Carlisle Companies (CSL)

Updated October 25th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$94	**5 Year CAGR Estimate:**	13.1%	**Volatility Percentile:**	33.2%
Fair Value Price:	$105	**5 Year Growth Estimate:**	9.2%	**Momentum Percentile:**	23.2%
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.2%	**Growth Percentile:**	86.6%
Dividend Yield:	1.7%	**5 Year Price Target**	$163	**Valuation Percentile:**	62.7%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	71.8%

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 $5.6 billion.

Carlisle Companies reported its third quarter earnings results on October 23. The company produced revenues of $1.18 billion, an increase of 18% year over year. Sales were primarily driven by acquisition in the Carlisle Construction Materials segment, but company-wide organic sales rose by a still quite solid 5.5% as well. Carlisle's operating income grew at a slower pace than its revenues, partially due to retirement costs at one of Carlisle's segments. A lower tax rate and a lower share count allowed for outsized earnings-per-share growth of 26%, though, as earnings-per-share rose to $1.59 during the third quarter. Carlisle Companies raised its dividend by 8%, to $0.40 per share, during August.

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***
Shares	61	60	61	62	63	64	65	64	64	62	***60***	***55***

From 2008 to 2017 Carlisle recorded an average annual earnings-per-share 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. Brake & Friction, for example, recorded an organic revenue growth rate of 15% during the third quarter of 2018. 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 organic growth from its existing operations will, according to the company's management, lead to revenue growth of close to 20% during 2018, the results during the first three quarters make this estimate look realistic. Tax rate tailwinds will be an additional factor 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 the first three quarters of 2018 Carlisle has already spent $295 million on stock buybacks.

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	***14.8***	***16.5***
Avg. Yld.	2.0%	2.3%	1.8%	1.6%	1.5%	1.2%	1.1%	1.2%	1.3%	1.4%	***1.7%***	***1.8%***

Disclosure: This analyst has a long position in the security discussed in this research report.

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Carlisle Companies trades at close to 15 times this year's earnings right now, which is the lowest valuation shares have traded at in years. Shares trade ~10% below our fair value estimate of 16.5 times its annual net profits. Its dividend yield is not very high, but the company has a strong dividend growth track record and the payout ratio is quite low.

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%***

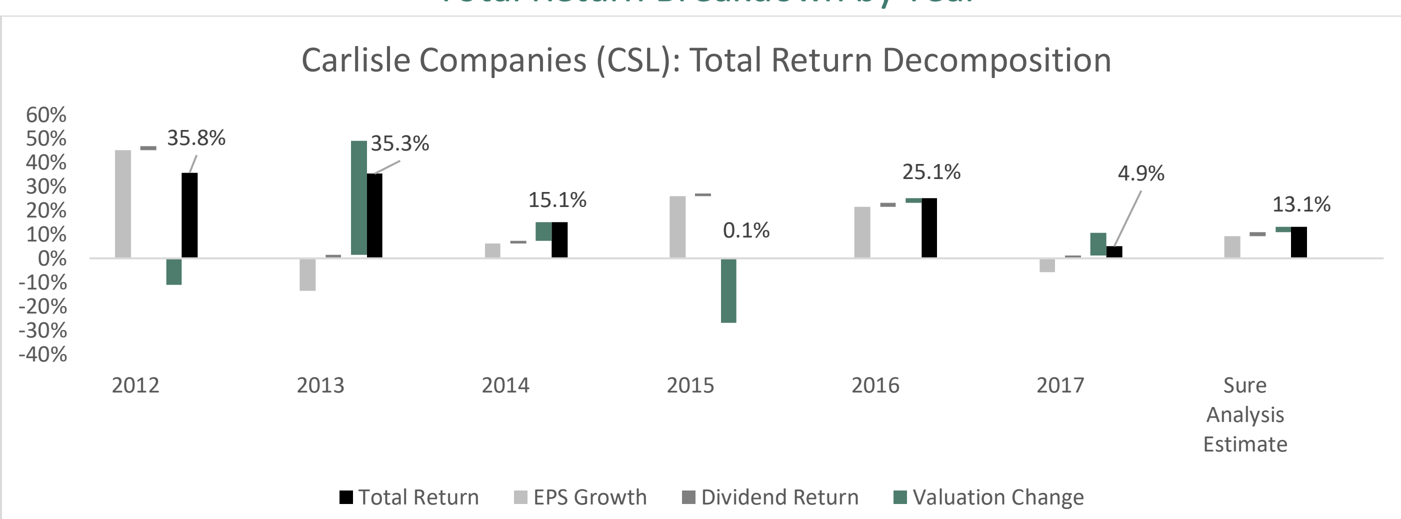
Carlisle Companies produces a solid amount of gross profits relative to the assets the company possesses, especially when we factor in that Carlisle, as a manufacturing company, requires significant assets. The company does have a debt to assets ratio of roughly 50%, which is not especially low, but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

As an industrial company demand for Carlisle's products can be somewhat cyclical, but the company managed to remain highly profitable during the last financial crisis, as 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 improve further, as those industries are consolidated by Carlisle. Carlisle's results have been relatively resilient versus recessions in the past.

Final Thoughts & Recommendation

Carlisle Companies is not an overly large corporation, but the company nevertheless has a strong earnings growth record, and an excellent dividend growth record on top of that. Its strategy of consolidating the niche markets it is active in has been successful so far, and its earnings should continue to grow at an attractive pace going forward. Carlisle Companies' valuation has come down significantly over the last couple of months, and shares trade below fair value today. Due to a compelling total return outlook we rate Carlisle Companies a buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	3110	2258	2528	2492	2851	2943	3204	3543	3675	4090
Gross Profit	593	490	529	584	767	746	820	1007	1157	1148
Gross Margin	19.1%	21.7%	20.9%	23.4%	26.9%	25.3%	25.6%	28.4%	31.5%	28.1%
SG&A Exp.	316	274	311	299	357	354	379	462	532	589
D&A Exp.	69	68	72	88	105	114	104	129	138	169
Operating Profit	242	212	196	266	372	367	408	503	580	506
Operating Margin	7.8%	9.4%	7.8%	10.7%	13.0%	12.5%	12.7%	14.2%	15.8%	12.4%
Net Profit	56	145	146	180	270	210	251	320	250	366
Net Margin	1.8%	6.4%	5.8%	7.2%	9.5%	7.1%	7.8%	9.0%	6.8%	8.9%
Free Cash Flow	206	369	43	112	346	304	177	457	422	299
Income Tax	45	48	57	73	118	98	124	148	160	103

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	2076	1914.1	2529.5	3137.9	3457.3	3493	3758.7	3950.9	3965.8	5299.8
Cash & Equivalents	42.7	96.3	89.4	74.7	112.5	754.5	730.8	410.7	385.3	379.6
Accounts Receivable	N/A	N/A	N/A	492.8	413.6	402.9	444	507.2	N/A	N/A
Inventories	468.5	338.3	430.5	539	325	298.8	339.1	356	377	507.9
Goodwill & Int. Ass.	582.1	625.1	965	1324.4	1473.6	1438.5	1576.2	2022.2	1953.4	2836.2
Total Liabilities	981.8	695.5	1188.8	1637.8	1669.2	1506.9	1553.7	1603.5	1498.9	2771.5
Accounts Payable	128.7	132.7	195.4	260.8	205.9	187	198	212.6	243.6	352.4
Long-Term Debt	400.3	156.1	474.1	762.4	752.1	750.9	749.7	745.4	596.4	1586.2
Shareholder's Equity	1094	1218.6	1340.7	1500.1	1788.1	1986.1	2205	2347.4	2466.9	2528.3
D/E Ratio	0.37	0.13	0.35	0.51	0.42	0.38	0.34	0.32	0.24	0.63

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	2.7%	7.2%	6.6%	6.4%	8.2%	6.0%	6.9%	8.3%	6.3%	7.9%
Return on Equity	5.0%	12.5%	11.4%	12.7%	16.4%	11.1%	12.0%	14.0%	10.4%	14.6%
ROIC	3.8%	10.1%	9.1%	8.8%	11.3%	7.9%	8.8%	10.6%	8.1%	10.2%
Shares Out.	61	60	61	62	63	64	65	64	64	62
Revenue/Share	51.11	36.88	41.04	39.88	44.82	45.41	49.06	53.84	56.65	64.36
FCF/Share	3.39	6.03	0.69	1.79	5.43	4.69	2.71	6.95	6.51	4.70

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.