the volatility of 2026, Carlisle continued to generate substantial cash flow. We view capital allocation as a core competency, not a byproduct of the business. Whether we are investing in our businesses, pursuing acquisitions or repurchasing shares, our objective is the same: deploy capital where it creates the greatest long-term value for our shareholders.

In August, our board raised the quarterly dividend 14% to $1.25 per share, our 50th consecutive annual increase. We're pleased to reach this milestone and join the fewer than 60 companies that are part of this class known as Dividend Kings. This milestone reflects the durability of our business model and our long-standing commitment to returning capital shareholders.

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On the M&A front, we remain focused on acquisitions within the building envelope that support our market leadership position, add to our system selling approach, and increase our content per square foot. We seek deals that fit our four criteria: an existing organic growth story, tangible hard cost synergies, a strong management team ready to take on more, and the ability to deploy the Carlisle Operating System, the Carlisle Experience, and our integration playbook. Our commitment to being superior capital allocators will not change, and our shareholders can count on it.

Stepping back and simply putting it, demand held through our pricing actions, and price is catching up with cost inflation. We are growing faster than our markets, funding innovation, and returning substantial capital to our shareholders, all in a volatile cost environment. And we expect the benefit of our pricing to keep building through the fourth quarter and into 2027.

Carlisle operates an imperative business model. Buildings have to be built, maintained, and improved over time, and we serve that need largely in North America, which we believe is the best building products market in the world. Re-roofing gives us a recurring foundation of demand, and our cash generation allows us to keep investing through the cycle. The structural drivers behind our business, from energy efficiency and the push for labor savings to a persistent housing shortage, remain opportunities for long-term growth.

Our priorities are unchanged heading into 2027: operational excellence, a better Carlisle Experience, accretive M&A, and value-creating innovation. We expect these growth initiatives to help offset end-market conditions that could remain similar to those today. That focus keeps us on the Vision 2030 path, and we remain confident in our targets. And I repeat this a lot, but it's a good reminder to all of us. None of this happens without dedicated and driven people, from our sales teams in the field, our innovators in the labs, to our teams in our plants and in customer service, thank you. You stayed focused on our customers through a demanding quarter, and it shows in our results. That is why three times in the past 10 years, we have issued broad-based equity grants to give our employees a personal stake in Carlisle's performance. We're driven by shared success.

Thank you all for your time and continued interest in Carlisle. And with that, I'll turn it back to the operator to open the line for questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. For the sake of time, we kindly request each person limit them to one question to give everyone the opportunity to participate in the question-and-answer session. [Operator Instructions] Your first question comes from the line of Tim Wojs from Baird. Please go ahead.

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

Q

Hey, guys. Good afternoon.

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Tim.

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

Q

Thanks for the time. Hey, maybe just the first question I have. Just could you talk about just what price realization was in Q3 and kind of what you exited the quarter with and what's in the guide for Q4 specifically for CCM? And you guys both mentioned that the price-cost would be positive in 2027. Is that just the timing dynamic of kind of pricing catching up to inflation? Or are you explicitly assuming that costs come down?

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Yeah, Tim, I think we made clear that we're seeing that price catch up with cost as we moved through the third quarter and then into the fourth quarter. And I think as we exit 2026, I said we're going to reach this parity, and then it'll catch up and/or the pricing will exceed the cost. And I think even if raws stay where they are today, we would expect to see some pricing tailwinds. And then if they go down, obviously it's even incrementally better. And then Kevin will touch on this specific pricing.

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

A

Yeah, the price realization, it's spot on to what we said in the Q2 call. We were about 4% in Q3 for CCM price increases. And then Q4, we're looking at about 7% of price realization on a year-over-year basis. So nothing's changed from the price realization. Obviously, the thing that changed was the raw material costs and freight that continued to escalate in Q3.

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

Q

Okay. And then just on data centers, like, is there a way to size the benefit that you're getting on the volume side from just kind of being more involved in the data center business this year? And is it just because capacity is constrained in PVC, or is there really a more structural opportunity for TPO there? Thanks.

Operator: As a friendly reminder...

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David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.
A

Yeah. I think three things, Tim. Oh, sorry, go ahead, Megan.

Operator: As a friendly reminder, we're limiting to one question per person. If we have time at the end, we will try to open up the lines for additional questions.

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.
A

Hey, Megan, I'll answer this question though. Thank you for that reminder. And Tim and group, I think there's three things at data centers that are helping us. I'm not going to exactly give you the total dollar impact because I don't want to give that to competitors, obviously. But our business in the third quarter, I think, was up something like 200%.

And three things that are really driving it. One, we assembled maybe almost a year ago a dedicated data center team. That was one of the actions that we committed to. And included in that are some VOC things that are going to help us there. Two, we're obviously benefiting from the constraint in the industry on TPO and that kind of thing. And three, I would say that we're benefiting from a greater awareness of Carlisle just being in the market and being a better provider, and people take advantage of the Carlisle Experience. And I think it was pretty obvious earlier that we weren't there to the level we needed to be. And once we got in the game, people are seeing, yes, we have alternatives and other solutions as well as we've got a lot of capacity to be able to address their needs.

And in a really, in a market where I think right now speed is of the essence, the Carlisle Experience of that right product, right place, right time, and being able to exceed expectations is really benefiting us. So I think those are the three things that drove that growth in the third quarter. And then as we go into fourth quarter next year, we want to get more on the front end of this and be a key part of the specifications that we do in all the other areas that we serve too. So that sums it up.

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

Okay. Thanks for the extra question.

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.
A

Yeah. You bet.

Operator: Our next question comes from the line of Susan Maklari with Goldman Sachs. Please go ahead.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC
Q

Thank you. Good afternoon, everyone.

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.
A

Good afternoon.

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

Good afternoon.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC
Q

My question is on – hello, everybody. My question is on the competitive environment that you're seeing and how you're thinking about investing in the Carlisle Experience and your service levels and what that means for your ability to compete, especially in this kind of an environment that we're seeing and drive the outperformance that you delivered for the last two quarters now relative to the market.

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.
A

Yeah. Thanks, Sue. I think it's a difficult environment for every, the volatility that's there, it doesn't contribute to anyone's planning, and they don't want to have any waste out there. And I think that really hits on the Carlisle Experience, it's just Carlisle has built up over all these years just wonderful relationships on specifications. People can rely on our teams coming in there, while others may be looking to have cost-cutting or maybe not adding as much. As we mentioned, we continue to invest through the cycle.

I think we have something like over 1,000 salespeople. I was just reading our NPS scores, and there was a great correlation between frequency of contact with your salesperson and success at your job site. So I think, at your office. So I think this idea that Carlisle has an unbelievable structure put in place, and we continue to enhance it and just continue to drive that relationship, that steadiness, that reliability, when it starts with order entry and getting, and being in a specification and then taking that out and being, having your call answered right away or having a great rep calling you with immediate answers to your problems and then moving it through our factories and seeing our team deliver something like, let's say, 98% on time delivery-plus. So you know it's going to be there.

And then, really, warranty plays a big role as well. I think the investment in the warranty and the service we do in terms of inspections and things like that obviously gets you paid quicker, gives you confidence as an end user that you've got a great product on the roof, and then the service afterwards in terms of training and other things like that.

So I think when we look at competition, I think we want to continue to invest to be the leader because we believe, and I think it showed in the third quarter that even in a rising pricing environment where we tend to be the price leader, we're not seeing any suffering demand because I think people are seeing the value and that points right to innovation again. And what we want to do is drive innovation that provides value that we can actually monetize both the distributor, the contractor. Everyone in the system then can monetize that value creation and we can too in terms of a greater content per square foot, in terms of greater margin per square foot.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC
Q

Okay. That's very helpful. And just in general, how would you contextualize the competitive backdrop today?

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.
A

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I think the competitive backdrop is, I'm going to say relatively unchanged. We've got some very good competitors that are out there. We've competed against them for a long time. They're well known. They have good leadership teams. You know the names. They're extremely professional. We mentioned years ago when John Altmeyer went over to GAF, and we saw the team at Amrize be created, that we knew those were improvements in the management team. So I'd say the competitive environment is still quite robust. I think the teams, our competitors do a good job every day. We have seen a couple of new entrants, but as we mentioned as of yet, no real impact on us and our teams.

Susan Maklari Q
Analyst, Goldman Sachs & Co. LLC

Yeah. Okay. Thank you. I'll get back in the queue. Thanks for the color and good luck with the quarter.

David Christian Koch A
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.

Thanks, Sue.

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

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

Thank you. Good afternoon, guys.

David Christian Koch A
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.

Hey, Bryan.

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

Good afternoon.

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

You noted that structural cost savings continue to ramp at CWT from automation, footprint consolidation, in-house resin capacity, likely some other factors as well. If we were to assume flat volume going forward, which is hopefully conservative given the share gains that your team is experiencing there, what would be the carryover cost savings or equivalently, the margin lift in 2027 under those circumstances?

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

Yeah, I'll take that one. So Bryan, thanks for the question. As we talked about these investments that we made to improve operating efficiency at CWT, those were all substantially completed at the beginning of this year. So just as a reminder for this year, we expect somewhere between $20 million and $30 million of contribution from these investments. We'll get a little bit of benefit carryover in Q1. But from these specific investments we made, [ph] they're lapped next year and (00:34:32) we won't get that anymore. But with that said, there are a big runway where there's a lot more opportunities through similar types of investments, more automation, more maturity in

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COS and other things that we could do there. So, we still believe the runway to get up to 30% is there through 2030 to get to our Vision 2030 targets. We have CWT getting up to 25%.

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.
A

Yeah. And Bryan, I'll just add and Mehul can jump in on this, too. But the progress that we made really got masked. I mean, the team did an excellent job. And if they, similar situation to CCM, if the costs hadn't kind of continued to increase and overwhelm some of CWT's progress in the third quarter, I think Mehul told me it was multiple hundreds of basis points that without that rise, if we had just been where we were at the end of the second quarter, I think we would have had, I mean, Mehul, would you say 500 basis points...

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

Yeah.

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.
A

...or something in CWT improvement? So it's real. It's there. Unfortunately, that continued escalation in raw materials and that lag to pricing and certainly the diesel and freight surcharge situation took a lot of that good press that would have been in CWT and would have shown the great progress the team is making, kind of masked it, and so they didn't get credit for it.

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

Understood. Appreciate the detail.

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.
A

You got it. Thank you.

Operator: Your next question comes from the line of Tomo Sano from JPMorgan. Please go ahead.

Tomohiko Sano
Analyst, JPMorgan Securities LLC
Q

Hi. Good afternoon, everyone.

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.
A

Afternoon.

Tomohiko Sano
Analyst, JPMorgan Securities LLC
Q

Maybe on CCM, re-roofing grew mid-single digit this quarter. So given everything that's changed recently, are you seeing any change in re-roofing activities, whether it project timing, customer behavior, or the pipeline as you look into 2027?

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David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.
A

No, Tomo, we're not. Thanks for the question. As we mention, I think in every one of these conference calls, that's a significant part of our business. We view it almost in a annuity-like manner in the sense that when you tend to work with Carlisle on your original roof, I think and it's probably true with our competitors as well, but you tend to stay with that when you do the re-roof.

Obviously, our distributors are doing a great job of paying attention to roofs as they age. Our contractors are providing service every day on those roofs and making repairs and that. And so there's quite a relationship there, as well as we have the warranty data. And so we keep a really good track record of where we are with these jobs and when they need to be re-roofed. And as many people, not just me, even at other companies, they've said, re-roofing is just not an option, that you can delay it a little bit, but ultimately you got to do that.

So I don't see any change in re-roofing demand as we go into the fourth quarter and as we go into 2027. And obviously, we like to see new construction, too, because that means more roofs to be re-roofed in 17 to 25 years as we keep going forward. I won't be around for that, but obviously the building stock that we had 15 to 20 years ago, as Mehul has articulated, is still moving through the system and providing great demand on that 70% of business of ours that is re-roofing.

Tomohiko Sano
Analyst, JPMorgan Securities LLC
Q

Great. Thank you very much.

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.
A

Thank you, Tomo.

Operator: 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, good afternoon, everyone. Congratulations on the progress, Chris...

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.
A

Good afternoon.

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

Good afternoon. Hi.

David S. MacGregor
Analyst, Longbow Research LLC
Q

...Yeah. So many questions and we just get one shot. So I guess we've got to pick our spots.

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David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.

A

I love it.

David S. MacGregor
Analyst, Longbow Research LLC

Q

I'd say, it's interesting to hear you talk about demand remains resilient through pricing actions. But, and I guess if re-roof is truly inelastic demand, that's the way it should be. But you kind of believe at some point there's some demand elasticity here. Maybe it's people parsing the size of the project due to their limited cost budgeting or there's something that comes into play there from this theoretical abstract that re-roof being perfectly demand-inelastic. How should we think about that? I mean, if we see 2027 and we end up in kind of a stagflationary kind of macro environment where we continue to see inflation and, where should we be watching for the first signs of, where are you watching for the first signs that maybe there is some reaction by the market?

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.

A

I don't think there's really anything on re-roofing that I would point to. I do think we've already seen some pretty hefty impacts on what I would call scenarios play out over the last 10 years. I think about COVID and what happened, and we had supply constraints and we had, everybody was going to work from home, and we were never going to build any more buildings downtown anymore and that kind of thing.

And then we had the movement around energy efficiency, which is still there, but it was, had maybe a bigger impact. And there were going to be constraints in that manner because we know buildings that eliminated a lot of GHG emissions. And then we move into the tariff situation and election, and tariffs impacted raw material supplies, and it impacted demand. And we've seen Chinese manufacturing roll out here. We look at Europe and we look at the presence of electric cars in Europe and things like that. And again, another major shock in terms of what's happening here with the conflicts, the global conflicts.

And that's where, I guess, having been in this seat now almost 11 years, you run through these things. And I am equally amazed as you are at the just strength and resiliency of the re-roofing business. But I think it just points to the simple fact that it's non-discretionary, that it is, we still continue to provide a lot of value around re-roofing. Like I said, our contractors and distributors spend a lot of time with these customers making sure that their roofs are intact, they're there. And frankly, it's not a big cost or percentage of what a company was doing.

Let's take a major international freight company that has buildings around the world and has a program for re-roofing their warehouses that are storing packages every day at a airport, which there are hundreds of airports where they're doing this. I think in the grand scheme of things, they're more concerned about not having the cost or insurance liabilities of having a leaky roof than they really are worrying about the marginal cost of a roof. It doesn't mean they don't do a good job on capital allocation. It doesn't mean they're also not concerned about it.

But in their spend, that is more of what I would just say a must-have than a, hey, it'd be nice to have. And so I think on the re-roofing side, I just don't see, after I've been here for 11 years, much that's going to come up, that's going to change that. And I think where you get the flex is around things like labor. We still are labor-constrained. And so that's going to have an impact on, even if there's a slowdown, you still have new construction work to do. And what does that impact? I think new construction itself, if it picks up at all, is good if it goes down, well, we're already seeing it down.

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And then we always talk about residential construction being part of our portfolio. And I think we are absorbing that right now. What are we at, a 14.5-year low on homebuilding or something? And so I think we've seen a lot of the things that you mention, and we still seem to be resilient and coming through it okay.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yeah, good. Well, congratulations on all the progress and particularly on the CWT side as well. Thanks.

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Thank you very much. Appreciate it.

Operator: Your next question comes from the line of Garik Shmois from D.A. Davidson. Please go ahead.

Garik Shmois
Analyst, D.A. Davidson & Co.

Q

Oh, hi. Thank you. You're expecting EBITDA margin to be flat in the fourth quarter. I was hoping you could unpack that by segment. And then just a clarification, can you remind us just how long the lag is from when you start to see any relief on MDI and polyols with some of the supplier constraints easing, how quickly could we start to see some of the potential benefit show up?

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Yes, Garik. I'll let Kevin handle the second one, or the first one. But the second one around MDI and polyols, Mehul might want to comment as well, been a little closer to the MDI. We are already, we're going to see some reduction, probably a couple percentage points, maybe a little bit more as we move through the fourth quarter and then into Q1, even in the situation we're in right now. So that's specifically for MDI, I think that, the lifting of the force majeure and then has really been impactful, and we'll get some relief immediately here in the fourth quarter. Some of the relief will be delayed until Q1, obviously, because of the, just the movement, physical movement of it to our factories. And then hey, Mehul, you've been looking at polyols a little bit more. You might want to have a comment on what you think is happening there in the quarter.

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

A

Yeah. Similarly to MDI, the force majeure that limited supply, those are all improving. As a reminder, we had shortages with carbon monoxide and chlorine that impacted MDI. There was a fire at a supplier at polyols. The supply is back up. And typically, what we've seen is two-thirds of the cost is driven by the supply-demand dynamic. So we should expect to see improvement as we go into 2027 on both of these commodities.

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

A

Then on your margin question, yeah, we still are being impacted by the higher raw material and freight costs. So as we talk about second half of the fourth quarter, we should be at price parity, but we'll have some negative, maybe about $10 million of negative in both segments. And with that, that brings our EBITDA margins that we're looking at, at CCM is flat year-over-year and then about 100 basis points of improvement at CWT. And then overall for the company flat EBITDA margins when you take into account the corporate expense.

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Garik Shmois
Analyst, D.A. Davidson & Co.

Q

Very helpful. Thank you. Best of luck.

David Christian Koch
Chairman, President & Chief Executive Officer, Carlisle Cos., Inc.

A

Thank you.

Operator: Your next question comes from the line of Ryan Merkel from William Blair. Please go ahead.

Ryan Merkel
Analyst, William Blair & Co. LLC

Q

Hey, everyone. Thanks for the questions. Fourth quarter gross margin, I was hoping you could provide a little color on what you think that might look like. I was kind of thinking flat year-over-year, but correct me if that's wrong. And then what's your estimate this year for raws and freight dollar inflation since it's higher?

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

A

For which period on the raws and freight were you talking?

Ryan Merkel
Analyst, William Blair & Co. LLC

Q

Raws and freight for 2026 at this point.

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

A

Yeah. So for gross margins, they would be about flat at CCM. And then we see improvement on the CWT side really to that [ph] 90 to about (00:46:02) 100 basis points of improvement year-over-year. On the raws and the freight, that's the freight that's just continued to escalate throughout the year. That's been the biggest item that we've had for increasing prices to pass along, to catch up on the freight costs. But that's been more of a delay than the raw material side. But both have been playing catch-up on each of them.

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

A

Yeah. And just to give you a sense, Ryan, in terms of the magnitude of the increases we're looking at from a raws and freight combined standpoint, in Q2, we're up about double digits from a percentage standpoint. In Q3, that's jumped up to high teens. And with our Q4 levels that we're seeing, assuming costs stay where they're at right now, we'd expect somewhere between high, mid-teens and high teens up in Q4 as well.

Ryan Merkel
Analyst, William Blair & Co. LLC

Q

Got it. All right. Thanks. Pass on.

Operator: Your next question comes from the line of Keith Hughes from Truist Securities. Please go ahead.

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Keith Hughes
Analyst, Truist Securities, Inc.

Q

Hello. Thank you. You had talked earlier in the call about, I believe, the CCM. You were thinking price going to be up around 7% in the fourth quarter. Just a couple things on that. One, would it end the quarter at a faster pace as you implement it during the fourth and thinking about going into next year? And also that would imply volume would be based on the guidance of large single digits. Anything to read there on demand?

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

A

Yeah. So on demand, we have the end market being up a couple percent. And then, as you said, price up 7%. So high single digits for the fourth quarter. Maybe there's some conservatism in there overall. So that is how we're looking at from the top line. As the quarter goes on, I think that number of 7% pretty much is in place at, in October. And then that just carries on through November, December. So it's not like we will exit December at a 8% plus number, but it's hard to say exactly how the quarter will play out at this point.

Keith Hughes
Analyst, Truist Securities, Inc.

Q

Okay. Thank you.

Operator: Your next question comes from the line of Adam Baumgarten from Vertical Research Partners. Please go ahead.

Adam Baumgarten
Analyst, Vertical Research Partners LLC

Q

Hey, guys. Good evening. Just to clarify on the price-cost exiting the year, that assumes you get to the pricing number that you talked about in 4Q and that inputs stay stable from where they are today, correct? That does not include any incremental pricing?

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

A

That is accurate. We are just, we are seeing the price realization continue in its continued its steady climb based on the raws of today and the price increases that are implemented. That doesn't include any actions, further actions.

Adam Baumgarten
Analyst, Vertical Research Partners LLC

Q

Okay. Thanks. Thank you.

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

A

Yes.

Operator: There are no further questions at this time. I'll hand the call over to Chris Koch for closing remarks. Please go ahead.

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David Christian Koch

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

Thank you, Megan, and thanks, everyone. We appreciate those thoughtful questions and your continued interest in Carlisle. I look forward to talking with you in February where we'll cover the fourth quarter and give the full results of 2026, along with more details on our expectations for the rest of 2027 at that time. So that concludes the call and thanks again.

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

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