

# **Carlisle Companies Incorporated, Q1 2019 Earnings Call, Apr 23, 2019**

Carlisle Companies Incorporated (NYSE:CSL)

CALL PARTICIPANTS: 3

PRESENTATION: 5

QUESTION AND ANSWER: 61

# Call Participants

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## EXECUTIVES

**D. Christian Koch**

CEO, President & Director

**James Giannakouros**

Vice President of Investor Relations and FP&A

**Robert M. Roche**

VP & CFO

## ANALYSTS

**Bryan Francis Blair**

Director & Senior Analyst

**Charles Damien Brady**

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**Garik Simha Shmois**

Senior Research Analyst

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Kevin William Hovevar**

VP & Equity Research Analyst

**Neil Andrew Frohnapple**

Analyst

**Timothy Ronald Wojs**

Senior Research Analyst

# Presentation

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## Operator

Good afternoon. My name is Kelly, and I will be your conference operator today. At this time, I would like to welcome everyone to the Carlisle Companies First Quarter 2019 Earnings Conference Call. [Operator Instructions]

I would now like to turn the call over to Jim Giannakouros, Vice President of Investor Relations and FP&A. Jim, please go ahead.

## James Giannakouros

Vice President of Investor Relations and FP&A

Thank you, Kelly. Good afternoon, everyone, and welcome to Carlisle's First Quarter 2019 Earnings Conference Call. We released our first quarter financial results after the market closed today, and you can find both our press release and earnings call slide presentation on our website at [www.carlisle.com](http://www.carlisle.com) in the Investor Relations section.

Discussing the results and our updated outlook today are Chris Koch, President and CEO; and Bob Roche, our Chief Financial Officer. Today's call will begin with Chris discussing our progress towards Vision 2025. Bob will discuss Carlisle's first quarter operating and financial performance. Following our prepared remarks, we will open up the call for questions.

In the meantime, please refer to Slide 2 of our presentation and where we note that certain statements made during this call may be forward-looking and actual results may differ materially from our expectations due to a number of risk factors. A discussion of some of the risks and uncertainties that may affect our results are provided in our press release and in our SEC filings on Forms 10-K and 10-Q. 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.

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

## D. Christian Koch

CEO, President & Director

Thanks, Jim. Good afternoon, everyone. Please turn to Slide 3 of the presentation. Carlisle had an excellent first quarter, and we are pleased with our progress towards the Vision 2025 goals of \$8 billion in revenues, 20% operating income and 15% ROIC. As we continue to build on the success of our first year of Vision 2025, we remain focused on driving 5% organic growth with operational leverage, utilizing the Carlisle Operating System in driving a continuous

improvement culture, building scale with synergistic acquisitions, continuing to invest in exceptional talent, and deploying over \$3 billion into capital expenditures, share repurchases and dividends.

In the first quarter, we drove approximately 6% organic growth, ahead of our 5% target rate as we continue to see solid demand in the CCM and CIT end markets. We remain disciplined to maintain pricing resolve, driving positive price realization across all 4 segments. Another highlights included the Petersen acquisition in CCM, the realization of expected synergies in our restructured operations in CBF and the successful launch of new products across all segments.

Operating income rose over 20% for the second consecutive quarter, more than double our revenue growth, a further indication that our past restructuring efforts, pricing discipline and savings and efficiencies derived from the Carlisle Operating System are paying dividends.

COS remains core to our continuous improvement culture and is an integral process for driving efficiencies throughout our business. For the first quarter, COS drove savings of 1.3% of sales, well within our goal of 1% to 2% savings annually.

Free cash flow in the first quarter exceeded \$86 million, leaving us with an ending cash position of \$517 million. Our balance sheet remains strong and we continue to pursue a balanced approach to capital deployment. In the first quarter, we accelerated our planned share repurchases, acquiring \$157 million worth of shares. We also paid \$23 million worth of dividends. Since the beginning of 2017, we have returned approximately \$1.1 billion to shareholders in the form of share repurchases and dividends.

We continue to focus on expansion of our core platforms through synergistic acquisitions and are managing an active pipeline, particularly within our medical technologies, aerospace, fluid technologies and building envelope platforms. Most recently, we announced the strategic acquisition of MicroConnex, which adds key sensor and miniaturization technology to our medical technologies platform at CIT. Combined with our 2018 acquisition of redgroup, the MicroConnex acquisition positions CIT to participate earlier in the design and more completely in developing and delivering integrated solutions at major medical equipment -- original equipment manufacturers. We continue to work aggressively to build out our capabilities within the fast-growing medical technologies segment.

With the close of the Petersen acquisition early in the first quarter, our new architectural metal business within CCM continues to be a positive story, accelerating our expansion into the growing \$4 billion-plus North American metal-related construction market. Petersen is an excellent fit with our recent acquisitions of Drexel Metals, Sunlast Metal and Premium Panels, where sales, integration and synergies are all tracking in line with our expectations.

Turning to Slide 4. We achieved record first quarter revenues of \$1.1 billion, a 9% increase over 2018 and our 24th consecutive quarter of year-over-year sales growth. As I mentioned earlier, this was driven primarily by 6% organic growth, including 2% price realization. We are especially pleased with the pricing discipline, processes and rigor that our teams across the business have implemented, capturing the true value of the Carlisle experience in the marketplace.

Our operating income in the first quarter grew 21% to \$114.7 million, driving record first quarter diluted EPS of \$1.33, which includes \$0.08 of restructuring, facility rationalization and acquisition-related costs. CCM delivered strong leverage, driving approximately 23% operating income growth, and in the quarter, also delivered over \$14 million of net price cost benefits. Notably, we accomplished this while maintaining share in the marketplace. At CIT, operating margins expanded 30 basis points year-over-year, driven by price realization, efficiency gains from past restructuring activities and volume leverage. CFT also continued to make progress, expanding operating margins by 110 basis points year-over-year to 10.1% despite flat year-over-year revenue growth. Finally, 2017 and 2018 restructuring efforts at CBF resulted in operating income improvement of 44%, reinforcing CBF's progress towards continued profitability improvement.

Now let's turn to the divisional highlights, starting with CCM. CCM revenues grew 12% year-over-year, over 6% of that organic growth reflecting continuing, strong, underlying demand and the addition of Petersen earlier this year. We continue to benefit from solid new construction demand, a strong backlog of work and an increasing volume of reroofing projects in the North American nonresidential construction markets. This outstanding growth demonstrates CCM's resilience in the face of the severe weather experienced in the first quarter, which impacted days on the roof and was felt across the industry. March showed significant improvement in demand as weather improved and the construction season entered its busiest time. With roofing labor markets remaining extremely tight, we continue to view CCM demand backdrop across nonresidential building applications as strong and sustainable, consistent to what we experienced as we exited 2018.

CIT's better-than-expected first quarter revenue growth of 10% reflects our strong and growing presence in the aerospace markets and continued progress in our test and measurement and medical technology platforms. Within the aerospace segment, build rates at Boeing and Airbus remains strong across most platforms. As has been highlighted in the press recently, the 2 tragic crashes of Boeing 737 MAX 8 aircraft and subsequent global grounding of the fleet has resulted in a planned production cut of Boeing 737 MAX 8. CIT supplies various high-performance interconnect products to this aircraft platform. We're monitoring the situation closely, and we're currently expecting Boeing 737 MAX 8 production delays to amount to an approximate 1 percentage point headwind to CIT's 2019 year-over-year sales growth. Our CIT medical technologies platform

remains an area of focus for both organic and inorganic growth given the attractive industry dynamics, such as aging populations and trends towards minimally invasive procedures. We're excited about our MicroConnex acquisition announced on April 1, which is a great addition to our medical market expansion strategy. CIT leveraged its sales growth during the quarter, increasing margins 30 basis points year-over-year, which included investment in restructuring projects to rightsize our manufacturing footprint, and we anticipate greater traction in the coming quarters, driven primarily by savings and efficiencies gained from COS in past restructuring actions.

CFT sales were flat year-over-year but did deliver over 2% organic revenue growth in the quarter. This quarter was -- this growth was primarily driven in the quarter by price realization and new products. One such product launch is our DV1 base coat spray gun, well received by the market and a technological leap for the user, driven by its unique air and fluid engineering characteristics, which results in less waste and improved efficiency for the painter. Increasing R&D efforts at CFT remain a priority as we seek to gain share by delivering highly engineered, return on investment-driven solutions for the global paint, coatings, sealants and adhesives markets. Back to CFT's quarterly results, automotive refinish and general industrial market sales increased year-over-year, driven by growth in standard product sales, while sales to transportation markets lagged. North American sales increased, partially offset by tough system sales comps in China. Well-publicized automotive production declines in the Chinese and European -- in China, excuse me, and European industrial markets were headwinds that continued from the fourth quarter. At CFT, we remain focused on enhancing our product breakthrough, new products and acquisitions, driving COS further to the segment to realize efficiency gains and expanding our global reach.

CBF had a difficult comparison in the first quarter to that of 2018, where, as you may recall, sales were up 34%. Demand across our key markets of construction and agriculture did weaken slightly. This, along with certain customers adjusting their inventory levels, resulted in revenues being down 7% year-over-year. Most importantly, the significant restructuring efforts around the closure of our Tulsa, Oklahoma facility and integration into Medina, Ohio largely came to a close at the end of 2018. Much reduced restructuring charges coupled with price recovery and efficiencies gained through COS resulted in operating income improving 44% or 250 basis points year-over-year. As previously stated, we expect to see CBF's margins reach double digits over the course of 2019.

Bob will now provide further detail about our first quarter operational and financial performance and review our balance sheet and cash flow. Bob?

**Robert M. Roche**

VP & CFO

Thank you, Chris. Please turn to the revenue bridge on Slide 5 of the presentation. As Chris mentioned, we are pleased with our overall first quarter

revenue performance. Organic growth was 5.9% in the quarter, driven by strong results in our commercial roofing, aerospace, and test and measurement markets. Acquisitions contributed 3.9% of sales growth for the quarter and FX was a 90 basis point headwind.

Turning to our margin bridge on Slide 6. Q1 operating margin expanded 110 basis points year-over-year. Positive pricing and volume leverage combined for 210 basis points of the year-over-year improvement and COS benefited margin by 130 basis points. Freight, labor and raw material costs were collectively a 150 basis point headwind. Acquisitions were a 50 basis point headwind, and restructuring and rationalization costs were a 30 basis point headwind.

On Slide 7, we've provided an EPS bridge. As previously stated, we reported record first quarter diluted EPS from continuing operations of \$1.33, which compares the \$0.92 last year. Higher volumes contributed \$0.13. Positive price added \$0.25, fully offsetting the \$0.25 headwind we saw in raw material, freight and labor costs. COS added \$0.15, and lower share count added \$0.09 versus last year.

Now let's turn to Slide 8 to review the first quarter performance by segment in more detail. At CCM, revenues increased 12% with acquisitions contributing 6.3% of the growth and organic growth of 6.3%, partially offset by a 50 basis point foreign currency translation headwind. CCM executed extremely well in accomplishing over \$14 million of net price cost realization in the quarter. Operating margin at CCM was 13.8%, a 110 basis point increase over last year.

Now let's turn to Slide 9 to review CIT's results. CIT capped off a solid quarter by growing 10% in the first quarter. Aerospace remained a source of strength with test and measurement and space and defense growing double digits. While medical continues to be an area of focus for us, product line rationalization in the quarter impacted our sales against what remains a very attractive market backdrop. CIT's operating margin grew 30 basis points year-over-year to 12.4%, given higher volumes, price realization, COS savings and benefit from product line exits predominantly within medical. Offsetting this was investment in restructuring projects to rightsize our manufacturing footprint.

Turning now to Slide 10. CFT's organic revenue increased 2.2% year-over-year, which was more than offset by 2.8% FX headwind. Automotive refinish was up double digits and overall pricing was up 0.9% year-over-year. This, coupled with our 2017 and 2018 facility rationalization efforts, vertical integration and savings and efficiencies from COS, expanded our first quarter margins 110 basis points to 10.1%.

Turning to Slide 11 on CBF. CBF's organic revenue decline of 3.8% was in line with our expectations given moderating growth in off-highway vehicle markets and certain customers adjusting their inventory levels. Successful price implementation and share gains during the quarter partially offset the decline. FX

also had a negative 3.3% impact. The 44% increase in operating income to \$6.5 million or 7.1% operating margin was in line with our expectations for the first quarter after completing our Tulsa, Oklahoma to Medina, Ohio factory consolidation.

On Slide 12, we show select balance sheet metrics. Our balance sheet remains strong and we ended the quarter with \$517 million of cash on hand and \$1 billion of availability under our revolving credit line. During the quarter, we opportunistically repurchased approximately \$157 million of shares.

Turning now to Slide 13. Our free cash flow was a positive \$86.5 million compared to a negative \$9.3 million last year. The increase in free cash flow is predominantly attributable to higher cash earnings, more efficient use of working capital and lower capital expenditures.

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

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

CEO, President & Director

Thanks, Bob. Please turn to Slide 14 as we discuss our updated 2019 outlook. For Carlisle as a whole, we expect year-over-year growth to be in the high single-digit range.

By segment, at CCM, driven by what we view as a healthy North American nonresidential construction market, the CCM team's price discipline, a solid backlog of worker contractors, tight labor markets and the addition of Petersen, we now expect revenues to grow low double digits in 2019.

At CIT, despite projections that 737 MAX 8 volumes will be reduced by 20%, we now expect revenue growth to increase to the mid- to high single-digit range. We expect continued strength in our core CIT markets of aerospace, medical, and test and measurement. The addition of MicroConnex adds about a point of growth to our previous outlook. CIT will benefit from pricing actions taken in 2018 to offset inflation and other cost increases. We continue to expect approximately \$50 million in restructuring charges to be taken at CIT this year related to the consolidation of North American facilities to drive operational improvements and efficiency gains in the business.

At CFT, we continue to expect revenue growth in the mid-single-digit range, driven by solid global GDP growth, price realization and new product introductions. At CBF, with certain customers adjusting their inventory levels, price discipline of the team and product line rationalization actions taken, we now expect flat year-over-year revenue in 2019.

Corporate expense is expected to be approximately \$80 million. Depreciation and amortization expense is expected to be approximately \$200 million. For the full



year, we expect capital expenditures of about \$110 million to \$120 million and free cash flow conversion above 100%. Net interest expense is currently expected to be about \$55 million to \$60 million for the year, and we expect our tax rate to be 25% for 2019.

As 2019 continues to unfold, we are well positioned to take advantage of the momentum generated from our strong first quarter and what we view as a solid global economic outlook. However, we remain vigilant and fully aware of the uncertainty surrounding Brexit, the unresolved U.S.-China trade negotiations and the impact -- and the negative impact of these 2 lingering issues on global economies especially in China and Europe. Despite these uncertainties, with the continued traction we have achieved against our Vision 2025 goals, we expect to deliver record performance in 2019. We remain steadfast in our commitment to achieving our goals and to driving \$15 per share of earnings by 2025. This concludes our formal comments.

Kelly, we're now ready for questions.

# Question and Answer

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## Operator

[Operator Instructions] Our first question comes from the line of Bryan Blair from Oppenheimer.

## Bryan Francis Blair

Director & Senior Analyst

### Question:

Great start to the year.

## D. Christian Koch

CEO, President & Director

### Answer:

Thanks, Bryan.

## Robert M. Roche

VP & CFO

### Answer:

Thanks, Bryan.

## Bryan Francis Blair

Director & Senior Analyst

### Question:

So I'm going to get started with CCM price costs, another -- a lot of moving parts there but relatively stable price trends and certain tailwinds in place, MDI in particular. It seems like there could be decent upsides to the \$40 million to \$50 million range you talked about before. Is there any update to estimate?

## Robert M. Roche

VP & CFO

### Answer:

Yes, Bryan. It's still early in the year. Right now, we're on track with what we thought. We're kind of a little bit ahead in the first quarter on where we thought we'd be, but I'm not sure we're ready to call victory quite yet at 1 quarter into the year. So we're continuing and monitoring. We're hopeful that there could be upside to that, a lot of moving pieces though.

**Bryan Francis Blair**

Director & Senior Analyst

**Question:**

Okay. That's fair. And then in terms of M&A strategy, you talked about having prospects across CCM, CIT, CFT. Is there any other color you can offer on pipeline trends, solar expectations, where we may see the most M&A dollars flow across platforms over the next year or so?

**D. Christian Koch**

CEO, President & Director

**Answer:**

Obviously, our preference would be, I think, to get the medical technologies platform built out as quickly as we could. We still see these opportunities within CCM and some nice activity there. And then you know what? We're very excited about CFT finally being positioned to be able to take on some acquisitions and to drive some of that revenue growth we projected through Vision 2025. So yes, I think the only other color I'd give you is that things are still expensive, expectations for high multiples is there, and we're going to continue to be disciplined in our approach and make sure we make the right decisions to be able to return the type of investment we -- our shareholders expect.

**Operator**

Your next question comes from the line of Joel Tiss from BMO.

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Question:**

Just one thing that you were talking about the end of the year that there was uncertainty around the competitive landscape in the CCM business for 2019. Is there any updates? Are the other guys acting rationally? Or any little help you can give us there?

**D. Christian Koch**

CEO, President & Director

**Answer:**

Yes. I think for the most part, we've been pleasantly surprised with the reaction. When we get to certain large jobs, I'd say that price competition gets a bit more aggressive. Obviously, we're continuing to drive that Carlisle experience and we expect to, I guess, be paid for the superior customer

service and delivery and all that we're giving, Joel. But I think as a whole, there's been better, rational behavior than there has been, say, 2, 3, 4 years ago.

**Joel Gifford Tiss**

MD & Senior Research Analyst

**Question:**

That's great. And then on -- if we could drill down for a second into the Brake & Friction, just you mentioned construction and ag were weak. Is that specific customers? Or is that more across the board? It seems like construction, there's a little bit of a dichotomy, right? Your roofing business is very strong and construction seems like it's got a backlog. So I guess...

**D. Christian Koch**

CEO, President & Director

**Answer:**

Yes, Joel. Yes, I agree with you. I would say it's more specific to us and then regionally as well. This is one of our most global businesses. I think we've got about 55% of our sales outside North America. And so we see all sorts of different dynamics within the different regions. So there's some breakdown there. We can get into that later. But I'd say it's more specific to CBF than it is in the general industry.

**Operator**

Your next question comes the line of Neil Frohnapple from Buckingham Research.

**Neil Andrew Frohnapple**

Analyst

**Question:**

What's driving the higher sales outlook within the CCM segment for the full year? I mean does the increase stem primarily from the Q1 performance? Or is your outlook for the balance of the year stronger than you previously expected?

**Robert M. Roche**

VP & CFO

**Answer:**

Yes. I think we're seeing Q1 was stronger than we expected and we see that -- not completely carrying over but we see a more -- a continued healthy backdrop, I'll call it, with reroofing continuing and our contractors having a healthy backlog.

**Neil Andrew Frohnapple**

Analyst

**Question:**

Okay. That's helpful, Bob. And then just within CCM, what was the growth rate in Europe for the business in the quarter?

**Robert M. Roche**

VP & CFO

**Answer:**

Europe, a little bit over 10%.

**Neil Andrew Frohnapple**

Analyst

**Question:**

Okay. Got it. And then just one last one. Could you talk about, I guess, the increased revenue outlook for the CIT segment? It sounds like you're going to get a 1% net tailwind from the acquisition, but then there's that 1% offset from the 737 MAX. So just any more color there and if you can provide an update on the SatCom sales outlook for this year versus 2018.

**Robert M. Roche**

VP & CFO

**Answer:**

Yes. I mean you had a bunch there. So I'll start with SatCom. We're exactly where we thought we'd be. The first quarter ended up as expected there. I think you're right, we do have the acquisition coming through. So that's going to help us. And then the MAX decline. And otherwise, what we're seeing now is while we did take our number up and the first quarter was obviously a lot higher than we're expecting the full year, there was a little bit of our -- some of our declines we saw coming weren't as strong in the first quarter, but we still expect them to be there for the rest of the year. So it's a little bit of -- things were better in the first quarter, but we don't expect them to hold up around that 10% for the whole year.

**Operator**

Your next question comes from the line of Tim Wojs from Baird.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Just trying to pick apart price cost a little bit. I'm kind of backing in. I think you said \$14 million was kind of the net price cost realization in the quarter. I'm kind of getting to a maybe \$12 million to \$13 million of price and the rest raws. Is that kind of in the ballpark?

**D. Christian Koch**

CEO, President & Director

**Answer:**

No. I think you'd want us -- I think we had higher raws cost and better price realization than you're characterizing.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Okay. Okay. And then I don't know if it's going to be helpful or not, but if you just kind of think through the quarter and kind of January, February, March and April, I don't know if you have the data, but how did volumes kind of trend for you guys by month? Was March the strongest month of the quarter? And has that kind of led into April?

**D. Christian Koch**

CEO, President & Director

**Answer:**

Yes. Exactly. I think if you come to the year, you'll look at how things unfolded, Tim. It looked pretty rough there in January and February. And then I think we held our own pretty much. And as soon as the weather turned and people could get back on the roof, March turned out to be a very strong month and they exited the quarter, and then April was just continuing the trend.

**Timothy Ronald Wojs**

Senior Research Analyst

**Question:**

Okay. Great. And then -- and just last one on Accella. I guess how was the performance in Q1 relative to your expectations? And has your outlook there changed at all for '19 relative to when we entered the year?

**D. Christian Koch**

CEO, President & Director

**Answer:**

Well, we think the team is doing a great job. We had a lot of changes in the

fourth quarter. I think they've executed really well. They met our expectations, as what we would have expected or wanted, in Q1. And we're holding to the numbers we talked about for the full year.

## **Operator**

Your next question comes from the line of Garik Shmois from Longbow Research.

### **Garik Simha Shmois**

Senior Research Analyst

#### **Question:**

Congratulations. Just wondering on CCM volumes. It looks like coming into the year, you were looking for somewhere in the maybe 3% growth range for this year. It seems like Q1 tracking a little bit ahead of that even with, well, I think was, some expectation of some weather concerns. So I'm just wondering if anything more specific has changed in the outlook on CCM for demand. And maybe what categories or geographies are outperforming?

### **D. Christian Koch**

CEO, President & Director

#### **Answer:**

Yes, and Bob can weigh in on this, too. I think we're -- I think actually, on volume we're seeing what we expected and that 3%, 4% 5% range on sales volume. Price, I think, was the thing that made us a little bit better than we thought in the first quarter in terms of surprises, I guess. Acquisitions contributed. That's something planned on. If we look -- the geographies, Canada was stronger on a year-over-year basis. It didn't have great increases, but last first quarter was pretty strong. Europe delivered, as we talked -- as Bob just talked about, over 10%. That was good across the product line. We're seeing good growth. We haven't really seen much share difference than what we see in the industry averages.

So I think it was a great first quarter. The reroofing pieces may be the thing that we always have trouble, understanding exactly how those market dynamics work at 70%, 75% of the business and it's a little bit less tractable than, I would say, the new construction. So that can always be a variable. And then again, the weather and how the weather played out in the first quarter with demand was interesting. So I think the year is pretty much starting off the way we would like it, maybe a little bit more positive. And I think on the price raws thing, as Bob said, we're right on track, maybe a little bit to the higher end of the \$50 million, but overall, I think a pretty good start. Bob?

**Robert M. Roche**

VP & CFO

**Answer:**

Yes. And Garik, I don't know if you're talking about the first quarter or the full year. But first quarter, we did see a little more volume and a little more price than expected because as we talked about on the fourth quarter, we did have -- the last couple of years have been really strong growth in the first quarter and we're expecting that maybe to moderate a little and it didn't, which was great. And then for the full year, we did up our guidance a little because of the strong quarter we saw in volume and then the feedbacks we're getting from contractors on backlogs. So that's sort of the difference in what we're thinking.

**Garik Simha Shmois**

Senior Research Analyst

**Question:**

And I guess you partially answered my follow-up just around market share. From the sounds of it, if I heard you correctly, you are growing more in line with the market. Is that your expectation for the balance of the year?

**D. Christian Koch**

CEO, President & Director

**Answer:**

Yes. I think that's correct, Garik. There are obviously differences between EPDM, TPO, PVC, that -- but on the whole, we're right there with what we see as the market growth and we're pretty happy with that given the price discipline we showed.

**Operator**

Your next question comes from the line of Charley Brady from SunTrust.

**Charles Damien Brady**

Managing Director

**Question:**

I just wanted to drill back a little bit on CCM and the -- I don't know if you discussed this. I know you said fourth quarter, \$14 million price cost. But I wonder what your expectation is for the full year on price cost for CCM.

**D. Christian Koch**

CEO, President & Director



**Answer:**

So that remains -- the benefit would be between Bob had talked about as we entered in this quarter, \$40 million to \$50 million. And I think we're saying today is with the better-than-expected first quarter, we're probably going to be at the higher end of that, all things being equal.

**Charles Damien Brady**

Managing Director

**Question:**

Great. Thanks. And then on the CFT business, can you just talk about kind of where the progress is on cross-selling some of those products into the CCM platform? Obviously, it's a natural fit with that.

**D. Christian Koch**

CEO, President & Director

**Answer:**

Exactly. Yes, the -- there's a lot of work being done and I would say it's done on the market analysis side, certainly in the polyurethane foam side with the Accella business, and there are some with the adhesives and sealants and waterproofing that we do in CCM. Now that equipment -- the issue is that CFT had never been in those businesses before. And so the engineers and the team at CFT are working on that but it's really -- I think that's going to be something we're going to see start to unfold in 2020, 2021. We think it takes somewhere between 18 to 24 months to launch a product, and so we're looking -- when we start working on our cross-selling, I would say a lot of work being done to development activity but probably not seeing anything hit the market for at least until 2020.

**Charles Damien Brady**

Managing Director

**Question:**

Yes. Got you. That's helpful. And I guess just on CIT, you touched this a little bit, but I mean, Q1 is clearly better than expected given that you had positive -- you had tough comp in rev rec. You had -- with the exit of some of the lower margin med stuff a year ago. Can you just dig into a little bit more on really what's driving that strong growth in the face of kind of those 2 issues you're facing?

**Robert M. Roche**

VP & CFO

**Answer:**

Yes. I mean aerospace continues to be strong, I mean very strong market content for plane and the production of planes. I mean everybody talks about 737 MAX, but everybody else is building as much as they can every month. So that's doing really well. We're getting more content per plane. There is some, I'll call it, a little bit of noise within the new standards of rev rec for our team because now the standards are talking about that we actually got to recognize the revenue when we start building the inventory related to the contract versus when you ship it out the door. So there is some moving between quarters because of that, and that had a little bit to do with the first quarter, I'll call it, excess growth because of the build there, but overall, just a really healthy backdrop from where we are.

**Charles Damien Brady**

Managing Director

**Question:**

Great. So just one more from me. On kind of freight and labor cost, are you seeing any kind of relief? Particularly on the freight side, is that coming in? Or is there still a significant headwind to what you're doing at margins?

**D. Christian Koch**

CEO, President & Director

**Answer:**

I'm going to say it's a significant headwind year-over-year. I think it's kind of flattened out at that high level but we still -- I wouldn't say we've seen any great improvement in availability of trucks or labor or truckers or that. And so it's still a tough thing to deal with. But from a cost perspective, I'd say it's flattened out.

**Charles Damien Brady**

Managing Director

**Question:**

Great. I'm going to state one more here, sorry. Just on CIT again, Airbus has a number of potential program wins with you coming up in 2020. Can you just maybe, to the extent you can, talk about the opportunity you see in getting deeper into Airbus?

**D. Christian Koch**

CEO, President & Director

**Answer:**

Well, it's a big opportunity. I mean that was one of the things when we constructed the Nogales plant. That was a key structural piece that we

needed to help us get some -- start with Airbus. We had success with the SatCom at Airbus. We did win the Supplier of the Year award in one of their segments when we first started, which was nice recognition. We made an acquisition in the U.K. that had EASA certification last year, and that helped us again build more structural capacity and capabilities to address Airbus.

So the team is doing a great job. They're spending a lot of time in Airbus. They're showing the product or the technology we've got. We're working on many projects and I think we're making good progress. But as you know, to become specified on -- in aerospace takes a long time. I mean that's the tough part of it. The great part of it is once you're specified, you tend to hang on to that for a while. So I think it's a very good opportunity for us. I think the team has done a great job making the inroads there and we'd love to see increased performance at Airbus in the future.

### **Operator**

Your last question comes from the line of Kevin Hocevar from Northcoast Research.

### **Kevin William Hocevar**

VP & Equity Research Analyst

### **Question:**

Nice start to the year.

### **D. Christian Koch**

CEO, President & Director

### **Answer:**

Thank you, Kevin.

### **Kevin William Hocevar**

VP & Equity Research Analyst

### **Question:**

Maybe with the 737 MAX, you mentioned that will be a 1% headwind to the year. Is the assumption there just that it's not produced for the balance of the year? Or do you have some assumptions of ramps at some point in 2019?

### **D. Christian Koch**

CEO, President & Director

### **Answer:**

That's just the 20% reduction calculated out through the end of the year.

**Kevin William Hocevar**

VP & Equity Research Analyst

**Question:**

Okay. And then in terms of -- oil prices have moved higher here throughout the last several months, and I know raws that you -- a lot of raws you used in the CCM segment are oil, the precursor, but your raws have different supply/demand dynamics and pricing doesn't always move the things. So I'm wondering if you could comment on what you're seeing -- you mentioned that the \$40 million to \$50 million price/raw estimate, you're now thinking you'll be at the higher end of that. So what's going better? Is it pricing than expected? Is it raw less inflation and raw -- or more tailwinds in raw? And what is the assumption in raw materials there? Do you have an assumption that we start to see a pickup in inflation as the year goes on? Or curious if you can comment on that.

**Operator**

[Technical Difficulty]

**D. Christian Koch**

CEO, President & Director

**Answer:**

Sorry, I think I got disconnected there. Kevin?

**Operator**

[Operator Instructions]

**D. Christian Koch**

CEO, President & Director

**Answer:**

That was not agile. Sorry, everyone. We've -- somehow, we're disconnected and we apologize. Thanks for your patience and for staying on the line. So Kevin, did we answer that?

**Kevin William Hocevar**

VP & Equity Research Analyst

**Question:**

I don't know. I didn't hear. I think you were disconnected.

**D. Christian Koch**

CEO, President & Director

**Answer:**

Can you repeat the question, please? And we will absolutely answer it.

**Kevin William Hocevar**

VP & Equity Research Analyst

**Question:**

Yes. Just so oil prices have moved higher and I know your raws are a precursor to a lot of raws you buy, but your raws have different supply/demand dynamics. And it seems like your raws have slightly moved up. So you mentioned that price raws, you expect to be to the higher end of that \$40 million to \$50 million tailwind this year now. So wondering what's the makeup there. Is pricing going better than expected? Are you seeing less inflation or better tailwind from raws than you expected? And what are you assuming in raw materials there? Do you assume that you start to see inflationary pressures pick up because oil has come up? Or do you not expect that to happen?

**Robert M. Roche**

VP & CFO

**Answer:**

Yes. In the original \$40 million to \$50 million we talked about a couple of months ago, we did assume that it would turn around -- start turning around by the second half of the year. And that's still the case. We didn't see a lot of tailwind in the first quarter because obviously, you tie up some savings in inventory. We do have a natural build in the fourth quarter and the slower season to build up for the busy season. So we didn't see a lot of any tailwind in the first quarter, and we expect that to carry over for the next 2 a little bit, but do we do have some increase built into the back half of the year. We always have.

**Operator**

There's no further questions at this time. I will now turn the call back to Chris Koch for closing remarks.

**D. Christian Koch**

CEO, President & Director

**Answer:**

Well, thanks, Kelly, and I apologize to everyone for that disconnection there. This concludes the first quarter 2019 earnings call. Thank you again. We look forward to speaking with everyone on the next earnings call. Kelly, thanks.

**Operator**

This concludes today's conference call. You may now disconnect.

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