

# **Carlisle Companies Incorporated, Q2 2018 Earnings Call, Jul 24, 2018**

Carlisle Companies Incorporated (NYSE:CSL)

CALL PARTICIPANTS: 3

PRESENTATION: 6

QUESTION AND ANSWER: 64

# Call Participants

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## EXECUTIVES

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**James Giannakouros**

Vice President of Investor Relations

**Robert M. Roche**

VP & CFO

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**Garik Simha Shmois**

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**Joel Gifford Tiss**

MD & Senior Research Analyst

**Kevin William Hovevar**

VP & Equity Research Analyst

**Liam Dalton Burke**

Analyst

**Neil Andrew Frohnapple**

Analyst

**Timothy Ronald Wojs**

Senior Research Analyst

# Presentation

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## Operator

Good day, ladies and gentlemen, and welcome to the second quarter results conference call. [Operator Instructions] I would now like to introduce your host for today's conference, Mr. Chris Koch, President and CEO. You may begin.

## D. Christian Koch

CEO, President & Director

Thank you, Bruce. Good afternoon, and welcome to the Carlisle Companies' Second Quarter 2018 Conference Call. On the phone with me today is Bob Roche, our Chief Financial Officer. I'm also pleased to introduce our new Vice President of Investor Relations and FP&A, Jim Giannakouros, whom I believe many of you already know from his coverage of Carlisle over the last several years. Jim joins us from Oppenheimer & Co. where he was Managing Director and senior analyst covering mid-cap industrials. He has approximately 20 years of experience in the capital markets. We are very pleased that Jim has decided to join the Carlisle team. And I'll turn it over to Jim for a few opening comments.

## James Giannakouros

Vice President of Investor Relations

Thank you, Chris, for the warm welcome. I'm very excited to join the Carlisle team, and I look forward to meeting and working with all of you in the near future.

Chris will open today and discuss our second quarter 2018 performance in the context of Vision 2025 and our 2018 outlook. Bob will then review our segment performance, balance sheet and cash flow.

Before Chris begins with his remarks, there are a few housekeeping items we should address, and I refer you to Slide 2 of our presentation, entitled Forward-looking Statements and the Use of Non-GAAP Financial Measures. Those considering an investment in Carlisle should read these statements carefully along with reviewing the reports we file with the SEC before making an investment decision. These reports explain the risks associated with investing in our stock, which is traded on the New York Stock Exchange under the symbol CSL. Statements therein are subject to a number of risks and uncertainties that could cause actual results to differ materially, and the company undertakes no obligation to update these statements based on subsequent events.

With that, I'll turn it back over to you, Chris.

## D. Christian Koch

## CEO, President & Director

Thanks, Jim. Turning to Slide 3. Our record second quarter revenue and diluted EPS from continuing operations confirm that the launch of Vision 2025 is off to a strong start. Vision 2025, in which we seek to drive \$8 billion of revenue, 20% operating income and 15% ROIC, has generated significant interest and momentum. Our long-standing culture of continuous improvement, entrepreneurial spirit and decentralization assures that the day-to-day energy, focus and efforts of our employees are directed towards actions that drive results and support the key initiatives within the context of our strategic plan.

As 2018 has unfolded, we have gained traction on our key initiatives, including achieving above-market organic growth; driving cost savings and operational efficiencies through COS; focusing on portfolio realignment through M&A; and deploying capital in the form of share repurchases, dividends and capital investments.

In the second quarter, we continue to maintain a near double-digit pace in organic revenue growth, recording 9.7% growth following the first quarter's 8.8%, well ahead of our 5% long-term target. This growth has been driven by volume and price at CCM, aerospace volume at CIT and the positive impact of CBF's core markets of construction, mining and agriculture.

Our COS efforts continue to improve on a year-over-year basis as we generated 1.5% of sales and cost savings within the quarter, well within our long-term target of 1% to 2%. We continue to reshape our portfolio and build scale through acquisitions using a disciplined approach to pursuing assets with substantial organic growth potential and opportunities for significant measurable synergies.

Following the acquisition of Accella in late 2017, we have spent the first half of 2018 integrating this new polyurethane platform into CCM and driving to the committed synergies of \$30 million, all while growing sales at a double-digit rate in the second quarter. In addition to the Accella acquisition, CCM made the first steps in expanding its metal roofing platform created with our 2017 Drexel Metals acquisition by acquiring 2 small, but geographically important, metal roofing companies. These additions will strengthen our metal roofing business in Colorado and Florida.

At CIT, to further support our aerospace sales efforts, we acquired a small, but strategic, U.K.-based engineering and certification firm in the second quarter that will help accelerate share gains at European aerospace customers. And consistent with our desire to add focus to our portfolio and redeploy our capital to faster-growing segments, we exited the foodservice business in the first quarter at an attractive multiple.

We continue to return capital to our shareholders through our share repurchase program initiated in 2017. And with the goal in Vision 2025 of deploying \$1

billion over the plan, in the second quarter, we repurchased \$111 million of shares. When combined with our share repurchases from 2017 and the first quarter of 2018, we have returned over \$0.5 billion to shareholders. We also deployed \$23 million of dividends in the second quarter of 2018, extending our 41 consecutive years of continued and increasing dividends.

And lastly, in June, we recognized the important contribution of our employees to the success of Vision 2025 by announcing a onetime stock grant to all employees globally. This grant will give our employees the opportunity to be engaged in, drive and benefit from our success.

Turning to Slide 4. In the second quarter of 2018, Carlisle experienced strong organic growth at CCM, CIT and CBF, resulting in record second quarter revenues of \$1.2 billion, a 20% -- 26% increase over the second quarter of 2017 and our 21st consecutive quarter of year-over-year sales growth. Our operating income in the second quarter grew 9.2% to \$159.7 million, contributing to record second quarter diluted EPS from continuing operations of \$1.87. EPS was positively impacted by a lower effective tax rate and reduced share count, which Bob will discuss in more detail later.

Our solid second quarter earnings performance reflected strong organic growth and continued progress on operational execution. In the quarter, we continued to face significant headwinds across our businesses, especially in our raw material, freight and labor-related costs. We were largely able to offset these pressures with higher sales volumes by driving price increases, implementing freight surcharges and generating savings from the Carlisle Operating System. We were especially pleased with CCM's leadership on pricing, recording the largest price gains in the quarter since the first quarter of 2013. We expect this positive pricing trend that began in 2017 to accelerate into the second half of 2018. We anticipate our business will operate in an increasingly inflationary global environment through 2018. However, we expect the strategic restructuring actions taken in 2017, coupled with the impact of COS and the significant pricing actions implemented across our businesses, to deliver solid gains and profitability in the second half of 2018.

Let's now turn to the divisional achievements in the quarter. The second quarter continued to reinforce CCM's market leadership by delivering exceptional returns in a business that is now gaining momentum for price increases and is broadening growth opportunities by expanding further into the building envelope. The CCM team delivered record second quarter revenues and operating income and approximately \$6 million of price realization.

Additionally, sales from new products nearly tripled compared to the second quarter of 2017, driven by breakthrough introductions of roofing products that significantly reduced labor content on the job. In the current environment of significant labor and trucking constraints, our ongoing focus on delivering value through the Carlisle experience is being recognized by our customers, resulting in

share gains across many product lines.

Providing a little more color on market dynamics. Bob and I recently attended the Western Roofing Expo in Las Vegas, Nevada as well as traveled to Midwest and the Middle Atlantic states meeting with some of CCM's largest distributors and customers. Sentiment across the board suggests that current and projected volume levels will remain robust, with many contractors experiencing substantial backlogs.

We remain focused on integrating the fourth quarter 2017 acquisition of Accella. CCM is on track to deliver the first year savings of \$10 million of stated synergies in 2018 as projected in our deal model, and we're further encouraged by the double-digit sales growth experienced in the spray polyurethane foam and liquid applied roofing markets.

CIT's record second quarter revenues reflect continued strength in aircraft build rates as well as our increased content per plane. The satellite connectivity ramp in sales is in line with previous expectations as the global demand for aircraft connectivity continues to grow. This market continues to evolve as geographies are added and the technology and applications related to in-flight connectivity advances.

CIT's global medical technology business continues to grow, well positioned to leverage favorable industry dynamics such as aging populations and trends towards minimally invasive procedures and is supported by a pipeline of approximately 120 active projects.

We're excited and pleased to announce that the 2-year Shenzhen to Dongguan China factory move has been completed according to the time line we expected. This move has significantly expanded our medical technology engineering and production capabilities, allowing us to accelerate conversion of our product pipeline.

The original CFT acquisition thesis remains fully intact: rationalize the footprint, vertically integrate, deploy COS, enter new segments and build an organization that is now pivoting towards growth. To date, we've rebuilt the leadership team, closed 11 locations, invested in machining of new component parts, successfully deployed COS throughout the organization and launched a number of new products. All of these actions have resulted in a solid foundation upon which we will build under Vision 2025.

And CBF continues to benefit from the recovery in commodity markets as evidenced by the double-digit growth in our off-highway markets of construction, mining and agriculture. The Tulsa, Oklahoma and Medina, Ohio plant consolidation is on track to be completed by year-end, and we expect to realize annualized savings of \$12 million to \$15 million from this move. As volumes continue to improve and our plant consolidation investments wind down later in

the year, we expect CBF's operating margins to continue their upward trend.

Bob will now provide further detail about our segment performance and review our balance sheet and cash flow. And after Bob's review, I'll discuss the outlook for 2018. Bob?

**Robert M. Roche**

VP & CFO

Thank you, Chris. Please turn to the sales breakdown on Slide 5 of the presentation. As Chris mentioned in his opening remarks, we are pleased with our record second quarter revenues. Organic growth had a positive 9.7% impact driven by strong commercial construction demand at our CCM business, continued SatCom connectivity ramp at CIT and strength in construction, agricultural and mining equipment markets at CBF. New revenue recognition standards had a 0.9% positive impact. Acquisitions contributed 14.3% of sales growth for the quarter, and foreign exchange had a positive 0.7% impact.

Turning to our margin bridge on Slide 6. Operating margin percentage decreased 200 basis points in the quarter to 12.9%. The net impact of revenues had a positive 140 basis point impact. COS drove 150 basis point margin improvement; acquisitions had a negative 140 basis point impact in the quarter; and finally, rising raw material, freight and labor-related costs, driven largely by CCM, had a negative 360 basis point impact.

On Slide 7, we have provided an EPS bridge. As previously stated, we reported a record second quarter diluted EPS from continuing operations of \$1.87, a 28% increase from the second quarter of 2017. Higher volumes contributed \$0.29, tax-related items added \$0.24, COS contributed \$0.15, share repurchases added another \$0.09 and price realization added \$0.07. Offsetting these positives were higher raw material, freight and labor-related cost of \$0.20; higher interest expense of \$0.07; unfavorable product mix of \$0.04; and FX and other of \$0.12. Our tax rate of 21.5% was primarily driven by U.S. tax reform with approximately \$4.6 million of onetime tax benefits in the quarter.

Now let's turn to Slide 8 to review the second quarter performance by segment in more detail. At CCM, revenues increased 31.3% in the quarter driven by high single-digit organic growth and strength in commercial construction. Our 2017 acquisitions, primarily Accella, contributed 22.3% of the year-over-year growth. As Chris mentioned, we experienced meaningful positive price realization in our CCM legacy business for the first time since early 2013, and we are anticipating continued positive price results related to the announced increases for the duration of 2018. We anticipate the effect of our pricing actions will more than offset higher raw material inflation and freight costs for the second half of the year.

Despite this rising raw material, freight and labor cost environment, CCM

delivered operating margins of 17.1% in the quarter, driven by higher sales volume, price realization and savings from COS. The legacy CCM business delivered margins similar to second quarter of 2017. These positives were offset by approximately \$11 million of raw material and freight cost increase. Dilution from the Accella acquisition also contributed to the 340 basis point operating margin decline.

Now please turn to Slide 9 to review CIT's results. CIT delivered outstanding revenue growth of 17.8%, of which nearly 100% was organic. CIT experienced double-digit growth in the aerospace market. Additionally, organic growth initiatives in medical and test and measurements markets are accelerating. CIT's operating income improved by 36.1% to \$27.5 million due primarily to higher volumes, lower restructuring costs and COS savings. This positive momentum was offset by unfavorable mix and FX impact largely due to the strengthening Chinese RMB. Operating margin of 11.6% represented a 160 basis point improvement over last year.

As many of you are aware through the press releases and other public information, a significant supplier of satellite communication products announced they are going through some financial and strategic challenges in their business. At this time, we are in close communication with this customer and are taking appropriate measures to ensure Carlisle is prepared to react quickly to any significant changes in this market. As a reminder, Carlisle enjoys a solid working relationship with the world's largest OE aerospace customers, and we intend to continue to support the accelerating transition to a complete fleet of global satellite connected planes.

Turning to Slide 10. CFT's revenues excluding foreign exchange increased slightly. Strong growth for standard products in all regions was offset by weakness in the transportation market and system sales, a portion of which were shifted into the third quarter. CFT's operating income improved 5.4%, the third consecutive quarter of sequential margin improvement. Operating income benefited from previous actions we have taken to drive efficiencies from our facility rationalization efforts, progress on vertical integration and price.

Turning now to Slide 11. CBF achieved excellent revenue performance in the second quarter, increasing 20.8%, which reflects an organic sales increase of 17.7% and favorable foreign exchange of 3.1%, primarily related to the euro and RMB. The sales increase reflects price [ inflation ], share gains and continued recovery in off-highway vehicle markets. With the recovery in sales, CBF's operating income continued to improve. The \$1.6 million increase included \$3.9 million of expense related to the consolidation of the Tulsa, Oklahoma manufacturing facility into our Medina, Ohio facility and \$3.2 million of raw material inflation. We are on track to complete the facility consolidation by the end of 2018 and expect to realize annual savings of \$12 million to \$15 million from this project beginning in 2019.



On Slide 12, we have provided detail of our restructuring, facility rationalization and other acquisition and divestiture-related items by segment. Charges in the second quarter included an operating income of \$7.7 million for all segments. For the full year 2018, we expect approximately \$23 million to \$27 million of costs, largely driven by our Tulsa, Oklahoma footprints consolidation.

Turning to Slide 13. As of June 30, 2018, we had \$762 million of cash on hand and \$1 billion of availability under our revolving credit facility. Our balance sheet remains strong. As of June 30, 2018, our net debt to capital ratio was 24%, our net debt to EBITDA ratio was 0.8x and our EBITDA to interest ratio was 19x.

Turning to Slide 14. Our free cash flow in the quarter was a use of \$60.4 million compared to a cash generation of \$67.1 million in the prior year. This decrease in free cash flow was due to the timing of cash taxes paid related to the sale of Carlisle FoodService Products, U.S. tax reform and increased working capital to support revenue growth.

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

#### **D. Christian Koch**

CEO, President & Director

Thanks, Bob. Please turn to Slide 15. We're going to discuss the 2018 updated outlook. For Carlisle overall, we are raising our 2018 consolidated revenue outlook to approximately 20% growth. By segment, at CCM, driven by a healthy 2018 forecast for the U.S. commercial construction market and including contributions from acquisitions, we now expect revenues to grow in the mid-20% range. CCM will continue to maintain discipline around the execution of our price increases to offset the previously discussed inflationary cost pressures. Finally, we will also drive operational efficiencies in our factories, ensure the Accella integration delivers expected synergies and continue to expand into the building envelope space.

In the CIT segment, we will continue to expect revenue growth to exceed 10%, driven by a strong aerospace market, growth within the med tech platform and the ongoing SatCom connectivity ramp. We remain focused on converting a strong pipeline of new products or projects, driving a higher content per aircraft and seeking high-quality acquisitions for our med tech and aerospace businesses.

At CFT, we continue to expect revenue growth in the mid-single-digit percent range for 2018. With our significant efforts and investment to restructure the business, the Fluid Technologies platform is now focused on improving margins, operational excellence, launching new products and seeking acquisitions to continue to build out this platform.

At CBF, we continue to expect revenues to grow in the mid-teens, driven by accelerating growth in the CBF core markets. We are seeing continued

improvement at OEM customers, solid growth in all regions and share gains as a result of key sales initiatives launched in the past 2 years.

Corporate expense is expected to be approximately \$75 million. Depreciation and amortization expense is expected to be approximately \$190 million. For the full year, we expect capital expenditures will be approximately \$135 million to \$150 million. We are anticipating free cash flow conversion to be approximately 100%, excluding the effect of the sale of FoodService Products. Depending on timing and investment income derived from the sale of Carlisle FoodService Products, we expect our 2018 net interest expense to be towards the lower end of the \$55 million to \$60 million range. Our tax rate is expected to be approximately 24% to 26% in 2018. With our strong balance sheet and cash flow generation, we will continue to invest in our business, fund strategic acquisitions and return capital to Carlisle shareholders through dividends and share repurchases.

Following our strong second quarter performance, we enter the second half of 2018 well positioned to achieve our growth and performance objectives despite facing an increasing inflationary environment. With the early traction we have achieved against our Vision 2025 goals, we're excited to build on our positive momentum and expect to deliver record performance in 2018.

This concludes our formal comments on the second quarter results and 2018 outlook. Bruce, we're ready for questions.

# Question and Answer

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## Operator

[Operator Instructions] And our first question comes from the line of Neil Frohnapple from Buckingham Research.

## Neil Andrew Frohnapple

Analyst

### Question:

Can you talk more about the increase in the CCM segment full year revenue forecast, especially the raise in the organic sales forecast? Just curious on what's driving the change, whether it's further share gains or anything else you could point to.

## D. Christian Koch

CEO, President & Director

### Answer:

Well, we see -- we still can see strong growth in our segments. I think across the board, we're seeing good growth. The polyiso growth, EPDM growth, TPO and PVC, Accella growth is strong. So we continue to see a pretty positive outlook for that growth as well as this backlog situation, and we think there'll be a rush to get in the jobs before the winter hits. So we're pretty positive about what's happening in the environment and then we layer on the price as well, and we do expect to continue to see a very good pricing trend in the CCM markets in the second half. Bob, would you like to add anything?

## Robert M. Roche

VP & CFO

### Answer:

No, I think, overall, we're continuing to see the high single-digit growth that we experienced in the first half continuing on across all product lines and internationally.

## Neil Andrew Frohnapple

Analyst

### Question:

Okay, great. And then, I guess, just thinking CCM, again, an acceleration. And the price improvement, it sounds like you guys are pretty bullish on the price outlook from here. Just curious if you could provide just more color on

what's giving you the confidence that this will continue to accelerate here and if the \$30 million of positive price realization is still the right number for the full year.

**D. Christian Koch**

CEO, President & Director

**Answer:**

Yes, I'll talk about the momentum, and Bob can talk about the price realization there. We committed to being disciplined on price a while back. We've been talking about it for a while. And as you know, we had a couple of price increases this year. And we've just held to those, and we see no change in our policy with respect to the pricing that we have in place. It's what we'll continue to do. We've continue to talk about it. And I think we have confidence because we feel that the volume that accompanied those price increases is still going to be there and reinforce that environment.

**Neil Andrew Frohnapple**

Analyst

**Question:**

Okay. And then are you guys sticking to the \$30 million then for the full year? Is that...

**D. Christian Koch**

CEO, President & Director

**Answer:**

Yes, everything we're seeing today is still around the \$30 million. Clearly, we're going to continue to monitor it and push for more. But all the momentum we have, we got a little over \$6 million in the first half, so we think it's a good number to get to \$30 million for the full year.

**Operator**

And our next question comes from the line of Liam Burke from B. Riley.

**Liam Dalton Burke**

Analyst

**Question:**

Chris, you talked about Accella being dilutive to CCM margins. Is there anything you can do with that business? I know you're seeing nice revenue growth there. But is there anything you can do to help boost margins aside from volume increases?

**D. Christian Koch**

CEO, President & Director

**Answer:**

Well, I think our major focus has been on the price. If we look at what we -- Liam, just to refresh your memory, when we bought Accella, we had the January -- 2 force majeure that drove the price in -- the prices of raw materials in that market up. And unfortunately, Accella was not under the same type of contracts that CCM was. We've worked very hard and will continue to work to get the Accella team on the same CCM contracts. That involves some reformulation; that's why it takes a while. But that's probably the biggest driver is to get them over to the contracts and then, on the market side, continue to drive price increases in the market.

**Liam Dalton Burke**

Analyst

**Question:**

Great. And on Fluid Technologies, you mentioned transportation revenues deferred into the third quarter. Are those larger projects? Or is that for a single customer? Or is that just a larger order?

**D. Christian Koch**

CEO, President & Director

**Answer:**

It's larger projects. Again, we're -- I think we said it before, we'll continue to say we become victims, I think, of the automotive OEs and other major transportation products companies. And they do push things out from time to time as they look at their schedules in the summer and then over the winter shutdowns. And so this is just a transfer of that to the -- to a different date in the fall or winter.

**Operator**

And our next question comes from the line of Bryan Blair from Oppenheimer.

**Bryan Francis Blair**

Associate

**Question:**

With the restructuring in CIT and CFT largely in place entering the back half, is there any updates on what we should expect for 2018 exit margins or where we could see margin inflect in those segments in 2019?

**Robert M. Roche**

VP & CFO

**Answer:**

Yes, I mean, we don't usually talk about margin guidance. I mean, we give revenue. We don't go with margin. I mean, we are seeing improvement in those margins, and we expect them to continue from those savings, but we don't give specifics, Bryan.

**Bryan Francis Blair**

Associate

**Question:**

Okay. And in terms of long-term outlook, any change to what's been discussed as entitlement margin in CFT of 20% range?

**D. Christian Koch**

CEO, President & Director

**Answer:**

No, I think you're right on there. As we said in the comments, the deal thesis still holds. That was a 22% business prior to acquisition. We've had some amortization in that, that we've added in, but we are back to that 20%-plus. And with respect to the margins in CIT, I think we said we'll get back to those margins we've traditionally had in the 18% to 22%.

**Operator**

And our next question comes from the line of Charles Brady from SunTrust.

**Charles Damien Brady**

Managing Director

**Question:**

Just quickly on CIT and SatCom, it sounds like the ramp on that is going as planned. Just kind of want to verify that there's been really no disruption there, that you're still seeing that. I mean, you did, obviously, have some supplier stuff going on. Is that on track? Or where are we on that?

**Robert M. Roche**

VP & CFO

**Answer:**

We are on track. Did over \$22.5 million in the quarter as we expected, and everything's going according to plan through the second quarter.

**Charles Damien Brady**

Managing Director

**Question:**

Right. And just on the med tech part of CIT, I think before, you talked about, one, you'll really make that a larger portion, I think maybe up to same size as aerospace at some point down the road, larger to M&A. We really haven't seen a whole lot of M&A on that business. Can you just talk about kind of the pipeline and what you're seeing there? Or maybe is it just the fact that some of the multiples being asked for those assets are just still pretty elevated? Or is there anything else going on as far as strategy there?

**D. Christian Koch**

CEO, President & Director

**Answer:**

No, nothing going on as far as strategy. No, I think we -- it's a two-pronged approach really, and the team at CIT continues to work on new products. Obviously, we've got the pipeline there. We continue to add resources, and we will continue to generate our own programs in that space, in the med tech space. When we look at acquisitions, Charley, frankly, the pipeline has been relatively good. I think valuations in that space have been quite high, and we've had trouble thinking that the irrational price is going to win and win a deal. So the pipeline is there, but it's a very heated market in the med tech space.

**Operator**

And our next question comes from the line of Joel Tiss from BMO.

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Question:**

So can you just talk a little bit about the gross margin compression that we've seen? And can you give us any sense of how much of that is from acquisitions and how much of that is from negative price cost roughly?

**Robert M. Roche**

VP & CFO

**Answer:**

You're talking across the whole business, Joel? Or are you thinking something in particular?

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Question:**

Yes, I mean 80% of your profits come from CCM. So if you just want to -- if it's easier just to do that piece, that would be fine.

**Robert M. Roche**

VP & CFO

**Answer:**

Yes, I mean, if you think about CCM, we made the comment that in the legacy business, margins in the second quarter were flat with what we've seen in prior years. So it's largely due to the acquisitions we've made, which we knew were going to be dilutive to margins overall. We are working to get those margins back up to a level in the mid-teens to bring margins back up. But as we stated in most of our deal theses, those will take over time. So we're happy with the overall ROIC on the acquisitions in the mid- to long-term margin rates, but it takes a little time to get there.

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Question:**

Was there any operating profit contribution from Accella?

**Robert M. Roche**

VP & CFO

**Answer:**

Yes.

**D. Christian Koch**

CEO, President & Director

**Answer:**

Yes, there was. And there was -- we had about \$11 million -- just over \$10 million, \$11 million of raw material headwind in the second quarter in the CCM space. That added to that, Joel. And then as we said, we picked up about \$6 million of price there. So we still had some margin compression due to those raw material headwinds. And we think when we get into the Q3 and Q4, those will -- the price will overcome the raw material headwinds.

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Question:**

And then can you just take one step back and just give us a little sense into the competitive environment in CCM? I know that was more of an issue, I



think, in 2017 but just a little update there, please.

**D. Christian Koch**

CEO, President & Director

**Answer:**

Yes, I think the competitive environment is as usual. It is very competitive. The one thing I would say is that with the volumes now in many quarters increasing where there's a lot of activity out there, obviously, these high single-digit growth rates in the -- or mid- to high in the market is very beneficial to everyone. I think there have been some capacity issues at some competitors, which likely has influenced the ability of price to stick, but the same competitors and perhaps there is some -- a greater degree of rational behavior due to the added volume. But no significant changes in footprint, no significant changes in product lines, no significant changes in the general go-to-market strategies.

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Question:**

And are you gaining a little bit of -- are you -- like is your moat getting a little bit bigger by putting in -- having spray foam, like adding all the different products and some of the building envelopes and metal roofing and all the other things, are you -- you know what I mean, like pushing some of the competitors, maybe they can't compete across the board? Or each one of those different pieces is a different niche with different competitors?

**D. Christian Koch**

CEO, President & Director

**Answer:**

It's a mixed bag, Joel. I would say in the metal roofing, the Drexel platform that we're expanding, that's a different set of competitors. We've talked about how fragmented that market is in the U.S. There are a couple of larger businesses but, for the most part, it's been a regional and fragmented business. When we look at spray foam, we saw a lot of transactions happen over the last couple of years. And some competitors have that product line, others don't. But I think, in general, it's fair to say that we're increasing our moat, and we're encountering some of the usual suspects. And then, in some cases, we're running into some new competitors that we haven't seen before.

**Operator**

[Operator Instructions] And our next question comes from the line of Garik

Shmois from Longbow Research.

**Garik Simha Shmois**

Senior Research Analyst

**Question:**

I just want to confirm on the raw material side for CCM that it's tracking in line with your prior guidance. It sounded like the raw materials were in the \$11 million range in the second quarter, pretty consistent with the first quarter, so I just want to make sure that we're tracking with that \$40 million guidance previously and just wanted to flip that with some of the comments that you've mentioned with inputs accelerating in the second quarter.

**Robert M. Roche**

VP & CFO

**Answer:**

Yes. No, we're seeing it track to the \$40 million as we thought. Now within that, things are moving around. Oil is a little different, freight is a little different, MDI is a little different. But when you look at the basket of inputs into the product set, CCM, the \$40 million is still a good number.

**Garik Simha Shmois**

Senior Research Analyst

**Question:**

Is it fair to assume MDI is moderating oil and diesel cost are getting a little bit worse? Is that a fair way to think about it?

**Robert M. Roche**

VP & CFO

**Answer:**

That is a fair way to think about it.

**Garik Simha Shmois**

Senior Research Analyst

**Question:**

And then just lastly, just on the acquisitions that you made in the quarter, recognizing they're probably relatively small, is there any meaningful revenue contribution that we should expect in the second half of the year, whether it's the acquisition in Europe in CIT or metal roofing in the U.S.?

**D. Christian Koch**

CEO, President & Director

**Answer:**

I think combined, the acquisition revenue on an annualized basis is about \$20 million. So there'll be some, probably 3/4 in -- of that in the CCM roofing and 1/4 in CIT. But again, it's small when you think about the sizes of those businesses.

**Operator**

[Operator Instructions] And our next question comes from the line of Kevin Hocevar from Northcoast Research.

**Kevin William Hocevar**

VP & Equity Research Analyst

**Question:**

Wondering if you could comment -- back on CCM, very impressive volumes, and I was wondering if you could give some type of quantification on how that -- what you felt the industry growth looked like because it seemed like maybe there was some potentially market share gain opportunities there from some plants being offline and it's not -- you mentioned new products growing, what, 3x or triple or something during the quarter. So wondering if you can comment on what the industry grew, kind of weigh it -- weighted for your product lines and then also what drove what seemingly seems to be an outperformance while still being able to get pricing traction.

**D. Christian Koch**

CEO, President & Director

**Answer:**

Right. So let me take the first one, the market growth. We think that market -- and the data we have, it's got some variation around the mean there. So let's just say it was in that 5%, 6%, 7% range, and we think we held flat to that overall. When we look at specific pockets, you're right, I think there were some disruptions that caused us to make some share gains. I think if you were to look at the EPDM area, we were up well over double-digit performance there, the polyiso maybe a little bit less so. So there are some spots where we were above average in our share gains in that due to reasons we've discussed in the past. And then on the second question, Bob, do you want to jump in on that? And Neil (sic) [ Kevin ], maybe you can recharacterize your second question just for us again one more time, I apologize, I thought I had it but...

**Kevin William Hocevar**

VP & Equity Research Analyst

**Question:**

I think you mentioned also new products growing pretty significantly to mid - - I don't know what base you're -- that's coming off of, but it sounds like kind of new products, I think you have like a Velcro application or something that might be growing nicely. So could you just kind of comment on what the new products are in CCM that are maybe helping in some of those share gains?

**Robert M. Roche**

VP & CFO

**Answer:**

Yes, I got it, I got that. I mean, they're still relatively small. I mean, the new product revenue in the second quarter was probably close to \$20 million, so it's still not a big part. But that's largely our Velcro fleece backline that's going out. Chris talked about attending the show in Vegas, the Western roofing show, and I went to one of our demos of that, and it was jammed. All the contractors seemed to be pretty excited about that Velcro line. And then also our APEEL product, which we just talked about before, that goes on the white roof and then you pull it off so you don't have to power wash it when you're done, like on a new phone or a new product, you just peel it off to keep it all nice and white. So those seemed to be growing very nicely, and we're gaining traction. Now we're hoping they get a lot more than the \$20 million I talked about, but that's where we are today.

**D. Christian Koch**

CEO, President & Director

**Answer:**

Kevin, I think the other question you asked had to do with the pricing and was it -- that it may be surprised us in the quarter, we were able to hold on to volume in that. And we've been pretty disciplined on that for the last few quarters. And when we went into that May price increase and we looked at it, I would say there was some trepidation we were going to be firm on price, and was the volume going to fall or would it not fall. And so I think we're very pleased that we were able to get the pricing contraction we had without really seeing any degradation versus the market growth rates.

**Kevin William Hovevar**

VP & Equity Research Analyst

**Question:**

Got you, okay. And then you mentioned, too, on the SatCom side maybe some customer having some issues. Could you update us on where SatCom is today and kind of thoughts as we progress through this year and next, how

to think of the revenue and earnings of that part of the business given that development?

**Robert M. Roche**

VP & CFO

**Answer:**

Yes. I mean, overall, we're still in the \$90 million range for this year of where we expect. That's still -- everything we see on track, the market hasn't changed. There has been some public announcements of some of the providers in that space that are having some problems, so we don't know what that's going to do to us over the long term. But when we step back, we know that airlines and planes are going to get the satellite connectivity, it's demanded by the market. Who's going to do that is still playing out, and we feel we're well positioned.

**Kevin William Hocevar**

VP & Equity Research Analyst

**Question:**

Okay. And then, Bob, you mentioned that CCM, I think you said -- I guess, I want to clarify that earnings, the legacy CCM business profitability was similar. Are you saying that the EBIT dollars were similar from the legacy business or the EBIT margins?

**Robert M. Roche**

VP & CFO

**Answer:**

The margin rate year-on-year.

**Operator**

And our next question comes from the line of Tim Wojs from Baird.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

So I guess, a lot has been covered. I just had a couple of follow-up questions. I guess, just big picture in CCM, just given how -- it sounds like robust, the DM market is, in terms of volumes. Do you feel like you're -- you can be a little bit more selective with project activity just to be able to hold price? Or do you feel like you're getting all the volume you should get? Or do you feel like you're letting some projects kind of slip through the cracks?

**D. Christian Koch**

CEO, President & Director

**Answer:**

I think it's fair to say that, well, all the way along where we've seen projects that are not a good return for the Carlisle shareholder, we've selected to not fulfill those orders and leave those to the competition. So yes, to a certain degree, we have declined some of the opportunities we could have taken advantage of if we wanted to drop those pricing levels.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Okay, okay. And then just how are you guys thinking about kind of cash flow use and capital use in maybe the back half of '18 and into '19? It sounds like maybe the acquisitions might be a little smaller, and some of the bigger ones might be a little expensive. So would you spend free cash flow on buybacks in the back half of the year? Should that be our kind of expectation there?

**D. Christian Koch**

CEO, President & Director

**Answer:**

I think our buybacks are going to continue. The rate may change, obviously, depending on the things that Bob and I have talked about a lot which is the availability of acquisitions. But the pipeline is full; we like to be active there. And where we see things we can act on, we will provide again a disciplined approach, too, with synergies and organic growth. And they're just hard to find, but they're there. And so I'd like to think we'd be a little bit more active on the acquisition front in the second half of the year.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Okay. And then just the last question on the restructuring charges. Is the uptick in CBF, is that incremental restructuring? Or is it just -- I think some of those charges actually were supposed to flow into '19? Is it just a pull-forward of those dollars?

**Robert M. Roche**

VP & CFO

**Answer:**

It is. It's a pull-forward of the dollars. And also, as you know, volumes are way up. So we're spending a little more on moving some other equipment that we weren't planning on due to the fact that now volumes are so high, we're going to need extra capacity that wasn't in the original plan. So it's a little bit of that.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Okay. So the right way to think about it, though, as you kind of go into next year, you get -- the charges will mostly fall off, and then you'll also get that kind of run rate, \$12 million to \$15 million of synergies as well.

**Robert M. Roche**

VP & CFO

**Answer:**

Yes. We're expecting a little bit of charge next year for CBF, like a couple of hundred thousand dollars just because the lease continues. But other than that, this project is done in the fourth quarter.

**Operator**

And at this time, I'm showing no further questions. I'd like to turn the call back over to Chris Koch for any closing remarks.

**D. Christian Koch**

CEO, President & Director

**Answer:**

Okay. Thanks very much, Bruce. This concludes the 2018 second quarter earnings call. We want to thank everybody for their participation. We look forward to speaking with you at our next earnings call. Thank you.

**Operator**

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.

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