# Carlisle Companies Inc (CSL)

*Updated July 25th, 2018 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $121 | **5 Year CAGR Estimate:** | 7.6% | **Volatility Percentile:** | 29.1% |
| **Fair Value Price:** | $105 | **5 Year Growth Estimate:** | 9.2% | **Momentum Percentile:** | 60.9% |
| **% Fair Value:** | 116% | **5 Year Valuation Multiple Estimate:** | -2.9% | **Valuation Percentile:** | 37.6% |
| **Dividend Yield:** | 1.3% | **5 Year Price Target** | $151 | **Total Return Percentile:** | 49.5% |

## Overview & Current Events

Carlisle Companies is a diversified company that is active in a wide array of niche markets. The branches in which the company produces and sells products include construction materials (roofing, waterproofing, etc.), interconnecting technologies (wires, cables, etc.), fluid technologies, and brake & friction. Carlisle Companies was founded in 1917 and has grown into a company valued at more than $7 billion.

Carlisle's most recent quarterly results were announced on July 25. The company reported earnings per share of $1.87, an increase of 28% over last year's second quarter. Revenues totaled $1.24 billion, 26% more than in the previous year's quarter. Once again acquisitions were responsible for a substantial amount of the sales increase, but organic revenues were up by very solid 9.7% as well. The market reacted very positively to Carlisle's strong results, sending shares 7% higher on the day of the earnings release.

## Growth on a Per-Share Basis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $2.44 | $2.40 | $2.26 | $2.88 | $4.18 | $3.61 | $3.83 | $4.82 | $5.86 | $5.53 | ***$6.35*** | ***$9.86*** |
| **DPS** | $0.60 | $0.63 | $0.66 | $0.70 | $0.76 | $0.84 | $0.94 | $1.10 | $1.30 | $1.44 | ***$1.58*** | ***$2.20*** |

From 2008 to 2017 Carlisle recorded an average annual EPS growth rate of 9.5%, which is a strong result when we account for the fact that the financial crisis happened during that time frame. Carlisle is, despite its rather small size, a company that is very active when it comes to M&A. Carlisle bought four companies during 2017 and sold its foodservice products segment in early 2018. The $750 million in proceeds will, according to Carlisle, be utilized for organic growth initiatives as well as for more acquisitions. Foodservice products was a low-growth unit, whereas other businesses record much higher growth rates (e.g. brake & friction, which recorded revenue growth of more than 30% during the most recent quarter). Focusing on these higher-growth industries and optimizing the portfolio via M&A accordingly is an opportune move that should be beneficial for Carlisle's growth going forward.

The integration of the companies Carlisle acquired during 2017 and the solid growth from its existing operations will, according to the company's management, lead to revenue growth of approximately 20% during 2018.

Carlisle has increased its dividend annually for more than 40 years in a row, recently the dividend growth rate (five years average) was 14% annually, which is highly attractive. Carlisle also returns a lot of cash to its owners via share repurchases. During 2017, for example, Carlisle bought back five percent of its stock.

## Valuation Analysis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Now | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 12.1 | 11.2 | 15.8 | 14.8 | 12.5 | 18.9 | 21.6 | 19.6 | 17.2 | 18.7 | ***19.1*** | ***16.5*** |
| **Avg. Yld.** | 2.0% | 2.3% | 1.8% | 1.6% | 1.5% | 1.2% | 1.1% | 1.2% | 1.3% | 1.4% | ***1.3%*** | ***1.8%*** |

Carlisle is a high-quality company that is generating compelling growth rates, but nevertheless shares have usually not traded at a very high valuation. During the last decade average annual price-to-earnings ratios ranged from 11 to 22.

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*

Due to the steep share price increase over the last couple of months shares are now trading at the high end of the historic range and well above the historic norm. This could pressure total returns going forward.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GP/A | 28.4% | 25.7% | 20.9% | 18.5% | 22.3% | 21.5% | 21.8% | 25.6% | 29.2% | 21.7% | ***24.0%*** | ***25.0%*** |
| Debt/A | 28.4% | 47.1% | 36.6% | 52.2% | 48.3% | 43.3% | 41.2% | 40.6% | 37.8% | 52.3% | ***51.0%*** | ***50.0%*** |
| Int. Cov. | 6.7 | 23.6 | 23.7 | 12.7 | 14.6 | 10.9 | 12.7 | 14.8 | 14.5 | 15.0 | ***15.0*** | ***15.0*** |
| Payout | 24.6% | 26.3% | 29.2% | 24.3% | 18.2% | 23.3% | 24.5% | 22.8% | 22.2% | 26.0% | ***26.8%*** | ***24.0%*** |
| Std. Dev. | 50.4% | 39.3% | 30.1% | 43.4% | 28.4% | 17.2% | 20.1% | 22.1% | 19.3% | 17.5% | ***19.0%*** | ***21.0%*** |

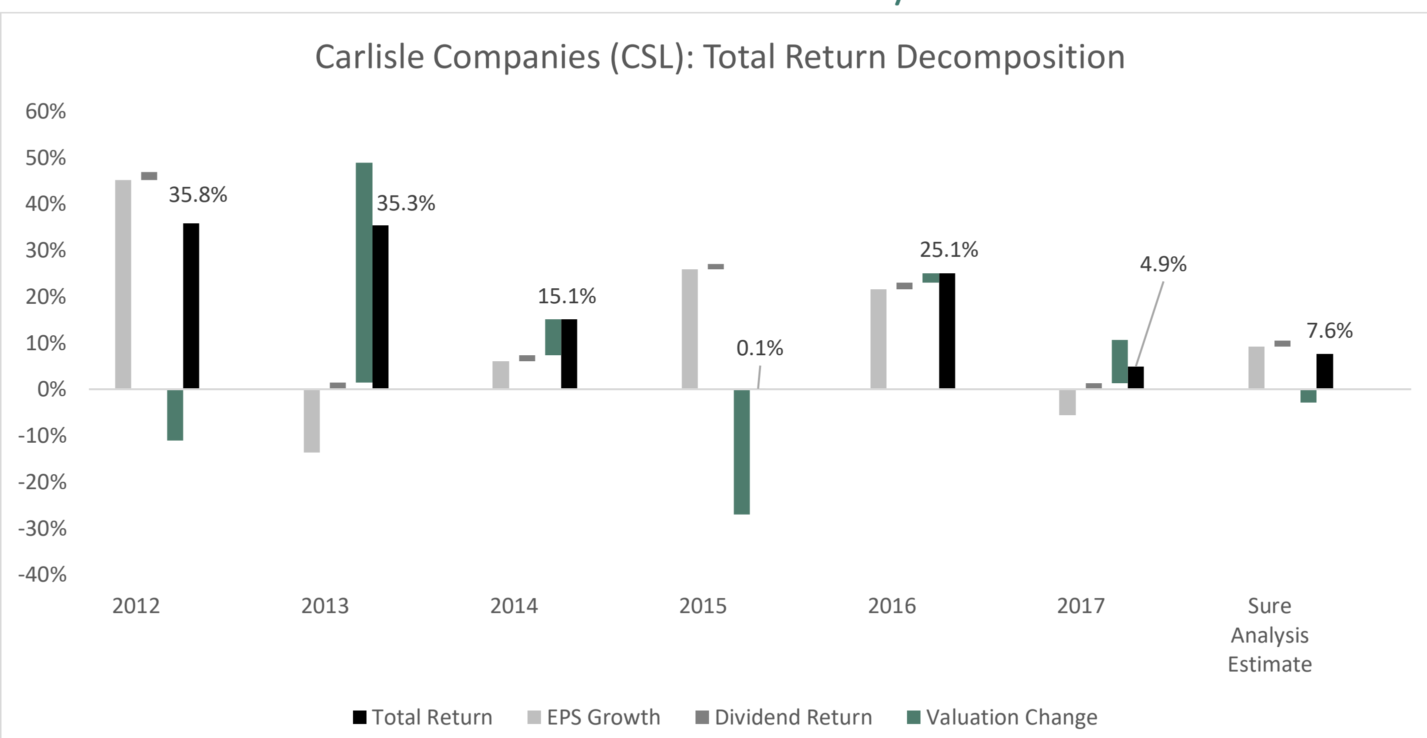
Carlisle produces a solid amount of gross profits relative to the assets the company possesses, especially when we factor in that Carlisle, as a manufacturing company, requires significant assets. The company does have a debt to assets ratio of roughly 50%, which is not especially low, but Carlisle's interest coverage is very strong.

As an industrial Carlisle's results are somewhat cyclical, but the company managed to remain highly profitable during the last financial crisis (EPS dropped by about ten percent from 2008 to 2010). Carlisle is active in niche markets where it has a strong market position, despite its rather small size. The company's approach of growing its presence organically as well as via acquisitions allows for improving scale as the company gets bigger, which brings benefits such as operating leverage and more efficient purchasing. With more M&A to come Carlisle's already strong position in the niche markets the company services should thus improve further as those industries are consolidated by Carlisle. Carlisle's results have been resilient versus recessions in the past, from 2008 to 2010 earnings declined by less than 10%.

## Final Thoughts & Recommendation

Carlisle is a high-quality industrial company that is focused on high-growth niche markets where its market presence is continuously expanded via takeovers of smaller peers. Carlisle has a strong growth outlook, but shares are trading at a relatively expensive valuation right now. We believe that Carlisle is a hold here due to compelling growth rates. Once shares trade more in line, or below, the historic valuation, shares would be a buy.

## Total Return Breakdown by Year

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