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Carlisle Cos., Inc. (CSL)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Hannah, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Carlisle Companies Fourth Quarter 2022 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, we will conduct a question-and-answer session.

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

Jim Giannakouros

Vice President, Investor Relations, Carlisle Cos., Inc.

Thank you. Good afternoon, everyone, and welcome to Carlisle's fourth quarter 2022 earnings conference call. We released our fourth quarter financial results after the market close today, and you can find both our press release and earnings call slide presentation in the Investor Relations section of our website, carlisle.com.

On the call with me today are Chris Koch, Chair, President and Chief Executive Officer; Kevin Zdimal, our Chief Financial Officer; and Dave Smith, Carlisle's Vice President of Sustainability. Today's call will begin with Chris giving an update on our progress in achieving our strategic plan, Vision 2025, highlights of our fourth quarter and full year results, and a discussion of our current business outlook. With our recently announced commitment to achieving net zero emissions by 2050, Dave will elaborate on our commitment to this pledge and provide a general update on our sustainability progress. And Kevin will discuss additional financial details and our outlook for 2023. Following our prepared 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 are available on our website.

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

D. Christian Koch

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

Thank you, Jim. Good afternoon, everyone, and thank you for joining us on our fourth quarter 2022 earnings call.

Please turn to slide 3. Let me begin my commentary by complimenting the entire Carlisle team on the sales and earnings records set in the fourth quarter and the full year of 2022. 2022 truly was an exceptional year. In addition to delivering record fourth quarter sales of \$1.5 billion, we also delivered record annual sales of \$6.6 billion, surpassing both the \$5 billion and \$6 billion marks in sales for the first time in Carlisle's 105-year history. We further delivered a record adjusted diluted EPS of \$3.92 in the quarter, an increase of 34% year over year.

2022 also marked a key milestone in our Vision 2025 journey as we delivered \$17.58 of GAAP EPS for the year exceeding our primary Vision 2025 goal of generating \$15 of GAAP EPS for our shareholders. Exceeding this goal three years early is a testament to the hard work and dedication of all of Carlisle's employees and to their commitment to the work of Vision 2025.

These record results are even more remarkable given the extremely challenging operating environment of the past few years. Of the many challenges we faced over this period, I would say navigating the COVID pandemic was the most unexpected challenge. For so many people, the pandemic was a traumatic experience in their lives from a health and welfare, social and economic perspective. I'm grateful for the significant actions Carlisle employees took to keep us all as safe as possible while navigating COVID in their personal life as well.

In addition, we also experienced significant supply chain disruptions, an inflationary environment and labor and material shortages. Our record results would not have been possible without the clarity of mission that Vision 2025 has provided us since its launch in 2018 and the unwavering commitment of our teams. Guided by Vision 2025, our teams remained unified and stayed the course for the past five years, diligently overcoming the challenges we faced.

Please turn to slide 4. Our record results continue to demonstrate that Vision 2025 has been the right strategy for Carlisle. In addition to our world-class teams and proven business model, we've benefited from a strong balance sheet and excellent cash flow generation to provide both financial and strategic flexibility to execute and achieve our ambitious goals. A significant portion of our success has been driven by the multi-year process of reshaping our portfolio to pivot from a diversified industrial products company to a high-returning building products portfolio of businesses. This transformation sets the stage for a more focused, simplified and better-understood path for future sustainable value creation at Carlisle.

The pillars of Vision 2025 remain core to our strategy going forward. These include first, drive mid-single-digit organic revenue growth. In the fourth quarter, we delivered 6.6% organic revenue growth, which helped drive organic growth of 29% for the full year 2022. Notably, all four segments contributed to this growth. Second, utilize

the Carlisle Operating System or COS to drive continuous improvement. We use COS to consistently drive efficiencies and enhance operating leverage. For the full year 2022, adjusted EBITDA margin expanded nicely and COS contributed to that. We continue to target COS savings of 1% to 2% of annual sales.

Third, build scale with synergistic accretive acquisitions. Under Vision 2025, we have streamlined and optimized our portfolio through acquisitions and divestitures to build scale in our highest-returning building products businesses and to broaden our suite of energy efficient solutions. Through 2022, we have invested over \$3 billion in accretive acquisitions.

And fourth, a returns-focused capital allocation strategy that includes deploying over \$3 billion into capital expenditures, share repurchases and dividends. Since the launch of Vision 2025, we have invested over \$3 billion into these areas of capital allocation, also three years ahead of our original plan. In 2022, we made capital investments of over \$184 million into our businesses to drive innovation, increase operational efficiencies and enhance the Carlisle Experience. We also returned over \$500 million to shareholders with share repurchases totaling \$400 million and \$134 million paid in dividends in 2022. And of course, none of this would be possible without continuing to invest in and develop exceptional talent.

Through the accelerated execution of Vision 2025, Carlisle has built a solid foundation, leveraging a diversified workplace, decentralized management style, entrepreneurial spirit, and a culture of continuous improvement, which will continue to guide our value creation journey in 2023 and beyond.

Turning to slide 5, I'd like to highlight some of the many accomplishments in the fourth quarter. First, collectively, our building products segment, now constituting over 80% of Carlisle total sales, delivered record fourth quarter sales and adjusted EBITDA. Second, we are pleased with the ongoing integration efforts at our newest segment, CWT. The team continues to effectively capture the projected synergies from the Henry acquisition of \$30 million while focusing on delivering excellent customer service in a challenging environment. This commitment to our channel partners and customers was recognized when Henry was awarded The Home Depot's Building Materials Vendor of the Year award in October.

Third, we continued the introduction of our innovative labor-saving 16-foot TPO product to the market, which is manufactured on the industry's latest and most technologically advanced TPO line in Carlisle, Pennsylvania. As a reminder, we began shipping this product in the third quarter of 2022. Additionally, construction of our state-of-the-art Polyiso facility in Sikeston, Missouri, is on track for completion in the second quarter and on track to achieve LEED Platinum certification, the highest level of commercial building energy efficient standards.

Fourth, pricing remained and continues to be positive across all segments as we continue to demonstrate our value to our customers. Fifth, supply chain and material availability returned to a more normal state. This return to normal has enabled our channel partners to settle back into more of a historical buying cadence. And finally, global aerospace markets continue their recovery, driving strong sales and backlogs at CIT and increased profitability on the back of the significant restructuring actions taken by the CIT team over the past few years.

And with that, I'll turn it over to Dave Smith, our Vice President of Sustainability, for an update on our ESG progress. Dave?

David W. Smith

Vice President-Sustainability, Carlisle Cos., Inc.

Thanks, Chris, and good afternoon, everyone. Please turn to slide 6. I'd like to begin by reiterating that Carlisle has had a century-long legacy of responsible stewardship and stakeholder focus, all driven by our core cultural

value of continuous improvement. We believe that creating a more sustainable environment is also productive for our shareholders. As an organization, Carlisle is committed to being a responsible environmental stakeholder with our three pillars of environmental sustainability.

First, develop energy efficient products and solutions to reduce the greenhouse gas or GHG emissions from building operations and help lower operating costs for our customers. In 2022, Carlisle sold \$3.5 billion of LEED certified products and solutions, up from \$2.5 billion in 2021.

Second, reduce material waste going into landfills. Our history of recycling began in the 1920s when we incorporated scrap rubber into our inner tube production. Today, we continue that tradition by upcycling polyiso waste into water filtration products. Carlisle has had a century-long commitment to reduce material waste and continually improve our processes to deliver shareholder value while improving the environment for the communities in which we operate.

And third, a focus on lowering the GHG emissions of our operations and manufacturing processes with the implementation of enhanced energy conservation measures such as converting our factory forklift fleet from propane to electric.

During the fourth quarter of 2022, Carlisle proudly took a significant step to achieving net zero GHG emissions in our value chain by 2050. To accomplish this net zero state, we proposed near-term GHG reduction targets through the Science-Based Targets Initiative. The Science-Based Targets Initiative is an independent body based in the UK that works in conjunction with the United Nations to help guide companies to establish emission reduction initiatives using science-based targets.

Our near-term 2030 GHG reduction targets are: first, to reduce Scope 1 and Scope 2 emissions by 38%; and second, reduce Scope 3 GHG emissions by 48% per pound produced. While our focus on emissions, waste reduction and sustainable products are a key part of our sustainability efforts, we also made a significant commitment to the social component of our ESG progress.

On October 17 of 2022, we proudly announced a special stock option grant to all eligible US employees and a cash award to all eligible employees outside the US. These awards are designed to allow all Carlisle employees to participate in Carlisle's success as stakeholders. Previous grants issued in 2009 and 2018 generated significant returns for our employees, based in no small part on their contribution to increasing shareholder value. Additionally, our Path to Zero program, which represents Carlisle's commitment to creating the safest possible work environment, continues to be a source of pride for our organization.

In 2022, Carlisle's OSHA incident rate was a remarkable 0.67, significantly below the industry average of over 3, and that represents a 69% decline in workplace incidents since 2014.

And with that, I'll turn it over to Kevin to provide additional financial details as well as our 2023 outlook. Kevin?

Kevin Philip Zdimal

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

Thank you, Dave.

Before turning to segment results, let's turn to our overall 2022 fourth quarter results on slide 7. The fourth quarter played out much as we anticipated and communicated on our last earnings call. As Chris mentioned, the Carlisle team delivered a very strong fourth quarter despite the many challenges we faced. Fourth quarter revenues

increased 6.6% organically, driven primarily by positive pricing across all segments. Fourth quarter adjusted EBITDA margin improved 280 basis points, driven by efficiencies gained through COS and our ability to price to value. Revenues, adjusted EBITDA and EPS were all fourth quarter records for Carlisle.

For segment highlights, please turn to slide 8. CCM delivered revenues of \$800 million, up 3% organically. This performance was driven by positive price more than offsetting year-over-year volume declines, given current normalization of buying patterns by our customers in severe weather in December in much of the US. Adjusted EBITDA margin of 28.5%, a record performance in the fourth quarter by our CCM team was driven by price and COS and partially offset by raw material and labor inflation, unfavorable mix and a reduction in volume.

Moving to slide 9. Sales at Carlisle Weatherproofing Technologies increased 5.5% organically. This growth was achieved despite ongoing supply constraints and softness in residential demand. Adjusted EBITDA margin was 12.8%. The team continues to focus on the integration of Henry, the \$30 million of stated synergies from the acquisition and rolling out COS throughout CWT to drive greater efficiencies in our operations.

Moving to slide 10. CIT revenue increased 22% organically in the fourth quarter of 2022 with balanced growth in our commercial aerospace and medical technology platforms. We continue to see domestic travel approach pre-pandemic levels, strong backlogs and growth in our medical new product pipeline. As a result, CIT is well positioned for continued revenue growth and EBITDA margin expansion in 2023.

Turning to CFT on slide 11. CFT generated organic revenue growth of 11.3%, driven by positive pricing and favorable volume, partially offset by a 7% year-over-year foreign exchange headwind. Adjusted EBITDA margin expanded more than 400 basis points to 22.1%, driven by favorable volume, price and efficiencies gained from COS.

Slides 12 and 13 provide details of our record fourth quarter consolidated results for revenue and adjusted EPS.

Moving to slides 14 and 15, Carlisle ended the fourth quarter of 2022 with \$400 million of cash on hand and \$1 billion availability under our revolving credit facility. We generated cash flow from continuing operations of \$418 million, bringing our full year 2022 total to \$1 billion.

Turning to slide 16, we have our 2023 financial outlook. Despite a challenging first quarter, we expect to deliver another record year in 2023 with full year consolidated revenue up low single digits. The first quarter will be a challenge as a result of tough comps for CCM, the weather disruptions that we have already seen as well as the continued normalization of buying patterns in the channel. Residential exposure represents a significant headwind for CWT in 2023 also weighing on our consolidated revenue growth outlook. While smaller contributors to consolidated results, healthy backlogs in both CIT and CFT give us confidence in their ability to each grow revenue high single digits in 2023. Given our focus on disciplined pricing, operational efficiency and managing costs through our continuous improvement efforts, we expect consolidated adjusted EBITDA margins to expand 100 basis points year over year.

In November, we gave a preliminary view of 2023 stating we expect to drive adjusted EPS growth this year with non-residential reroofing demand remaining strong, continued pricing discipline and an unending focus on manufacturing efficiencies. We reiterate this view and are driving towards another record year for Carlisle.

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

D. Christian Koch

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

Thanks, Kevin.

In closing, I once again would like to express my thanks and appreciation for the hard work and perseverance of all of Carlisle's employees. The accomplishments the team has achieved since the launch of Vision 2025 are remarkable and done under some of the most challenging conditions industry has faced in over a decade. I think we can all look back on 2022 and be proud of an outstanding year. As we move through 2023 and with Vision 2025 objectives well ingrained throughout Carlisle, I am optimistic for the year ahead. We will take actions to navigate this complex operating environment, deliver the Carlisle Experience to our customers, drive earnings growth for our shareholders and strive to deliver another record year.

And now, we'll conclude our formal comments. Operator we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] The first question is from the line of Bryan Blair with Oppenheimer. Please proceed.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Thanks. Good afternoon, guys.

Q

D. Christian Koch

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

Hey. Good afternoon, Bryan.

A

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

There's been a lot of focus and I think understandably so on whether CCM's Q4 volume compression simply the – and normalization of order patterns and channel reset are indicative of underlying demand destruction. And it sounds like some of the channel recalibration is continuing into the first quarter. That in mind, I think it'd be helpful if you walk us through how orders phased through Q4, what you're seeing in Q1 relative to the Q4 rates and where you see Q1 revenue shaking out relative to the Q4 level.

Q

D. Christian Koch

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

All right, Bryan, there's a lot in there. So, let me just first say that we do see some of the inventory normalization going into Q1 when we originally thought it would probably be done by the end of the year. Some of that has to do with weather, some of that has to do with economic impact, interest rates, things like that. But overall, as we go into the year, we still see commercial roofing strong. We think it's going to be a good year in 2023. We do have some comps in Q1 that are, I would say, fairly large, but nothing really happening there on the demand side, reroofing continues to be strong, seeing some modulation I think in the future maybe on new construction. But

A

we've been out talking to a lot of contractors, a lot of distributors. We do see for sure it's real, this inventory normalization. We see it continuing. I think people have hinted at that. But the underlying demand is still good.

I'll turn it to Jim just to give you a little more granularity on the demand in the order.

Jim Giannakouros

Vice President, Investor Relations, Carlisle Cos., Inc.

A

Yeah. So an extension of what we saw and what we communicated all through 4Q, Bryan. We're seeing just because we are in our seasonally softest period that the channel or recalibration of inventory levels, et cetera, is taking us through the winter months. Right? And so, you could see an extension of those trends certainly through most of 1Q. And then that should probably take you to normal – approaching normal seasonal patterns that you would typically see as 1Q being our seasonally softest period.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Q

Okay. Appreciate the color, and I guess just to follow up on that and level set, so if we take our stab at we're in the low single-digit range CCM revenue shakes out for the year, you're saying that it's fair to assume more of a normalized seasonal pattern to revenue with significant step up Q2, Q3.

Kevin Philip Zdimal

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

A

Right. This is Kevin. And yeah, on that piece of the revenue throughout the year, we don't break it down too much by quarter, but we would say that our first quarter typically is about 20% of our full year revenue for CCM this year, based on our low-single-digit guide, we would say our Q1 would be high teens as a percent of the total year.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Q

Okay. That's helpful. And I think about segment margin for the year, you have the 100 basis point consolidated margin expansion guide that seems to necessitate that core CCM is higher year-on-year. How should we think about the other platforms? You have pretty good momentum, CIT, CFT. You've spoken to expansion there. Can you quantify that further or add a bit more detail? And in terms of CCM and CWT, am I correct that core CCM should be higher year-on-year? And how should we think of the volume versus the synergy and COS-based offset with CWT?

Kevin Philip Zdimal

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

A

Yeah. We don't get into too much on the segments on breaking down exactly what the components are at the margin. But I would say – so we have said that overall consolidated will be up 100 basis points on margin and we do see all four segments having year-over-year improvement in margin. So, each – so CCM, to your point, definitely, we are seeing margin improvement, we're expecting margin improvement year-over-year.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Q

Okay. Understood. Thanks again, guys.

D. Christian Koch

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

Yeah. Thanks, Bryan.

A

Operator: Thank you, Mr. Blair. The next question is from the line of Tim Wojs with Baird. Please proceed.

Timothy Ronald Wojs

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

Yeah. Hey, guys. Good afternoon.

Q

D. Christian Koch

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

Hey, Tim.

A

Timothy Ronald Wojs

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

Maybe just on the pricing side, I think there is just some anxiousness among investors that this kind of a normalization period that the industry is working through is going to create some sort of, I guess, pricing competition. So maybe if you could just talk to kind of what you've seen as you've gone through the fourth quarter around price realization or at least the stiffness of price and then how you expect the – what have you kind of seen so far already in the first quarter?

Q

D. Christian Koch

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

Yeah. Tim, pricing is remaining firm. I think we talked about it at your conference. We continue to see great stability in the industry; people pricing to value, no degradation. We talked I think earlier about how the price increases that we put in the latter half of 2022 would continue on into 2023 and be accretive in 2023. And we're seeing that happen just as we expected. No real deviation there. There have been some hints, yeah, we know, from people – not hints, but questions from people, but we're really not seeing it. Fourth quarter was consistent on what we expected with price, no degradation. Going into the year, we don't see that. And we really don't see any motivation coming from either contractors or distributors to participate in that. There is still a premium on delivery. We still have labor constraints. And so as we go into 2023, we would expect pricing to be accretive and to have a gain based upon that lapping of the price increases that we put later in 2022. So, nothing's changed.

A

Timothy Ronald Wojs

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

Okay. Okay, that's good. And then, I guess, just from a raw material standpoint, I mean, is there a way to just conceptualize kind of what you're seeing in the raw material basket from a price standpoint and kind of what's maybe embedded in the total company target of 100 basis points of expansion?

Q

Kevin Philip Zdimal

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

Yeah. And the raw materials, as we look at it throughout the year, early in the year, first quarter, we're not going to see much of the benefit. But as we get into the summer months, we expect to have some tailwinds there on the raw material costs and throughout the balance of the year.

A

Timothy Ronald Wojs

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

Q

Okay. And then, the last one for me just on Henry. So, sales are down double digits. How would we think about the EBITDA margin, I guess, CWT? But how would we think about the EBITDA margin in CWT? What's kind of the core decremental, I guess, on those volume declines? And then, are there any potential offsets?

Kevin Philip Zdimal

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

A

Yeah, the margins – incremental, decremental margins are right around 30%. And again, we expect to see year-over-year margin improvement in the segment, despite, as you said, the double-digit decline in revenue.

Timothy Ronald Wojs

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

Q

Okay. Okay, great. Thanks, guys.

D. Christian Koch

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

A

Yeah.

Operator: Thank you, Mr. Wojs. The next question is from the line of Garik Shmois with Loop Capital. Please proceed.

Garik Shmois

Analyst, Loop Capital Markets LLC

Q

Oh, hi. Thanks. I just want to follow up on a point you made with respect to expecting some modulation in new commercial construction. I was just wondering if you can maybe speak to that a little bit more, maybe speak to backlogs or any conversations that you might be having with your customers with respect to the timing of that.

D. Christian Koch

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

A

Yeah, we still see, I think, 2023 as a strong year. There may be a little modulation in new. We did have a really strong, I would say, bias to new construction when we were in 2022 and coming out of COVID, Garik. And I think what's happening is we're seeing the reroofing pickup as a larger part of the sales in 2023. We would have expected that, I think Jim may have indicated that in previous quarters how, as that may modulate a little bit, reroofing would pick up because of the backlog there and I think we've shared our charts with you about how we see reroofing playing out over the next five to seven years.

So as we came out of COVID and the delay on new construction there, I think new picked up. And obviously, it's easier, I think, to delay reroofing a little bit than it is to delay a new project that was underway in COVID and experienced delays due to the governmental restrictions on the job sites and things that were happening back then.

So, still see a positive year, still see a good scenario for new. And then I think really what starts to happen is as we get through 2023, we're going to have to look at what happens from the Fed, what happens with other things in the economy on a macro level to really start wondering if it's going to have a dramatic change into 2024. Now,

through that whole thing, we still see underlying demand is positive for reroofing and other things. So, yeah, 2023 should still remain good.

Garik Shmois

Analyst, Loop Capital Markets LLC

Q

Okay. Great. Wanted to follow up just on the mix impact in CCM and CWT in the fourth quarter and how you anticipate mix to evolve in 2023, if at all?

D. Christian Koch

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

A

Well, we don't normally get to that granularity on the call around mix. I would say when we look at CCM across the board, EPDM, TPO, PVC, Polyiso, really with the exception of the last year where we've seen the raw material availability and then the supply availability and some different ordering patterns. For the most part, they've been very stable. EPDM has been a steady, low single digit grower. TPO continues to be a product that gains momentum and obviously Polyiso with the ESG and efficiencies that are becoming now regulations and people wanting higher R-values on their roof, we're seeing Polyiso continues as it has through the years to gain as a percentage of the job site. We're still putting on maybe a square of TPO, but underneath that, we could be now putting on two, three, four layers of Polyiso. And I think that will continue to gain momentum.

And then on the PVC side, our team has done a great job on PVC. We think it's a nice product. It's been relatively new to Carlisle. A few years ago, we opened up our plant in Greenville. And so, Polyiso or PVC has continued to gain some market share and had, again, good growth in the fourth quarter and in 2022 overall.

So, I don't really think the mix will change much. When you're looking at our metals business, pretty consistent there. Petersen and Drexel, the two acquisitions continue to grow at an expected rate and remain about the same percentage. CWT gets a little bit different because the businesses get a little bit smaller, but we continue to see nice improvement with Henry. They continue to have pretty good success in the retail channels and R&R. We think R&R should pick up in 2023 and then spray foam through the Accella acquisition that had a few years ago, that was a little bit lower mix, but we've done some nice things there with that group to continue to drive, what I would say, market or above rates. And there were some – I think when we did that deal, we were talking about 8% as a market growth rate there. And so they continue to grow. But then you get into some smaller businesses and as you saw with the public announcement on [ph] Delfo (00:33:16) side of our rubber business, we did exit that. And so obviously that changes a little bit of the mix, but it's not much.

So tried to give you some granularity there. But overall, mix, pretty much stays the same for the company and hopefully that helps you.

Garik Shmois

Analyst, Loop Capital Markets LLC

Q

No. It does. Thanks for all that and I appreciate it and best of luck.

D. Christian Koch

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

A

Yeah. You bet. Thanks, Garik.

Operator: Thank you, Mr. Shmois. The next question is from Dan Oppenheim with Credit Suisse. Thanks. You may proceed.

Dan Oppenheim

Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. Thanks very much. I was wondering if you can talk a little bit about CCM, in terms of the low-single-digit revenue there for 2023, you've talked about pricing in terms of still again some benefit there. So given the impact on volume here in 1Q with inventory and such, are you essentially assuming sort of some slight benefit from pricing, volumes flat to down or slightly there? Is that the way to think about it?

D. Christian Koch

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

A

Dan, I think we don't want to – obviously we don't like to share much because of competition, but try to give you a little color. I think if we look at that number, we'd split it. We'd probably say the low single digits. We take half in price and half in volume. So, that could fluctuate a little bit. I happen to think we're seeing a little bit better start to the year. So you could see a little bit more volume. But I think it's a good place to just, say, split it 50-50.

Jim Giannakouros

Vice President, Investor Relations, Carlisle Cos., Inc.

A

And also – this is Jim – just a, I mean, 1Q obviously is our toughest comp. We have our easiest comp in 4Q. Right? And so that'll tend to bounce out of your model, Dan, to getting to the low-singles on average for the year.

Dan Oppenheim

Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah. Great. And then I guess second thing in terms of repurchase activity increasing there in the fourth quarter. How do you think about that in terms of planning for 2023? Should we expect more once you get past these short-term challenges in 1Q?

D. Christian Koch

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

A

No. I think we've been pretty consistent about our allocation of capital, especially into share repurchases. And we still tend to look at our intrinsic value. And then we do some work around that to see where we end up and then we compare it to other places where you can allocate capital. And I'd say, we should be in that same level for 2023 than we were for 2022. When you look at the year as a whole, obviously, it's going to maybe vary by quarter. But I think what we did in 2022 is probably a good starting point for what we'll do in 2023.

Dan Oppenheim

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you.

Operator: Thank you, Mr. Oppenheim. The next question is from the line of Saree Boroditsky with Jefferies. Please proceed.

Saree Boroditsky

Analyst, Jefferies LLC

Q

Thanks for taking my questions. So just following up on the CWT margin commentary, just given the volume declines, can you just walk us through the offsets that let you expand margins for the full year?

Kevin Philip Zdimal

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

A

Yeah. We as far as – I mean, the biggest one will be price/costs. As you look at that one, we're seeing that to be a benefit in our business for 2023. It's CWT and that's been historically what we've seen in other cycles like this. As you look back, whether it was financial crisis or back in the early 2000, very similar that we didn't own the business at the time, the Henry business, but that they saw similar to what we saw in our core roofing business with those being tailwind.

D. Christian Koch

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

A

Yeah. Saree, I would also say, Chris here, that COS, we buy an organization, especially in the magnitude of Henry and we roll COS out, it typically tends to be very well received. And I think Frank Ready and the team at Henry have embraced COS. And so we think we've got some upside there because they're in the early innings of that Lean Sigma rollout. So that should help. And then obviously, we are applying with a long-term view the Carlisle has, we're applying a little bit more focus on automation and capital investment in our factories. So, we should get some efficiency there. And then we also had some portfolio action in there and we talked about their rubber business, which actually was taking away from margin in 2022. And with that out of the mix, that'll boost that margin up. So when you look at those things all together, it gives us quite a few vectors to work on and also see some nice returns.

Saree Boroditsky

Analyst, Jefferies LLC

Q

Great. And then you had a competitor announced who is buying Duro-Last and released today. Can you just talk about any impact to the competitive environment as they continue to make acquisitions in this space?

D. Christian Koch

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

A

Yeah. For us, it's an interesting situation. I believe they bought Malarkey earlier, and that's a residential shingle organization. Doesn't affect us too much. I mean, I can't really think that, that impacts our commercial roofing business or our CWT business. And now this acquisition of Duro-Last, great company, we know Duro-Last very well. They have a great product, but they're really not a competitor to us in our commercial roofing space. They really deal, I would say, in a kind of a smaller square foot size and maybe in some different segments than we compete in. So, that's a great business, great family business. And so I'm sure they'll do well with that. But the impact on us should be minimal.

I think going forward, we would, obviously, they stated they want to grow in North America and obviously Carlisle wants to grow in North America, and we're acquisitive and they want to be acquisitive. So I would imagine we will run into that team again as assets come up on the horizon.

Saree Boroditsky

Analyst, Jefferies LLC

Q

Great. Thanks for the color and congrats on the quarter.

D. Christian Koch

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

A

Thank you very much.

Operator: Thank you, Ms. Boroditsky. The next question is from David MacGregor with Longbow Research. Please proceed.

David S. MacGregor

Analyst, Longbow Research LLC

Yeah. Good afternoon, everybody.

D. Christian Koch

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

Good afternoon.

David S. MacGregor

Analyst, Longbow Research LLC

I guess I just want to go back to CCM and fourth quarter, I think of normal seasonality there as being kind of down 15% sequentially versus the third quarter. You were down kind of two times that. It looks like there was obviously more than seasonality here. Kevin referenced the snowstorms in the US. Maybe for starters, can you just quantify the impact to some of these other things beyond seasonality might have had there? And help us break this down a little bit.

Kevin Philip Zdimal

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

Right, the biggest piece, I mean, the weather was there, but it's also just how we've talked about it in the last earnings call, and this one, this normalization of the buying patterns that what we had throughout 2022 folks were on allocation and being an allocation, people were buying what they could get their hands on and they basically bought ahead in the first part of 2022. And that was really the biggest reason why in the fourth quarter, as customers brought inventory levels down, that impacted that piece. So we would not say 2022 was a normal year of seasonality. I think we even – probably we have to go back pre-COVID and look at how those years broke out as far as quarter by quarter like you're looking to do from Q3 to Q4 because as we get back to normal, a lot of that will be in play and you can look at it that way. I pointed out what Q1 would be not normal this year, but then once we get to Q2 and the balance of the year, we think that will be more normal. And as a result of what happened in 2022, that the fourth quarter is going to be an easy comp for 2023.

D. Christian Koch

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

Yeah...

David S. MacGregor

Analyst, Longbow Research LLC

Do you think excluding that – sorry. Go ahead.

D. Christian Koch

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

No, go ahead, David.

David S. MacGregor

Analyst, Longbow Research LLC

Q

No, I was just going to ask if you think excluding that, that sort of the reconciliation of the pre-buy and the weather, that you were closer to that kind of 15% down sequential pattern, that would be sort of the typical seasonality, or I'm just trying to...

D. Christian Koch

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

A

No. I'm going to just...

David S. MacGregor

Analyst, Longbow Research LLC

Q

...quantify some of this.

D. Christian Koch

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

A

Yeah. David, I'm going to jump in there just because I think what Kevin said is important. I just want to make sure we recognize. We look at what CCM organic growth was probably prior to 2020, which was in COVID hit right in February 2020 I'd say, or March of 2020. We've been tracking to that mid-to-high single digits and it had been going there. And I think with all those said, new construction in the 2%, 3%, 4% and reroofing in the 4%, 5%, 6% or something like that, 7%, and it held pretty much there, and I'm talking organic. In 2020, we were down 7.5% and then 2021 we were up almost 22%, and then 2022 up 37% in organic growth.

So I think when we look at those numbers, we kind of know if the long-term trend in these underlying fundamentals, which are super strong and have been very consistent with CCM for a long time, are going to kind of repeat themselves. There had to be some, I guess, reversion to the mean, and I think that's what was working it out in Q4. And I think that's why Kevin made that statement of what's normal. And I don't really know that we're going to be able to pick apart Q4 with what I just told you and make any real sense of it. Because when you think of how many contractors and distributors that we interface with and you think of what the variability might be in each region and in each location with what they could carry on inventory and how quick they're going to get out of that, it just gets super complicated.

So, I know that doesn't help you, but I think what Jim and Kevin are trying to say is just as we move into 2023, we're getting back to that pre-COVID cadence. It's a strong cadence. It's got great growth on the underlying demand with leverage. And really, I just think as we come out of that, we just have to take it what these three years has been, which is just a very much an anomaly. And I think when you look at what the team did to manage through it, great job. But trying to parse that apart, I don't think we can do it.

David S. MacGregor

Analyst, Longbow Research LLC

Q

Yeah. Okay. I appreciate that. Thanks, Chris.

D. Christian Koch

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

A

Yeah.

David S. MacGregor

Analyst, Longbow Research LLC

Q

Just as a follow-up, I guess within the guidance, you've got Sikeston ramping here in the second quarter. Is that going to be a temporary drag to the P&L? And if so, how should we phase that over the quarters in our models?

D. Christian Koch

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

A

Jim?

Jim Giannakouros

Vice President, Investor Relations, Carlisle Cos., Inc.

A

Yeah. No, it shouldn't be relative to how we set expectations both for top line and for the margin progression for this year, David. I will say, though, just given the correction that's taking place in the marketplace, our ability to produce, if we think that the demand is going to be as strong as – if the demand is as strong as we believe it will be, our ability to service that demand only increases in the spring-summer selling season with that facility fired up. So, we see it more as opportunity, not something that you should be modeling or hindering your margin progression [ph] without (00:44:40) firing up.

D. Christian Koch

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

A

And David, I think Jim brings up an interesting point, which is the timing of this inventory, let's call it, correction or normalization is going to be interesting. Usually back in pre-2020, we'd see an inventory load in a distribution in the March-April timeframe as we began the bulk of the North American construction season. And we think about this inventory normalization probably wrapping up in the first quarter. You have to ask yourself the question, well, that might mean that there is going to be less inventory in the channel going into the construction season where the high demand is there.

And if we're right, which we – from every indication we have, this is going to be another good year in the commercial roofing space, then you think – we start to think about how there might be some pressure for product and around availability, which obviously at Carlisle with Sikeston with the new 16-foot TPO line and this kind of stuff, we think we're prepared to flex with that. But that does have some implications for pricing, for sure, that that creates a very nice support for the pricing question asked earlier. So, again, early days. Q1 really never tells us, and certainly January, much about how the whole year is going to go. But at this point, things do look positive.

David S. MacGregor

Analyst, Longbow Research LLC

Q

Got it. Thanks very much for the detail.

D. Christian Koch

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

A

Yeah, of course.

Operator: Thank you, Mr. MacGregor. The next question is from the line of Adam Baumgarten with Zelman. Please proceed.

Adam Baumgarten

Analyst, Zelman & Associates

Q

Hey, everybody. Maybe just starting with CCM and CWT, just kind of what you're thinking in terms of end market demand across the various verticals like commercial reroofing, new commercial roofing demand, and then new resi, and residential R&R?

Jim Giannakouros

Vice President, Investor Relations, Carlisle Cos., Inc.

A

Yeah, I mean I'll start with the high level, Adam, as far as new resi, I mean, when you split – I'll start with CWT, right, each exposure, repair and remodel, and new in both resi, non-resi, each about a quarter of the exposure there. Obviously, on the new residential side, we have to think that 20% to 30% down is a potential backdrop for demand in that end market. On the repair and remodel, obviously, we have a mix of discretionary and non-discretionary. So, it shouldn't be that bad at all. It should be potentially flat to maybe slightly down. And then on the commercial side, I would think – just think low-single digits both on the new and repair and remodel, commercial we think is going to be a strong end market for us. So, that's the CWT basket, if you will.

For CCM, hard to have that discussion without pointing out that 70% of what we sell in CCM is reroofing and that demand we think we have tailwinds not only for 2023, but certainly for the next decade.

Adam Baumgarten

Analyst, Zelman & Associates

Q

Got it. Okay. Thank you. And then just maybe the step-up in CapEx, what's kind of driving that? Is it just timing or is there something across some of the businesses that – where you're investing?

Kevin Philip Zdimal

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

A

Certainly with Sikeston coming on in 2023, that'll be a big piece of it. And outside of that, as you say, just really a normal step-up with growth of our business and continuing to invest organically into our businesses. That's been our highest ROIC type investments.

Adam Baumgarten

Analyst, Zelman & Associates

Q

Thank you.

Operator: Thank you, Mr. Baumgarten. Our last question is from the line of John Joyner with BMO Capital Markets. Please proceed.

John Joyner

Analyst, BMO Capital Markets Corp.

Q

Hey. Thank you. So, I guess, and I feel like a lot has been asked, but so just looking at the segment outlooks, right, I want to figure that the assumptions around CCM would have been closer probably to the single digit range. And maybe following up on, I believe it was Dan who asked this question about the first quarter, I mean, based on the guidance for CCM, it pretty clearly implies that the first quarter is down. And with regard to, I guess, the growth being half price, half volume, how does the, I guess, significant amount of pricing that was put through over the past year not carry over more than what is implied?

Kevin Philip Zdimal

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

A

Yeah. It's going to be on the volume side. Certainly, the price will carry over into the first quarter and throughout the year, but the volume is a bigger challenge and that's a few different pieces. One, the weather in the fourth quarter actually impacts the first quarter because the inventory didn't get out of the channel. As we got to the end of 2022, we were expecting that to be out and not be an issue going into 2023. But weather slowed that down. So that's going to impact the first quarter. And then also with the weather in January, that's impacted volume in the first quarter for CCM as well as CWT. CWT actually benefited from some of the rain and some of that piece in California that's been a pickup there. But sticking with CCM, the other piece that we discussed earlier in the call is the year-over-year comp is a challenge because 2022 was a much higher first quarter than the historical trend that we've been talking about.

John Joyner

Analyst, BMO Capital Markets Corp.

Q

Okay. Thank you. And then maybe just one more – just a follow-up on the Duro-Last. So which would no doubt have been, I mean I won't say, a home run for Carlyle synergistically. But regardless of the competitive landscape, you certainly know the company and presumably did the due diligence on it. So I guess what do you think about the prices being paid by Holcim?

D. Christian Koch

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

A

Well, the first thing we talk about on price is can you extract the value in every decision, every company, they have to make the decision for their company. I don't know what their synergies were or how they're going to integrate, how much they're going to integrate, whether they keep the team alone, whether they seek to get that or whether they even bring in things like pricing. So, I can't really comment on whether the pricing is good or not. I mean, they'll have to decide that. We'll see that in their numbers like we would at Carlisle.

But what's good for I think the industry is it's demonstrating that the companies in this space, certainly Carlisle, you can see our margins, some are private, may have been undervalued the last few years and it's a very good space North America to be in with good underlying demand. The ESG trends are positive for all of us. We have great products that many can be recycled, and just great contribution. We've got the IRA Act that came out of the Biden administration. We've got reshoring.

And I think the prices being paid for things like Firestone, and Malarkey and now Duro-Last reflect a lot of confidence by people and in this framework for the next 5 to 10 years. And I think that's good for Carlisle. I think that's also good for our investors. It sends a really good signal about that and I think you can look at multiples then and say, are the publicly traded companies trading at those kind of multiples? And if not, they're probably trading at a discount based upon what we see in the market.

So I think overall, yeah, it's good for all of us.

John Joyner

Analyst, BMO Capital Markets Corp.

Q

Okay. Excellent. Thank you, Chris and team. Appreciate it.

D. Christian Koch

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

Yeah. Thanks, John.

A

Operator: Thank you, Mr. Joyner. There are no additional questions waiting at this time, so I will turn the call over to the management team for any further remarks.

D. Christian Koch

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

Well, thanks, Hannah. This does conclude our fourth quarter 2022 earnings call. Appreciate everyone for the questions. Thanks for your participation. And we look forward to speaking with you in our next earnings call. Thanks.

Operator: That concludes today's call. Thank you for your participation. You may now disconnect your lines.

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