

Leggett & Platt Inc. (LEG)

\$49.67 (As of 01/09/20)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/09/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: C

Summary

Shares of Leggett have outperformed its industry in the past six months. The outperformance was primarily attributed to strong sales in Automotive, U.S. Spring and Work Furniture, and contributions from the Elite Comfort Solutions (ECS) acquisition. Moreover, the company's strategic initiatives to enhance business portfolio and disciplined capital allocation bode well. Notably, earning estimates for 2020 have remained stable over the past 60 days. However, low volume from businesses exited in Fashion Bed and Home Furniture along with weak trade in the Industrial Products segment are exerting pressure on the company's growth. Also, currency headwinds and intense competition are concerns.

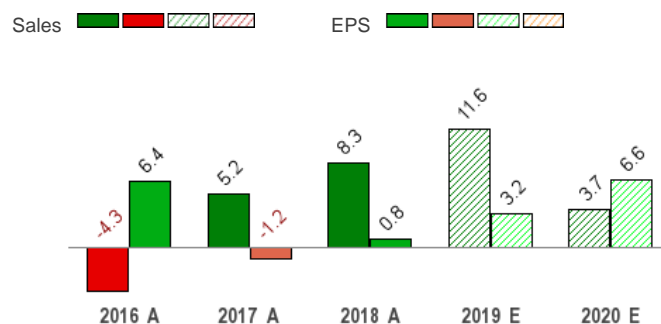
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.42 - \$35.35
20 Day Average Volume (sh)	1,124,296
Market Cap	\$6.5 B
YTD Price Change	-2.3%
Beta	1.09
Dividend / Div Yld	\$1.60 / 3.2%
Industry	Furniture
Zacks Industry Rank	Top 21% (53 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.4%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/03/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,206 E	1,252 E	1,280 E	1,207 E	4,939 E
2019	1,155 A	1,213 A	1,239 A	1,158 E	4,765 E
2018	1,029 A	1,103 A	1,092 A	1,047 A	4,270 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.54 E	\$0.70 E	\$0.76 E	\$0.73 E	\$2.73 E
2019	\$0.49 A	\$0.64 A	\$0.76 A	\$0.66 E	\$2.56 E
2018	\$0.57 A	\$0.63 A	\$0.67 A	\$0.62 A	\$2.48 A

*Quarterly figures may not add up to annual.

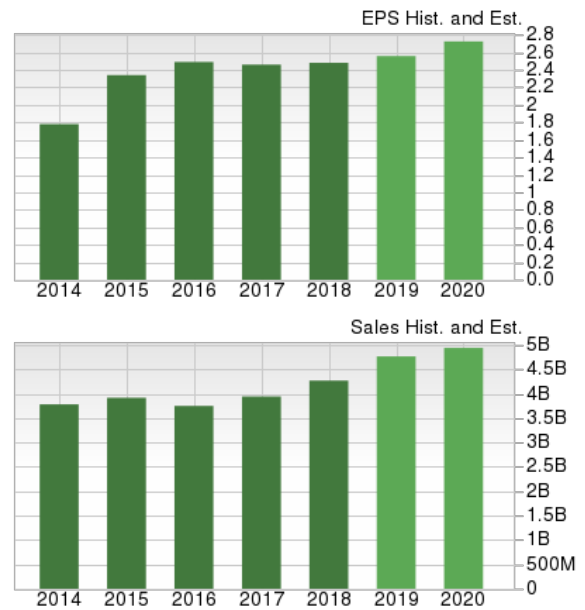
P/E TTM	19.8
P/E F1	18.3
PEG F1	2.0
P/S TTM	1.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

Overview

Headquartered in Carthage, MO, **Leggett and Platt Inc.** is a global manufacturer that conceives, designs, and produces a wide variety of engineered components and products found in many homes, offices, retail stores, and automobiles. The company's most important product lines include components for residential furniture and bedding, retail store fixtures and point of purchase displays, as well as office furniture. In addition, Leggett makes non-automotive aluminum dye castings, drawn wire steel, automotive seat and lumber systems, as well as bedding industry machinery.

- **Residential Products** (contributing 51% to third-quarter 2019 net sales) manufactures a range of components used by bedding and upholstered furniture manufacturers in their finished products. This division also supplies carpet cushions, adjustable beds, ornamental beds and geo components.
- The **Specialized Products** division (21.6%) produces lumber systems and wire components used by automotive seating manufacturers. This segment also manufactures racks, and shelving and cabinets used to outfit service vans.
- The **Industrial Products** segment (5.5%) produces and provides steel rods, drawn steel wires, steel billets and welded steel tubing to its customers.
- The **Furniture Products** segment (21.9%) manufactures retail store fixtures and point of purchase displays. The segment also produces chair controls, bases and other components for office furniture manufacturers.



Reasons To Buy:

▲ **Long-Term Strategic Plan on Track:** Leggett remains on track with its long-term strategic plan, which was announced in November 2007. The company has successfully completed the first two parts of its strategic plan, of which, the first part was to divest low-performing businesses, and the second part comprised an improvement in margins and returns. The company is now working on the third part of the plan that aims to achieve top-line growth of 4-5% annually. Notably, in the first nine months of 2019, the company's net sales grew 12% year over year.

Leggett is gaining from strategies to enhance business portfolio, disciplined capital allocation and progress on long-term goals

Moreover, we believe Leggett has significant operating leverage to accomplish the third part of its plan as it has a considerable amount of retained spare production to meet the demand of \$4 billion. Solid market demand coupled with market share gains has been enhancing capacity utilization over the years. Notably, earning estimates for current year have remained stable over the past 60 days.

▲ **Steel Inflation Aiding Top-Line Growth:** Leggett has been experiencing higher sales, as is evident from net sales growth of 12%, 10% and 14% in the first, second and third quarters of 2019, respectively. Although the recent GM strike has been putting pressure on the top line, owing to which management has marginally reduced the upper limit of the guided range, the United States Mattress Industry's Anti-Dumping Petition on imported Chinese mattresses is gaining traction. Markedly, approximately 90% of Chinese mattresses are now subject to Anti-Dumping duties in excess of a 160%, which will ultimately help the U.S. Furniture market to benefit significantly.

The company's overall gross margin and adjusted EBIT margin expanded 140 basis points (bps) and 50 bps, respectively, primarily due to lower raw material costs (including LIFO benefit) and improved earnings performance in Furniture Products. Adjusted EBITDA margin increased a notable 130 bps year over year to 15.8% in the quarter.

Going forward, the company expects EBIT to benefit from higher sales and decreasing steel costs (including LIFO benefit). Leggett projects adjusted EBIT margin to be nearly 11.1-11.3%. The metric was 11.1% in 2018.

▲ **Acquisitions to Boost Growth:** In January 2019, Leggett & Platt concluded the acquisition of ECS for \$1.25 billion. With a vertically integrated model and 16 facilities across the United States, ECS is a leader in proprietary specialized foam technology, primarily for bedding and furniture industries. Its products include finished mattresses sold through both traditional and online channels, mattress components, mattress toppers and pillows, as well as furniture foams.

With this acquisition, Leggett is expected to benefit from critical capabilities in proprietary foam technology, along with scale in the production of private-label finished mattresses. The combined entity will be a leading provider of differentiated products for the bedding industry on a worldwide basis. This will help the company to reap benefits from the current market trends that include growth of hybrid spring and specialty foam mattresses, improvement of the e-commerce mattress channel, higher demand for compressed mattresses (both online and retail channels), along with the emergence of numerous compressed mattress brands.

Notably, in third-quarter 2019, acquisitions added 16% to total net sales. In 2019, it expects the ECS acquisition to contribute nearly 15% to revenues.

As part of restructuring activity, the company has substantially completed in-depth analysis of Fashion Bed and Home Furniture businesses. Impressively, the segment's adjusted EBIT margin was up a notable 470 bps during the third quarter. Importantly, it expects the above-mentioned acquisitions and strategic initiatives to drive improved margins in 2019. For the year, it expects adjusted earnings in the range of \$2.48-\$2.63 per share compared with previous expectation of \$2.40-\$2.60.

▲ **Active Management of Cash Flows:** Leggett has always maintained a disciplined capital allocation strategy and remained focused on making investments to develop its business while using excess cash to enhance shareholder returns through dividend payouts and share buybacks. In the third quarter, Leggett repurchased 0.2 million shares, and issued 0.4 million for employee benefit plans and option exercises.

Leggett expects operating cash flow of about \$550 million in 2019, continuing with the trend of generating more cash than required to fund dividends and capital expenditures. The company anticipates capital expenditure of nearly \$160 million and intends to spend \$205 million for dividend payouts in 2019.

During the third quarter, Leggett declared a quarterly dividend of 40 cents per share, reflecting an increase of 5.3% from the year-ago period. Moreover, Leggett plans to continue with its share repurchase program, having a standing authorization to buy back up to 10 million shares every year.

Reasons To Sell:

▼ **Dismal Sales Surprise Trend:** Leggett registered a negative sales surprise in the second quarter of 2019. In fact, the company has a dismal sales surprise history. It missed the consensus mark for sales in five of the last eight quarters, owing to lower deliveries across the business, especially in the Furniture Products segment. In the first, second and third quarters, volumes declined 3%, 6% and 1%, respectively, on a year-over-year basis. Its exit from Fashion Bed, planned declines in Home Furniture and weak trade demand in the Industrial Products segment affected the results.

Its performance over the past few quarters was mainly hurt by volatility in raw material prices, with steel being one of the key raw materials and the steel market being cyclical in nature.

▼ **Currency Headwinds:** Leggett has been witnessing lower sales volumes, primarily due to negative foreign currency translation, which are dampening overall top-line results. The company is exposed to foreign exchange rate fluctuation risks due to its operations across the world.

Third-quarter organic sales were down 2%, of which 1% was due to reduced volume and 1% owing to deflation and a negative currency impact. Markedly, 37% of its total 2018 revenues were generated by international operations.

▼ **Competitive Pressure:** Leggett faces intense competition from local as well as regional players in the countries where it operates, on the basis of product quality, pricing, innovation and customer service. Being in such a highly competitive industry, Leggett may find it difficult to execute and implement new business strategies, which in turn, will adversely impact its operations.

▼ **Macroeconomic Factors:** Leggett caters to various industries, which makes its business susceptible to several economic downturns. The company's performance is heavily dependent on industry demand, which in turn, is affected by consumer behavior. Also, it remains vulnerable to other macroeconomic factors like unemployment, fluctuating interest-rates and disposable income levels, among others.

Declines in Automotive, Fashion Bed, Flooring Products, and Adjustable Bed along with higher steel costs and pricing lag, which occurs in case of commodity cost inflation, have been hurting the bottom line

Last Earnings Report

Leggett's (LEG) Q3 Earnings Beat Estimates, View Up

Quarter Ending **09/2019**

Leggett & Platt, Incorporated reported third-quarter 2019 results, with earnings and revenues beating the Zacks Consensus Estimate. The bottom line surpassed the consensus mark for the second straight quarter. The company also raised its 2019 earnings view.

Report Date	Oct 28, 2019
Sales Surprise	2.03%
EPS Surprise	13.43%
Quarterly EPS	0.76
Annual EPS (TTM)	2.51

Adjusted earnings of 76 cents per share beat the Zacks Consensus Estimate of 67 cents by 13%. The figure rose from the year-ago quarter's profit level of 66 cents by 15.2%. Strong sales in Automotive, U.S. Spring and Work Furniture added drove the upside. Also, contributions from the Elite Comfort Solutions (ECS) acquisition as well as continued market share and content gains in U.S. Spring led to the upside. However, lower volume from businesses exited in the Fashion Bed and Home Furniture along with weak trade in the Industrial Products segment partly offset the positives.

Quarter in Details

The company's net sales of \$1,239.3 million beat the consensus mark of \$1,215 million by 2% and increased 13.5% from the prior-year quarter's level. The improvement was primarily driven by solid contribution from the ECS acquisition. Leggett also benefited from ongoing market share and content gains in U.S. Spring (up 6%). However, the positives were partly offset by lower volumes arising from its decision to exit businesses in the Fashion Bed and Home Furniture Products segment along with weak trade demand in the Industrial Products.

Volumes declined 1% in the quarter versus 3% growth reported in the year-ago quarter. Organically, sales dropped 2% in the quarter against 6% growth in third-quarter 2018. That said, minor acquisitions contributed 16% to sales in the quarter. Raw material-related selling prices and negative currency impact lowered sales by 1%.

The company's overall gross margin expanded 140 basis points (bps) to 22.2% in the quarter. Adjusted EBIT margin also advanced 50 bps to 11.9%, primarily due to lower raw material costs (including LIFO benefit) and improved earnings performance in Furniture Products. Also, the ECS acquisition added to the positives. Adjusted EBITDA margin surged 130 bps year over year to 15.8% in the quarter.

Segment Details

Net sales in **Residential Products** (excluding inter-segment sales) increased 41.5% from the year-ago quarter's level to \$631.9 million. Organically, sales rose 3%.. Volume was up 4% as market share and content gains in U.S. Spring were intact. However, raw material-related selling price decline and currency impact lowered sales by 1%. Including inter-segment sales, total sales in the segment rose 41.3% from the year-ago quarter's figure to \$635.6 million.

Sales in the **Industrial Products** segment declined 29.6% from the prior-year quarter's level to \$68.6 million. Organically, sales fell 17% against 28% growth in the year-ago quarter. Total sales, including inter-segment revenues, fell 16.7% from the prior-year quarter to \$144.4 million, mainly due to raw material price decline (down 5%) and weak trade demand for steel rod and wire (down 12%).

Net sales in **Furniture Products** dropped 7.7% from the year-ago quarter's figure to \$271.6 million on 8% lower volumes. Its exit from Fashion Bed and planned declines in Home Furniture, partially offset by growth in Work Furniture and Adjustable Bed, impacted the results. Raw material-related selling price increases were offset by a negative currency impact. Total sales of the segment (including inter-segment sales) fell 8.1% year over year to \$273.8 million. Organically, sales declined 8% against 4% growth in the comparable period last year.

The **Specialized Products** segment's sales increased 5.4% from the prior-year quarter's figure to \$267.2 million. Organically, sales increased 6% (versus 3% growth in third-quarter 2018), courtesy of an increase in volume growth in the automotive market. The upside was partially offset by negative currency impact. Total sales in the segment (including inter-segment sales) increased 5.5% from the year-ago quarter's level to \$268.1 million.

Financials

Leggett ended the third quarter with cash and cash equivalents of \$242 million versus \$363.5 million in the year-ago quarter. The company had a long-term debt of \$2.2 billion compared with \$1.35 billion in the prior-year quarter. It generated \$212.9 million cash flow from operations in the quarter, up 68% year over year.

2019 Guidance Updated

Sales are projected in the range of \$4.7-\$4.8 billion compared with previous expectation of \$4.7-\$4.85 billion. The projection indicates an increase of 10-12% from 2018 level. The company expects its Automotive business to exceed market growth by 600-700 basis points. It also expects EBIT to benefit from ECS acquisition, higher sales, lower steel costs (including LIFO benefit) and improved performance in Furniture Products.

Adjusted earnings are projected in the range of \$2.48-\$2.63 per share compared with previous expectation of \$2.40-\$2.60. Adjusted EBIT margin is envisioned in the band of 11-11.3%. Leggett expects 2019 operating cash flow from operations to exceed \$550 million.

Valuation

Leggett shares are up 29.5% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 32.4% and 21.1%, respectively.

The S&P 500 index is up 25.2% in the past year.

The stock is currently trading at 18.19X forward 12-month price to earnings, which compares to 15.5X for the Zacks sub-industry, 20.44X for the Zacks sector and 18.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.86X and as low as 12.14X, with a 5-year median of 18.05X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$52 price target reflects 19.04X forward 12-month earnings.

The table below shows summary valuation data for LEG.

Valuation Multiples - LEG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	18.19	15.5	20.44	18.82
	5-Year High	22.86	20.42	23.34	19.34
	5-Year Low	12.14	11.2	16.17	15.17
	5-Year Median	18.05	15.5	20.09	17.44
P/S F12M	Current	1.32	1.07	2.38	3.49
	5-Year High	1.79	1.13	3.19	3.49
	5-Year Low	0.93	0.76	1.81	2.54
	5-Year Median	1.48	0.97	2.54	3
EV/EBITDA TTM	Current	12.45	11.6	12.75	11.99
	5-Year High	14.64	12.03	17.77	12.86
	5-Year Low	8.75	8.19	11.08	8.48
	5-Year Median	11.88	10.22	12.43	10.67

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Top 21% (53 out of 254)



Top Peers

Tempur Sealy International, Inc. (TPX)	Outperform
American Woodmark Corporation (AMWD)	Neutral
Bassett Furniture Industries, Incorporated (BSET)	Neutral
Masonite International Corporation (DOOR)	Neutral
HNI Corporation (HNI)	Neutral
La-Z-Boy Incorporated (LZB)	Neutral
Sleep Number Corporation (SNBR)	Neutral
WillScot Corporation (WSC)	Neutral

Industry Comparison Industry: Furniture				Industry Peers		
	LEG Neutral	X Industry	S&P 500	AMWD Neutral	DOOR Neutral	LZB Neutral
VGM Score	A	-	-	A	A	A
Market Cap	6.54 B	519.40 M	23.94 B	1.82 B	1.87 B	1.47 B
# of Analysts	4	3.5	13	1	6	3
Dividend Yield	3.22%	0.00%	1.78%	0.00%	0.00%	1.77%
Value Score	C	-	-	A	B	A
Cash/Price	0.04	0.08	0.04	0.03	0.07	0.08
EV/EBITDA	14.67	9.29	13.97	10.08	10.80	12.52
PEG Ratio	2.00	1.40	2.03	1.59	NA	NA
Price/Book (P/B)	5.21	1.57	3.33	2.69	3.05	2.07
Price/Cash Flow (P/CF)	13.58	10.71	13.73	8.35	10.47	11.15
P/E (F1)	18.22	17.00	18.79	14.32	16.89	14.03
Price/Sales (P/S)	1.40	0.62	2.64	1.10	0.86	0.83
Earnings Yield	5.48%	5.89%	5.32%	6.98%	5.93%	7.13%
Debt/Equity	1.84	0.29	0.72	1.02	1.50	0.36
Cash Flow (\$/share)	3.66	2.77	6.94	12.86	7.17	2.84
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	4.75%	12.45%	10.56%	29.07%	54.09%	12.45%
Proj. EPS Growth (F1/F0)	6.55%	20.99%	7.49%	8.54%	27.72%	5.61%
Curr. Cash Flow Growth	2.26%	4.54%	14.83%	63.39%	4.54%	11.12%
Hist. Cash Flow Growth (3-5 yrs)	2.98%	8.67%	9.00%	44.28%	20.25%	9.55%
Current Ratio	1.74	1.82	1.23	1.82	2.65	1.77
Debt/Capital	64.85%	30.44%	42.99%	50.55%	60.05%	26.21%
Net Margin	6.45%	3.19%	11.08%	5.43%	2.55%	3.98%
Return on Equity	28.04%	3.75%	17.16%	19.25%	15.29%	15.10%
Sales/Assets	1.02	1.39	0.55	1.05	1.16	1.46
Proj. Sales Growth (F1/F0)	3.63%	2.04%	4.20%	2.70%	3.80%	3.65%
Momentum Score	C	-	-	D	C	D
Daily Price Chg	0.18%	0.03%	0.53%	0.54%	3.27%	-0.22%
1 Week Price Chg	-2.72%	-0.24%	-0.30%	0.08%	-0.43%	-1.78%
4 Week Price Chg	-4.22%	0.69%	1.92%	0.03%	2.79%	1.34%
12 Week Price Chg	15.40%	9.30%	6.54%	11.96%	27.66%	-9.35%
52 Week Price Chg	29.65%	2.46%	22.58%	60.76%	48.63%	5.60%
20 Day Average Volume	1,124,296	64,119	1,580,816	104,127	115,596	266,600
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-0.01%	0.00%
(F1) EPS Est 12 week change	3.71%	1.78%	-0.50%	2.04%	4.38%	-3.42%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	C
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.