



# **Carlisle Companies Incorporated** NYSE:CSL

## *Earnings Call*

*Wednesday, July 27, 2022 10:00 PM GMT*

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# Call Participants

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## EXECUTIVES

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*Chairman, President & CEO*

**James Giannakouros**  
*Vice President of Investor Relations*

**Kevin P. Zdimal**  
*VP & CFO*

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# Presentation

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## Operator

Good afternoon. My name is Jason, and I will be your conference operator today. At this time, I would like to welcome everyone to the Carlisle Companies Second Quarter 2022 Earnings Conference Call. [Operator Instructions]

I would like to turn the call over to Mr. Jim Giannakouros, Carlisle's Vice President of Investor Relations. Jim, please go ahead.

## James Giannakouros

*Vice President of Investor Relations*

Thank you. Good afternoon, everyone, and welcome to Carlisle Second Quarter 2022 Earnings Conference Call. We released our second quarter financial results after the market closed today, and you can find both our press release and earnings call slide presentation in the Investor Relations section of our website, [carlisle.com](http://carlisle.com).

On the call with me today are Chris Koch, Chairman, President and Chief Executive Officer; and Kevin Zdimal, our Chief Financial Officer. Today's call will begin with Chris giving you an update on our progress in achieving our strategic plan, Vision 2025, highlights of our record second quarter and a discussion of current trends. Kevin will discuss the financial details and updated outlook for 2022. Following Chris and Kevin's remarks, we will open up the line for questions.

But before we begin, please refer to Slide 2 of our presentation, where we note that comments today will include forward-looking statements based on current expectations. Actual results could differ materially from these statements due to a number of risks and uncertainties, which are discussed in our press release and SEC filings.

As Carlisle provides non-GAAP financial information, we provided reconciliations between GAAP and non-GAAP measures in our press release and in the appendix of our presentation materials, which again are available on our website. With that, I will turn the call over to Chris.

## D. Christian Koch

*Chairman, President & CEO*

Thank you, Jim. Good afternoon, everyone, and thank you for joining us on our second quarter 2022 earnings call. As we enter the third quarter, we continue to operate in a highly uncertain environment, which has been the case each of these past 3 years.

In addition to an ongoing global pandemic, tight labor markets and supply chain constraints, we are now seeing the global impact of the ongoing war in Ukraine, rising interest rates from the Federal Reserve concerned with record inflation and the uncertain outlook for the American consumer.

Despite this challenging environment, I am very pleased with the outstanding performance our teams delivered in the second quarter. Our positive performance depends on the Carlisle team that continues to deliver a continuous improvement mindset with a focus on results and an unrelenting commitment to deliver the Carlisle Experience.

As a result, in the second quarter, we delivered another record performance, including revenues, EBITDA and diluted EPS, which moves us closer to delivering Vision 2025, including achieving \$15 of earnings per share 3 years ahead of plan.

Please turn to Slide 3. Our record results continue to demonstrate that Vision 2025, which has provided the clarity and consistency of mission since its launch in 2018, has been the right path for Carlisle even in these challenging times. In addition to our world-class team and proven business model, we've relied on a strong balance sheet and excellent cash flow generation to provide both financial and strategic flexibility to execute our Vision 2025 road map.

A significant portion of our success has been driven by the multiyear process of reshaping our portfolio to pivot Carlisle to a diversified building products focus, setting the stage for accelerated and sustainable value creation. Allow me to update our progress on these strategic initiatives.

Please turn to Slide 4. These initiatives include drive 5% plus organic growth with operational leverage. In the second quarter, we delivered 42% organic revenue growth and adjusted EBITDA growth of 146%. Utilize the Carlisle Operating System. We use the Carlisle Operating System to consistently drive efficiencies and enhance operating leverage by targeting cost savings of 1% to 2% of sales annually. We continue to execute on our Lean Sigma initiatives in the second quarter of 2022 and fully expect to be in our targeted range for this year.

Build scale with synergistic acquisitions. We continue to streamline and optimize our portfolio through acquisitions and divestitures to build scale in our highest returning building products businesses. With almost 1 year since our Henry purchase, the team continues to execute extremely well on delivering a smooth and efficient integration and is on pace to exceed our initial synergy targets of \$30 million.

We remain excited about acquisition prospects within the Building Envelope, and we're working an active pipeline of opportunities to augment our newest segment, CWT in a variety of construction product-related verticals.

Continue to invest in and develop exceptional talent. Our Carlisle Leadership System is a holistic approach to talent management that incorporates mutually reinforcing processes and tools for the selection and development of high-caliber talent. In the second quarter, we held our week-long annual Leadership Summit with the current and future leaders of Carlisle with the aim of developing the next generation of leadership.

While reinforcing the high standards expected of Carlisle leadership, we also discussed and develop ways to honestly assess our business performance and debated changes to facilitate continuous improvement in the organization and to enhance Carlisle's future performance.

Deploy over \$3 billion into capital expenditures, share repurchases and dividends through 2025. Notably, we are on an accelerated path here. Since the launch of Vision 2025, we have deployed over \$2.7 billion into these areas. Turning to our 2022 year-to-date actions. We've made capital investments of over \$80 million into our businesses, made share repurchases totaling \$175 million and paid approximately \$57 million in dividends in 2022.

Now let's turn to the second quarter and look at the drivers of our record performance. First, on Slide 5, reroofing demand. Reroofing is a necessity for building owners in order to maintain the integrity of their substantial investments. Reroofing demand continues to be a reliable, significant and sustainable driver for growth at CCM.

As we continue to seek more efficient use of energy as a nation, increased amounts of insulation have been added to the reroofing system, which expands our served market and increases the value of the roof to building owners.

Specifically, one of the easiest ways to enhance the energy efficiency of a roof is by adding more insulation. In fact, over the past decade, the ratio of insulation to single-ply roofing membrane board feet has increased an estimated 40%, clearly demonstrating the annual increase in insulation consumption.

The increasing number of low-sloped roofs requiring reroofing with more energy-efficient solutions over the next decade underpins our confidence in CCM's ability to continue to generate above-market growth. This rising demand, coupled with our position as a key provider of energy-efficient solutions for buildings, sets up CCM very well for additional growth.

Adding to these positive trends, we also expect continued high levels of backlog for the near future, much of this due to COVID-19 issues in 2020 and exacerbated by supply chain disruptions and labor shortages in 2021 and in 2022.

Second, under the guide of Vision 2025, we continue to earn premium pricing in the marketplace by providing significant value to our customers through what we call the Carlisle Experience. Our continued and growing investment in new product innovation, the energy efficiency benefits of our Building Envelope systems, our world-class manufacturing and distribution facilities and best-in-class customer service encompass the value proposition that our contractors have come to rely on from Carlisle. Contractors know that when they order from us, they'll get energy-efficient building solutions of the best quality in the right amount, at the right place and at the right time.

Third, we continue to seek synergistic and accretive acquisitions. We continue to be pleased with the Henry integration, where synergy targets are ahead of schedule and we are on pace to achieve approximately \$1.50 of accretion in 2022. We are also pleased that the acquired Henry leadership team has taken on the role of managing our diverse set of Building Envelope solutions in our newest segment, CWT.

The solutions within CWT now include Henry, Carlisle Polyurethane Systems and Carlisle's legacy diversified products. In February, we acquired MBTechnology, a California-based provider of roofing underlayments and membranes as a strategic bolt-on to CWT. We are pleased that this innovative company won a grant from the state of California to develop a modified bitumen product called Ecotorch, which incorporates recycled tires into the membrane.

This type of commitment to sustainability reinforces the value Carlisle places in our acquisition targets. Given the success of Henry and the establishment of this new segment, we are actively seeking similar larger tuck-in opportunities to enhance CWT's already significant capabilities.

Fourth, since launching Vision 2025, we've remained focused on being a disciplined and superior capital allocator. Our strong operating cash flow enables Carlisle to remain financially and strategically flexible in order to drive value through a balanced and opportunistic approach to capital allocation. This approach includes investing in organic growth, returning capital to shareholders in the form of dividends and share repurchases.

And as I just mentioned, continuing to seek accretive acquisitions that enhance Carlisle's ability to create value for all our stakeholders. Notably, we anticipate this August will mark Carlisle's 46th consecutive year of annual dividend increases.

We are extremely proud to be approaching a half century of annually paying and increasing dividends, part of our commitment to return capital to our shareholders. We also remain on track to deploy \$175 million in capital expenditures this year, with a large share dedicated to fund growth products in our building products segments.

Fifth, we remain firmly committed to sustainability and ESG. Please turn to Slide 6. We are proud that our business model is squarely in the middle of global ESG trends as our products and systems enable a more efficient use of energy and buildings. Energy-efficient buildings can contribute to lower greenhouse gas emissions on a large scale, as evidenced by the fact that over 30% of GHG emissions annually are attributed to the operation of buildings.

With our pivot to building products and the accelerating demand for energy-efficient products in the broader market, Carlisle is enabling a more sustainable planet. Carlisle will help deliver a net 0 future by supplying innovative, energy-efficient products and solutions while reducing greenhouse gas emissions and the amount of construction materials and landfills.

One recent project to support this net 0 emission includes the purchase of \$1.6 million worth of equipment to recycle production scrap at our Dixon, California EPS plant. This investment will enable the diversion of 140 tons of waste from landfills annually. And more broadly, Carlisle is targeting the incorporation of more than 1 million tons of recycled materials and production scrap into our production stream by 2030, diverting that material from landfills.

Additionally, we continue to make significant strides towards aligning our GHG reduction strategy with the Science Based Targets initiative, or SBTi. SBTi defines and promotes best practices and science-based

targets that help provide companies with a clearly defined path to reduce emissions in line with the Paris Agreement goals.

Please turn to Slide 7, where we highlight our performance in the second quarter of 2022. Revenue increased 57% year-over-year, with organic revenue up 42%. All segments contributed to this growth. Adjusted diluted EPS increased 185% year-over-year to \$6.15, driven by higher volumes, price, Henry's contribution and Lean Sigma initiatives, which more than offset inflation and operational disruptions.

For segment highlights, please turn to Slide 8. CCM delivered an outstanding quarter, weathering challenges across its supply chain, pervasive inflationary pressures and labor constraints. CCM drove solid top line growth due to continued strong demand, favorable product mix, new product sales and captured price earned by delivering on the Carlisle Experience. Contractor backlogs remain quite healthy, and bid activity remains strong, giving us confidence for continued strength in the second half of 2022 and optimism for the future.

Moving to Slide 9. Sales accelerated in the second quarter at our newly created segment Carlisle Weatherproofing Technologies, where revenue increased over 23% year-over-year on a pro forma basis. Growth continued across all product lines despite supply constraints, which began to ease in the second quarter versus earlier this year.

We continue to drive the Carlisle Experience through CWT and its organization as we seek to earn the increased value of our products and services. As I mentioned earlier, the CWT team is executing well on a multifaceted integration plan and is leveraging volume growth on plan.

Moving to Slide 10. CIT revenue increased 26% year-over-year in the second quarter of 2022, with balanced growth in its Commercial Aerospace and Medical Technologies platforms. Backlog continues to grow and notably remains higher than CIT's pre-pandemic levels.

We are encouraged by the TSA checkpoint numbers that show domestic air travel is nearing 2019 levels, driving increased demand for narrow-body aircraft and eventually wide-bodied aircraft as international travel returns to pre-COVID levels. CIT continues to navigate supply chain disruptions, facility consolidation efforts, inflation and mix headwinds. We do expect many of these influences to begin to abate in the second half of 2022, setting the stage for higher profitability.

Turning to CFT on Slide 11. CFT generated organic revenue growth of 5.5% year-over-year. We continue to be pleased by the progress CFT has made over the last couple of years, including improved operational efficiencies and new product introductions. We have also seen the team upgrade the customer service experience and earn strong price realization.

We remain confident that commercial and operational improvements, combined with growing backlog, will deliver strong revenue growth and incremental margins in the mid-40% range this year and as we continue to make progress towards our goal of 50% plus incremental margins in the coming years.

And with that, I'll turn it over to Kevin to discuss some additional financial details and our updated outlook for the remainder of 2022. Kevin?

**Kevin P. Zdimal**  
*VP & CFO*

Thank you, Chris. Chris has covered revenue growth in his comments, so I will move to the EPS bridge on Slide 13.

EPS growth in the quarter was driven primarily by price, volume and mix, more than offsetting the negative impact of materials and labor inflation. Additionally, the Henry acquisition contributed \$0.47 of accretion in the quarter.

Moving to Slides 14 and 15. Carlisle ended the second quarter of 2022 with \$353 million of cash on hand, with cash generated from continuing operations totaling \$181 million. Capital expenditures of \$52 million, share repurchases of \$50 million and dividends paid of \$28 million during the quarter. We currently have 4.3 million shares remaining from our last share repurchase authorization.

Our net debt-to-EBITDA ratio is 2x, down from 3x at the end of 2021, which as a result of the Henry acquisition was elevated compared to our target net debt-to-EBITDA range of 1 to 2x. Our policy is to maintain a conservative balance sheet. However, for the right acquisition, we will take on additional debt and, through earnings growth and debt reduction, drive our net debt-to-EBITDA ratio back to our target range within 1 to 2 years.

Given our anticipated repayment of our \$350 million senior notes in the second half of 2022 and expected EBITDA growth for the balance of this year, we expect to reduce our net debt-to-EBITDA ratio to approximately 1.5x by the end of this year.

On Slide 16, we have our updated 2022 financial outlook. At CCM, as Chris mentioned, we are seeing strong reroofing and new construction demand as well as increasing interest in our energy-efficient solutions. We now expect total revenue growth at CCM to be approximately 40% in 2022, up from our previous estimate of approximately 30%.

At CWT, we now expect revenue to grow approximately 60% year-over-year, including 20% organically. Henry continues to contend with supply constraints, but as Chris mentioned earlier, is navigating that well. With integration efforts tracking above our deal model, we reiterate our accretion target of \$1.50 for 2022.

At CIT, we are encouraged by growing backlogs in both our Aerospace and Medical businesses and thus increasing our revenue guidance to approximately 20% in 2022, up from our previous estimate of low double-digit growth.

At CFT, with orders coming in as expected and with positive pricing and new product sales ramping up, we continue to expect approximately 10% revenue growth in 2022. Finally, on a consolidated basis for Carlisle, we now expect to deliver revenue growth of approximately 40% in 2022.

Given the strong fundamentals across our businesses staying ahead of inflation with proactive pricing actions and driving strong leverage through COS, we expect total Carlisle adjusted EBITDA margins to expand approximately 650 basis points in full year 2022, up from our previous estimate of approximately 500 basis points.

With that, I turn it over to Chris for closing remarks.

**D. Christian Koch**

*Chairman, President & CEO*

Thanks, Kevin. I want to express again how pleased I am with the outstanding performance delivered by the entire Carlisle team this quarter and thank them once again for their perseverance, especially as we operate in this challenging and uncertain environment.

Despite these challenges, the Carlisle team continues to deliver our culture of continuous improvement focused on delivering results in an environment of mutual respect and trust. The outstanding results in the second quarter clearly demonstrate Carlisle's exceeding expectations and is on pace to achieve much of what we set out to accomplish in Vision 2025, including our goal to deliver \$15 of earnings per share. As a result of solid fundamentals across all of our businesses, our outlook remains optimistic for the rest of 2022. This concludes our formal comments. Operator, we are now ready for questions.

## Question and Answer

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### Operator

[Operator Instructions] Our first question is from Bryan Blair with Oppenheimer.

#### **Bryan Francis Blair**

*Oppenheimer & Co. Inc., Research Division*

Another exceptional quarter. Thinking about the revised sales outlook for CCM, I know your team isn't going to break out volume and price contribution by quarter for competitive reasons. But in terms of the step-up to the guide, could you perhaps give us the weighting of the 10 points relative to moving from 30% to 40% for the year?

#### **Kevin P. Zdimal**

*VP & CFO*

Yes. As you say, if we're not splitting that out by segment, but more so looking at it overall, if you looked at total Carlisle, we'll say 1/3 of the increase is related to -- or a 1/3 year-over-year growth is price and -- or volume, sorry, about that, 1/3 is volume, 2/3 is price.

#### **Bryan Francis Blair**

*Oppenheimer & Co. Inc., Research Division*

Okay. Fair enough. And for CCM and CWT, it would be great to hear how orders trended through Q2 and into July and whether price inflation, general macro concerns, any other factors have started to impact the strength of run rate demand. We know that your business is essentially booked for the year. It's more of a 2023 consideration, whether there's anything currently signaling that there could be a pullback into next year?

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

*Chairman, President & CEO*

Well, Bryan, it's -- I mean it's a very challenging market, as we highlighted in the script there. You continue to see more changes. I think the 75 basis point increase today was received well. But obviously, that's going to have some impact. And I know there's concerns in the market as to whether the 75 basis point increase will temp down demand, but not do anything to things like supply chain issues for the rest of the year.

So look, when we look at what our world looks like on a very North American kind of sector basis in construction with both CWT and CCM, as you said, in our core nonresi business, look, you're right. We -- under our -- on what we've been running an MSP program, which is basically an allocation program this year to help all contractors, distributors get some product. We are out till the end of the year, and we see ordering beginning already in 2023.

So we see those -- the current demands continuing into Q3 and into Q4. Obviously, we always are a little bit conscious of the fact that Q3 has burned as before with weather, with something like a hurricane, I think, in 2018 that might have affected it. It might have been '17. And then we have weather affecting us, obviously, as we get closer to the winter. And we like a warmer fall so that we can keep more days on the roof. But for the outlook, it's more of the same in the Q3.

Obviously, we are lapping price increases that occurred last year. So the year-over-year comps will be down a little bit on that, but sequentially good. When we look at CWT and the new water -- our Weatherproofing Technologies group, really good trends there that I think even if we look at something like the home center market, that team has delivered year in, year out.

I mean I'll just go back to -- I'm familiar with, say, 2014, and they've continued to do things like increase the content of their products on the shelves. And they've been able to pass on pricing. They've been able



to garner new accounts in the home center market. And so they've been able to overcome some of these inter-quarter challenges that occur from time to time.

But the big things for us going forward remain on the supply chain side. Can we get enough product to continue to maximize our capacity and address the demand that's out there? And then, obviously, labor constraints remain. I think they're going to be there for a while. And with the supply constraints and with the labor constraints, it just sets up that this backlog probably doesn't get resolved right away and continues on into 2023. So I think overall, for us, a pretty positive outlook for the remainder of the year and then hopefully continues into '23.

**Bryan Francis Blair**

*Oppenheimer & Co. Inc., Research Division*

That's very helpful color. And in terms of Henry, you mentioned supply constraints. Is that what has led to what I'm assuming is a bit of conservatism in not taking up the accretion guide? You're pacing ahead. I realize there's more seasonal variability going into the fourth quarter. But with the synergy plan ahead, run rate growth being very solid, I assume that you're very confident in the third quarter at minimum. Is it just conservatism in terms of what could play out with supply and seasonal variability going into Q4 that the \$1.50 was not taken up?

**D. Christian Koch**

*Chairman, President & CEO*

Yes. Bryan, I think that's right on. And I think some of that conservatism is well-founded in the fact that we don't know them as well as we know our core businesses. And while the team is doing a great job and providing great information and insight and just doing a heck of a job on the integration, I think that's right on. We just want to be a little conservative here and make sure we understand all the puts and takes as we go through the year.

**Operator**

Our next question comes from Saree Boroditsky with Jefferies.

**Saree Emily Boroditsky**

*Jefferies LLC, Research Division*

So maybe we could talk a little bit about your EBITDA margin expansion, your guidance by 150 basis points. Could you just talk through how much of this is driven by positive price cost? Maybe a little bit of detail by segment.

**Kevin P. Zdimal**

*VP & CFO*

Yes. We did it on purpose to consolidate it. So we're not going to go into the segment-by-segment piece of it. But yes, overall, as I think I've pointed out on the volume being 1/3 and price being 2/3, you should be able to do the math off that piece of it to get to the 650 basis points.

**Saree Emily Boroditsky**

*Jefferies LLC, Research Division*

And you talked a lot about increased energy-efficient solutions in insulation. Could you help quantify what that opportunity represents as older roofs are replaced with these new, more energy-efficient solutions?

**D. Christian Koch**

*Chairman, President & CEO*

Yes. Saree, as we look out, I think there are 2 vectors here on insulation report. One is just a simple one we highlighted. And I think if you think about just what we talked about that the board feet of insulation to membrane up 40% over the last 10 years, that gives you an idea of what that trajectory looks like. And obviously, there are a lot of places still in the United States that have not officially raised their code to double up on the insulation. There's not a lot of places that are just not doing it.

But as we begin to get people more educated, and they see the benefits of this, I think that rate will continue. That's a good rate to look at. And I think the other thing is we have to look at new technology, polyiso and EPS have been around for a while, and our teams are working on, every day, the next gen or generation of both membranes and insulation.

And we think there are some interesting concepts out there that could increase our value, reduce time of installation, which is a big deal, obviously, out there for contractors and so improve the efficiency of our entire system. So I like that run rate right now that -- without any new technology that we've shown over the past 10 years. I think that continues.

And then as we add new technology, that could really accelerate things from a dollar perspective and from a volume perspective. So I'll just leave it there. I mean I know that's not as clear as you probably want. But I think that past history is a good indicator of what we're seeing happen in the marketplace today.

### **Operator**

Our next question comes from Adam Baumgarten with Zelman & Associates.

#### **Marius Cornel Morar**

*Zelman & Associates LLC*

This is Marius for Adam. You've mentioned in your press release that you have -- you added about \$100 million of sales from new products. And I was wondering whether you can maybe expand a bit more on that and talk about what those products are and what other opportunities are there?

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

*Chairman, President & CEO*

Yes, sure. I just mentioned it with Saree there, a great question she had on what the future of insulation is. And I think that's one of the areas that we're going to look at is how can we get better insulation, more efficient insulation to increase the -- our value, decrease labor content per square foot installed. And really, those are the kind of things we're looking to do. We're really looking to help the contractor get the job done more efficiently, more effectively, so they could take on more work and also use their labor more effectively.

If you look at a couple of products that we've introduced in the last couple of years that I think are just outstanding products and are quite innovative, one is our APEEL product, where we are -- on a piece of TPO membrane installed. There's a thin layer of film over it that when the job is completed, we can pull that back, and you have the clean TPO white roof there.

In the past, without that, with all the workers that are on the roof and people installing things, you'd get a lot of dirt and they'd have to haul up pressure washers and things like that to clean it off. And it just meant more labor, more time on the roof, more expense for the contractor. So we think that APEEL product does exactly what we want to do for the contractor, and there's value there.

Another product we have is we have a VELCRO-adhered system in TPO that I also think is pretty innovative. And this is used in some pretty interesting installations. I remember a couple of years ago, I had a job. We were out talking to the contractor, and they were going to put a roof on air traffic control center in the West, and they really couldn't shut down the control center. And so they needed something that could be put down without any adhesives or things like that.

And so they used basically our TPO membrane with our VELCRO-adhered process, and it's done mechanically there. So that's another one where we were able to complete a job in a difficult situation, please the end user and make it easier on the contractor to get the job done, get off the roof and move on. So another one is, obviously, our CAV-GRIP series where we continue to improve that. And that's an adhesive -- 2-component adhesive system we use. And we've had great reception to that.

So those are a couple of examples. I could keep going on, but that's probably enough for you to get an idea of the type of new products we're putting out there. But again, it really centers on improving the

quality of the system, increasing the energy efficiency of the system and getting the contractor off the roof as quickly as possible, allowing them to move on and make more money.

**Marius Cornel Morar**  
*Zelman & Associates LLC*

And just a quick follow-up. Has your outlook for inflation changed since last quarter? And if so, what are some of the buckets where you changed the most?

**D. Christian Koch**  
*Chairman, President & CEO*

I don't really think the outlook has changed. I can't give -- I'm not going to give you the specifics on the outlook in terms of numbers. But what I will say is obviously, inflation on the supply chain side, as much as we thought it would abate by this time, we're still seeing inflation in raw materials in the second quarter. We see it going into the third and fourth quarter and not abating to a big degree.

We still see labor inflation. I think that's pretty obvious for everyone out there that's been following the labor markets that there's more pressure on workers. We have a lot of open positions in the economy today. People are looking for more wages to offset the increases in health care costs or gasoline and community to work or things like that, rents and things like that. So those pressures remain.

So freight is another one and then, obviously, fuel prices. So those 4 buckets, when you look at those and the impact they have on our customers and on our factories, those are the ones we focus in, and they really haven't changed. There's still -- well, as you can see by what the Fed has done, they're still pretty high.

#### **Operator**

Our next question is from Garik Shmois with Loop Capital.

**Garik Simha Shmois**  
*Loop Capital Markets LLC, Research Division*

Congrats on the great quarter. I wanted to ask first just on raw material availability. Just curious if there's been any improvement there? And just a follow-up to that, let's say there is improvement moving forward and maybe you do get some cost relief, I'm just kind of curious as to how you're thinking about CCM prices moving forward if we are in an inflationary environment?

**D. Christian Koch**  
*Chairman, President & CEO*

So availability got a little bit better in some areas, and I think that -- you could see that manifested itself in a little bit higher sales, because obviously, if -- with the orders we had in the backlog, if we can get the raw materials, we can produce more product and get it out the door.

In terms of raw material pricing, again, we've said this now for a while, but I'll just reiterate it, is we're really -- you can see this with these new products, and you can see it with our philosophy and the Carlisle Experience. We're really pricing to the value of the products in the market. So if we see a reduction in pricing in the -- I don't see it happening this year, but if it happened next year, I think we're going back to -- that's a separate function on raw materials than it is.

It's not going to be tied into the price of our products. They're not commodities. They provide a lot of value. And it's really our job to take that value and explain it to our end users or contractors, architects or distributors, get them to understand that, that's a price you want to pay for that product because of the value it's returning.

Garik, I'll give you one example. We're launching the 16-foot wide TPO membrane into the market here. And when you think about what it's going to do for the contractor in terms of labor saving and efficiency, my guess is that people will be willing to pay a premium for that product and not be as connected to raw materials on that again, because we'll be able to show the value and demonstrate it to the buyer.

**Garik Simha Shmois***Loop Capital Markets LLC, Research Division*

Got it. That's helpful. A follow-up question is just on the residential side of the business, CWT. Be it Henry or Spray Foam, and just confirm the concern on the housing side. Are you seeing any change in the order trends hopefully? And then just maybe help remind us how durable the residential part of CWT is if there is a slowdown in residential construction?

**D. Christian Koch***Chairman, President & CEO*

So right now, with the raw material supply obviously in the tight labor markets, when we look at CWT as a whole, the order backlog remains strong at the consolidated level. I mean you do see signs of some softness emerging in some areas. I'm not going to get into specifics there. But it's really not a softness to a -- it's really coming off quite a high volume. And so there's still very good demand and very good shipping going on and I think a good tone in the marketplace.

I think the other thing is we talked about new products. We talked about the value. I mentioned a little bit about what we're doing at some of the home centers by trying to put more product into the aisles in that, that we own. So we'd have to segregate that out too. But I think the demand going forward for CWT is good. I think it's durable.

And I think that we will see some -- obviously, some issues here with the -- with resi construction as interest rates rise. I mean I don't think we can avoid that. But I'm not sure that's altogether bad. I think that might help the raw materials catch up, get a little relief there. And then 2023 still looks pretty positive for us.

**Kevin P. Zdimal***VP & CFO*

Yes. And this is Kevin. Half of their business is R&R as well. So you get that aftermarket business. So 50% is new and 50% repair and replacement.

**Operator**

Our next question comes from Josh Chan with Baird.

**Joshua K. Chan***Robert W. Baird & Co. Incorporated, Research Division*

Great quarter. On the strength in the CCM demand, could you guys talk about where you're seeing that relative to new construction versus reroof and any specific verticals that are driving the strength particularly?

**D. Christian Koch***Chairman, President & CEO*

Yes. I mean we're seeing it -- believe it or not, we're seeing it through the business. Demand has been pretty good right across the board, everything from architectural metals, to insulation, to commercial roofing. If you look at the different membranes, EPDM, PVC, TPO, I think those are all doing -- they're doing a great job there.

When you look at verticals, warehouses are up, educational buildings, office, maybe flats up, stores are up. I think right across the board, it's still good across everything. And the reason I think that is, is because obviously, we've got this pent-up demand that came with COVID. We got into COVID and things kind of got behind. And then we see the huge surge in the supply chain problems.

And so if you look at this backlog that, just like we said, is continuing on from the -- now -- the end of '22 into '23, and that means that the sales into those verticals are going to continue. And we don't really see that changing for the foreseeable future. So yes, I'd like to highlight something that I didn't feel good about right now.

But I don't really think there is anything in the foreseeable future. Like I said in the beginning that we see back half of '22 strong. Again, there are issues out there on inflation. That's keeping pressure on supply. Supply chain might be a little bit better, but probably not completely resolved. And we still see demand being strong.

**Joshua K. Chan**

*Robert W. Baird & Co. Incorporated, Research Division*

That's great. That's good color there. And then on the CWT side, I think you guys mentioned the acquisition pipeline a few times in the prepared remarks. So could you talk about when do you feel like you're organizationally ready to make another acquisition? And/or what areas are you looking at for the next transaction there?

**D. Christian Koch**

*Chairman, President & CEO*

Yes. Well, without going into anything too confidential, we don't want to tip anybody else off at our competitors. But what I would say is we've talked about expanding into the Building Envelope. CWT is doing the same thing. We're looking at different areas. We're looking at products that could further position us well in the home center market for the DIY or for the professional that shops there.

We look at increased products that could help us in the professional market where we're seeing the Henry team begin to integrate with the CCM team and spend more time at architects. And we've got some great products on the Henry side, like the Blueskin wraps and things like that. So we're -- we will look in those verticals. It might be house wraps. It might be something like that.

You can also see that we didn't wait very long after acquiring Henry to put our confidence in and Frank Ready and the team and go out and buy MBTechnology. It's a small business there in California, but adds some unique value to us and some unique products, and we think that team is doing well.

So I'd say there's plenty of places for us in the Building Envelope to leverage the Carlisle Experience, to leverage our presence in the architectural community, to find brands that can help us penetrate different channels and really just be a more comprehensive solutions provider to the contractor, to the building owner and to the architect. So that's probably as much as I want to give you today.

**Operator**

Our next question comes from David MacGregor with Longbow Research.

**David Sutherland MacGregor**

*Longbow Research LLC*

Congratulations on a strong quarter. It's exciting to hear all the discussion around the innovation. I wish if we had more time, I'd probably ask you to talk more about embedding solar power generation capability into the roofing membrane. But maybe you should do another call and just focus on innovation and product opportunity.

I wanted to just ask you for an update on capacity investments. Just if you could start off by just giving us some context on where we are now in terms of capacity utilization or -- obviously on allocation. So I'm guessing it's pretty tight. But you're bringing on, I think, some TPO capacity next quarter. And you've got some polyiso come on next year and probably a bunch of other things that I don't have in front of me.

But just can you give us some sense of what the revenue opportunity is of just bringing that capacity on maybe at existing prices and how we should think about that?

**D. Christian Koch**

*Chairman, President & CEO*

Yes. I'll let Jim talk to you about that, the actual dollar revenue opportunity on those things. But where I'll go from a capacity thing is, you mentioned allocation. I want to be clear that the allocation that we have experienced, it has more to do in a lot of ways with raw materials than it does our capacity. We still

have some capacity out there that we can utilize when we get raw materials. And you saw in the second quarter, we were able to do that and continue to increase volumes.

So then we move to the 2 new lines with the new TPO line. In Carlisle, PA, and obviously, that's going to add some capacity to the industry and to us, and I don't have exactly the dollar figure for that, so I'll let Jim handle that. And then it's like -- and obviously, we've got a new factory going on there. And we have the possibility of putting 2 lines in there.

And so without being too -- exposing too much of the -- of our strategy on capacity, that 1 or 2 lines can change the total amount of capacity that we put into the market. But we'll be prudent about it because there's no sense putting in overcapacity. We don't think that's good for the industry. And we think the whole industry and ourselves have been pretty rational about not overbuilding there.

So I'll let Jim pick up on the dollar value. But the other thing I would tell you is, even though we won't have time for a technology discussion today, your comment on solar, we've already embedded solar into roofs. We have that capability. It was probably 10 years ago that we were embedding solar into EPDM membranes and putting them on landfills.

We actually had an organization within Carlisle that did that, and it worked pretty well until the tax environment went away and it became unprofitable for people that were installing those roofs. But we do have that capability today, and I'd just make note of that. Jim, do you want to follow up on...

**James Giannakouros**

*Vice President of Investor Relations*

Yes. And as far as the capacity -- to kind of help you, David, it's our sixth -- it's TPO manufacturing line number 6 that's getting fired up this year. And it's our ninth polyiso insulation facility. So without getting overly precise, that directionally should help you get to a range.

**David Sutherland MacGregor**

*Longbow Research LLC*

It does. Yes. That does help. And then second question, just maybe somebody should ask about CIT, I guess. You mentioned, Chris, in your prepared remarks that you expect margin headwinds to abate in the second half. So I just wanted to see if you could elaborate a little further on that.

**Kevin P. Zdimal**

*VP & CFO*

Yes. We've done a lot of restructuring over the last couple of years in that business. And as the airline travel is coming back, we're seeing the production of planes coming back, and that's going to be a positive to us. We think we have a lower overhead cost structure now. And so our incrementals are going to be very strong there, and we should start seeing that in the second half of this year and definitely into 2023.

**David Sutherland MacGregor**

*Longbow Research LLC*

So it's really just about just leveraging what you've got there now? Or is there still sort of efficiency opportunity beyond just the productivity of having more volume?

**Kevin P. Zdimal**

*VP & CFO*

Yes, there's efficiency as well that we've been investing in on the COS side, definitely in all our factories on that. We just -- we got a big investments we've made in Tijuana, that's a beautiful facility down there if you ever get a chance to visit, as well as the mix. I mean, mix has a big impact on us as well, and we're seeing that is 787. We have more content on that plane than we do the other planes. So as that eventually ramps up, that's going to be a big positive for us.

**David Sutherland MacGregor**

*Longbow Research LLC*

Just one last one, if I could. Just how should I think about kind of terminal velocity at the margin line there? What's achievable in terms of percentage margins at CIT once you get back into sort of full fighting form?

**D. Christian Koch**

*Chairman, President & CEO*

David, we used to talk about prior to COVID and then also prior to our switch to EBITDA, we used to be aspirational to 20-plus percent OI. And you can make the adjustment there on the EBITDA and where that would put you. But that would be pretty consistent with some of our competitors on where they were.

And I might even say that's probably been at least reinforced or maybe we might have even elevated it a little bit with the addition of the increased medical exposure and then the work that John Berlin and the team have done over the last 2 years to increase their -- or to decrease their footprint to make their existing facilities more efficient. But that kind of frames up where we were prior to COVID and all that. We were targeting a 20% plus OI for CIT.

**Operator**

And our next question comes from Dan Oppenheim with Crédit Suisse.

**Daniel Mark Oppenheim**

*Crédit Suisse AG, Research Division*

Just wondering on the CCM side, with the -- what you've had in terms of the growth north of 50% for the first half of the year and the talk of 40% for the full year, that sort of implies a significant slowing to about 25% in the second half, understanding the environment is still uncertain. You talked challenges potentially with weather, material availability and comping some of the pricing. It doesn't sound as though there's anything else, but it's more of that conservatism around those issues. Is that fair?

**Kevin P. Zdimal**

*VP & CFO*

That piece as well as -- so pricing, we had more pricing in the second half of last year than we did the first half of 2021. So as you look at comps, we're not going to have as much year-over-year improvement.

**D. Christian Koch**

*Chairman, President & CEO*

And we also have volume comps as well, Dan, when you think about 4Q was a record -- 4Q '21, volumes really ripped, and that's where the acceleration really started coming into 2022. And so it's both -- comps on both price and volume that is reflected in the updated guidance.

**Operator**

There are no more questions waiting at this time. So I'll pass the call back over to the management team for any closing remarks.

**D. Christian Koch**

*Chairman, President & CEO*

Thank you. Well, this concludes our second quarter 2020 earnings call. I want to thank everyone for your participation and your support of Carlisle and, once again, thank all of our employees who make it possible for us to deliver these results. We look forward to speaking with all of you at our next earnings call.

**Operator**

That concludes the conference call. Thank you for your participation. You may now disconnect your lines.

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