

Leggett & Platt Inc. (LEG)

\$45.09 (As of 02/07/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 02/06/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: F

Summary

Shares of Leggett have declined over the past three months. The trend is likely to continue, given lower-than-expected revenues in fourth-quarter 2019 and tepid 2020 guidance. Although its top and bottom lines grew 9.4% and 9.7% year over year, respectively, the metrics are likely to remain soft in 2020 due to rising steel scrap costs, changes in LIFO, foam chemical deflation in the ECS business and investment expenses. Earnings estimates for 2020 have trended downward over the past seven days, reflecting analysts' concern over the company's earnings growth prospects. Nonetheless, strong Automotive, U.S. Spring, Work Furniture and Aerospace businesses, contribution from acquisitions, initiatives to enhance its business portfolio and disciplined capital allocation bode well.

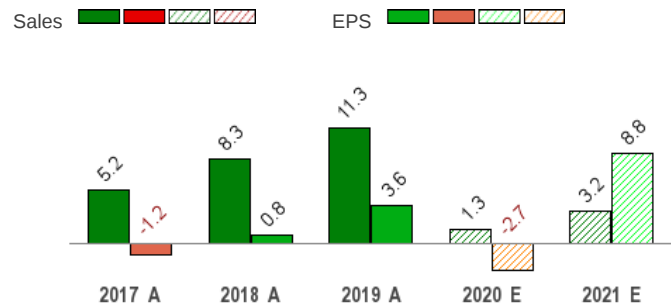
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.42 - \$35.35
20 Day Average Volume (sh)	1,372,028
Market Cap	\$5.9 B
YTD Price Change	-11.3%
Beta	1.12
Dividend / Div Yld	\$1.60 / 3.5%
Industry	Furniture
Zacks Industry Rank	Top 42% (106 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.0%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	-8.4%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	17.6
P/E F1	18.1
PEG F1	2.0
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,158 E	1,258 E	1,316 E	1,229 E	4,969 E
2020	1,144 E	1,222 E	1,269 E	1,180 E	4,814 E
2019	1,155 A	1,213 A	1,239 A	1,145 A	4,753 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.45 E	\$0.69 E	\$0.79 E	\$0.77 E	\$2.72 E
2020	\$0.43 E	\$0.63 E	\$0.74 E	\$0.70 E	\$2.50 E
2019	\$0.49 A	\$0.64 A	\$0.76 A	\$0.68 A	\$2.57 A

*Quarterly figures may not add up to annual.

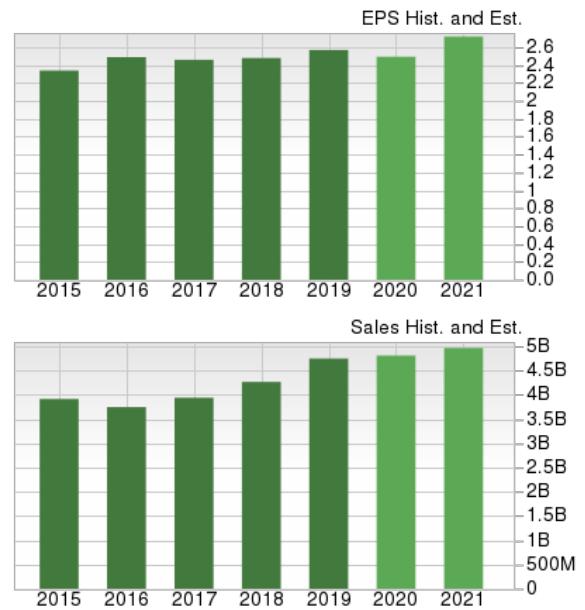
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/07/2020. The reports text is as of 02/10/2020.

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.

On Nov 5, 2019, the company announced changes in its segment structure, effective Jan 1, 2020. The modified structure consists of three segments, seven groups and 15 business units.

- **Bedding Products** division consists of U.S. Spring, International Spring, Specialty Foam, Adjustable Bed, Steel Rod, Drawn Wire and Machinery businesses.
- The **Specialized Products** segment includes automotive, aerospace and hydraulic cylinder businesses. The division 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 **Furniture, Flooring & Textile Products** segment includes home and work furniture businesses, the flooring products business, and fabric converting and geo-components businesses.



Reasons To Sell:

▼ **Dismal Sales Surprise Trend:** Leggett registered a negative sales surprise in the fourth quarter of 2019 due to lower raw material-related selling price and currency headwinds. In fact, the company has a dismal sales surprise history. It missed the consensus mark for sales in six of the last nine 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.

Additionally, its performance over the last 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. In 2020, volumes are likely to be within negative 1% to 3% growth (including 1% decline from the exited businesses).

▼ **Tepid 2020 View:** Owing to rising steel scrap costs, changes in LIFO, foam chemical deflation in the ECS business and investment expenses, the company has provided tepid view for 2020. Sales for the year are projected in the range of \$4.7-\$4.9 billion, indicating a 1% decline to 3% increase from 2019. Acquisitions might add 1% to net sales growth.

Organic sales are expected between negative 2% and growth 2% year over year. Raw material-related selling price is anticipated to impact sales by 1%. Earnings are projected in the range of \$2.40-\$2.60 per share. EBIT margin is envisioned in the band of 10.7-11%.

▼ **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.

Organic sales in 2019 were down 3% from a year ago, of which 3% was due to reduced volume and 1% was attributed to negative currency impact.

▼ **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

Risks

- **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. In 2019, the company's net sales grew 11% year over year.

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.

- **Steel Inflation Aiding Top-Line Growth:** Leggett has been experiencing higher sales, as is evident from net sales growth of 12%, 10%, 14%, 9.4% in the first, second, third and fourth quarters of 2019, respectively. The company is gaining traction on the back of successful conclusion of the U.S. Mattress Industry's Anti-Dumping Petition on imported Chinese mattresses. 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 2019 gross margin and adjusted EBITDA margin expanded 130 basis points (bps) and 90 bps, respectively, primarily due to lower raw material costs (including LIFO benefit), courtesy of the ECS acquisition and improved earnings performance in Furniture Products.

- **Acquisitions to Boost Growth:** In January 2019, Leggett & Platt concluded the acquisition of ECS — the largest acquisition in its history — 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 benefiting from critical capabilities in proprietary foam technology and scale in the production of private-label finished mattresses. The combined entity has become a leading provider of differentiated products for the bedding industry on a worldwide basis. This is aiding 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. In 2019, ECS and other smaller acquisitions added 14% to total net sales.

As part of restructuring activity, the company has substantially completed in-depth analysis of Fashion Bed and Home Furniture businesses. Although the exit of these businesses may put pressure on its near-term results, the same will help the company generate higher margins in the future.

- **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 2019, Leggett repurchased 700,000 shares at an average price of \$44.20, and issued 0.2 million for employee benefit plans and option exercises.

In 2019, the company generated record cash flow from operations. Leggett expects operating cash flow of \$550 in 2020, maintaining the trend of generating more than required cash to fund dividends and capital expenditures. The company anticipates capital expenditure of \$160 million and intends to spend \$220 million for dividend payouts in 2020.

During third-quarter 2019, Leggett announced 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.

Last Earnings Report

Leggett Q4 Earnings & Sales Top Estimates, Tepid 2020 View

Leggett & Platt, Incorporated reported better-than-expected earnings in fourth-quarter 2019. The bottom line surpassed the Zacks Consensus Estimate for the third straight quarter.

However, its top line missed analysts' expectation due to lower raw material-related selling price and currency headwinds.

Quarter in Details

Leggett reported adjusted earnings of 68 cents per share, beating the Zacks Consensus Estimate of 66 cents by 3%. The figure rose 9.7% from the year-ago profit level of 62 cents per share. Strong sales in Automotive, U.S. Spring, Work Furniture and Aerospace drove the upside. Also, contributions from the Elite Comfort Solutions (ECS) acquisition led to the upside.

However, lower volume from business exited in Fashion Bed and Home Furniture, continued weak trade demand for steel rod and wire, along with raw material-related selling price decline exerted pressure on the bottom line.

The company's net sales of \$1,144.9 million missed the consensus mark of \$1,158 million by 1.1% but increased 9.4% from the prior-year level. Acquisitions, primarily ECS, contributed 13% to total net sales. Volumes (minus the impact of the exited business) added 2% to net sales. However, organic sales dropped 4% in the quarter, mostly due to raw material-related selling price decreases and negative currency, which negatively impacted the top line by 3%.

Adjusted EBIT grew 17% from the prior-year period. Adjusted EBIT margin also advanced 70 basis points (bps) to 12.2%, primarily due to the ECS acquisition, lower raw material costs (including LIFO benefit) and improved earnings performance in Furniture Products. Adjusted EBITDA margin also improved 160 bps year over year to 16.4%.

Segment Details

Net sales in **Residential Products** (excluding inter-segment sales) increased 32.3% from the year-ago level to \$556 million. Acquisitions added 33% to total net sales. Organically, sales fell 1% from the prior-year quarter. Volume was up 2% from the year-ago quarter as market share and content gains in U.S. Spring were offset by a 3% decline in raw material-related selling price.

Including inter-segment sales, total sales in the segment rose 31.6% from the year-ago figure to \$559.1 million. Adjusted EBITDA margin grew an impressive 130 bps year over year.

Sales in the **Industrial Products** segment declined 37.2% from the prior-year level to \$57.5 million. Total sales — including inter-segment revenues — fell 23.7% from the prior-year quarter to \$126.8 million, mainly due to raw material price decline and 14% lower volumes owing to weak trade demand for steel rod and wire. Nonetheless, adjusted EBITDA margin expanded 550 bps year over year to 19.6%.

Net sales in **Furniture Products** dropped 4.9% from the year-ago figure to \$261.7 million on 4% lower volumes. Raw material-related selling price and negative currency impacted sales by 1%. Total sales of the segment (including inter-segment sales) fell 5.3% year over year to \$263.8 million. Adjusted EBITDA margin grew 280 bps from a year ago.

The **Specialized Products** segment's sales increased 3.9% from the prior-year figure to \$269.7 million. The upside was driven by 5% year-over-year growth in volumes, partially offset by 1% negative currency impact. Total sales in the segment (including inter-segment sales) increased 3.9% from the year-ago level to \$270.4 million. Adjusted EBITDA contracted 10 bps from the prior year.

Financials

Leggett ended 2019 with cash and cash equivalents of \$247.6 million versus \$268.1 million in 2018. The company had a long-term debt of \$2.7 billion compared with \$1.2 billion in the prior-year period. It generated \$668 million cash flow from operations, up 52% year over year.

2019 Highlights

In the full year, adjusted earnings grew 3.6% year over year to \$2.57 per share. Revenues also increased 11% from the year-ago period to \$4.75 billion. Acquisitions added 14% to revenues, partially offset by 3% decline in organic sales. Adjusted EBIT margins were flat year over year.

2020 Guidance

Sales are projected in the range of \$4.7-\$4.9 billion, indicating a 1% decline to 3% increase from a year ago. Acquisitions might add 1% to net sales growth in 2020. Organic sales are expected between negative 2% and growth 2% year over year. Volumes are likely to be within negative 1% to 3% growth (including 1% decline from the exited business). Raw material-related selling price is anticipated to impact sales by 1%.

Earnings are projected in the range of \$2.40-\$2.60 per share. EBIT margin is envisioned in the band of 10.7-11%.

Quarter Ending **12/2019**

Report Date	Feb 03, 2020
Sales Surprise	-1.12%
EPS Surprise	3.03%
Quarterly EPS	0.68
Annual EPS (TTM)	2.57

Valuation

Leggett shares are down 11.3% in the year-to-date period, but up 7.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 2.8% and 0.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 24.8% and 15.8%, respectively.

The S&P 500 index is up 3.4% in the year-to-date period and 24.5% in the past year.

The stock is currently trading at 17.9X forward 12-month price to earnings, which compares to 15.03X for the Zacks sub-industry, 19.94X for the Zacks sector and 19.12X 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 18.01X. Our Underperform recommendation indicates that the stock will perform worst than the market. Our \$38 price target reflects 15.08X 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	17.9	15.03	19.94	19.12
	5-Year High	22.86	20.42	23.35	19.34
	5-Year Low	12.14	11.2	16.16	15.18
	5-Year Median	18.01	15.44	20.05	17.47
P/S F12M	Current	1.23	1.06	2.29	3.53
	5-Year High	1.79	1.13	3.19	3.53
	5-Year Low	0.93	0.76	1.81	2.54
	5-Year Median	1.47	0.98	2.54	3
EV/EBITDA TTM	Current	11.12	11.49	12.56	11.36
	5-Year High	14.78	11.92	17.78	12.85
	5-Year Low	8.75	8.19	11.07	8.47
	5-Year Median	11.89	0.25	12.39	10.7

As of 02/07/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 254)



Top Peers

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

Industry Comparison Industry: Furniture				Industry Peers		
	LEG Underperform	X Industry	S&P 500	AMWD Neutral	DOOR Outperform	LZB Neutral
VGM Score	B	-	-	B	B	A
Market Cap	5.93 B	463.61 M	24.00 B	1.92 B	1.95 B	1.43 B
# of Analysts	4	3.5	13	1	6	3
Dividend Yield	3.55%	0.00%	1.78%	0.00%	0.00%	1.82%
Value Score	C	-	-	A	C	A
Cash/Price	0.04	0.08	0.04	0.03	0.06	0.08
EV/EBITDA	13.43	9.19	14.07	10.51	11.12	12.21
PEG Ratio	1.98	1.39	2.04	1.68	NA	NA
Price/Book (P/B)	4.52	1.52	3.28	2.85	3.19	2.01
Price/Cash Flow (P/CF)	14.44	10.92	13.58	8.84	10.92	10.85
P/E (F1)	18.06	17.61	18.86	15.15	17.27	13.65
Price/Sales (P/S)	1.25	0.62	2.65	1.17	0.90	0.80
Earnings Yield	5.52%	5.68%	5.30%	6.60%	5.78%	7.33%
Debt/Equity	1.67	0.22	0.71	1.02	1.50	0.36
Cash Flow (\$/share)	3.12	2.77	6.89	12.86	7.17	2.84
Growth Score	A	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	4.75%	12.45%	10.80%	29.07%	54.09%	12.45%
Proj. EPS Growth (F1/F0)	-2.92%	11.28%	7.23%	8.54%	30.25%	5.61%
Curr. Cash Flow Growth	-13.90%	4.54%	9.51%	63.39%	4.54%	11.12%
Hist. Cash Flow Growth (3-5 yrs)	2.98%	5.90%	8.55%	44.28%	20.25%	9.55%
Current Ratio	1.66	1.82	1.20	1.82	2.65	1.77
Debt/Capital	62.51%	26.21%	42.90%	50.55%	60.05%	26.21%
Net Margin	7.02%	3.19%	11.76%	5.43%	2.55%	3.98%
Return on Equity	27.79%	3.71%	16.98%	19.25%	15.29%	15.10%
Sales/Assets	0.97	1.39	0.54	1.05	1.16	1.46
Proj. Sales Growth (F1/F0)	1.30%	1.30%	4.15%	2.70%	3.87%	3.65%
Momentum Score	F	-	-	F	D	C
Daily Price Chg	-2.84%	-1.53%	-0.64%	-1.46%	0.05%	-1.88%
1 Week Price Chg	-6.47%	-3.71%	-2.60%	-3.46%	-3.96%	-5.90%
4 Week Price Chg	-9.22%	-2.47%	0.72%	5.81%	4.31%	-2.71%
12 Week Price Chg	-15.26%	-0.63%	4.69%	11.54%	13.82%	-15.41%
52 Week Price Chg	2.99%	-1.34%	16.01%	64.94%	42.42%	4.83%
20 Day Average Volume	1,372,028	52,510	1,961,054	68,065	147,157	221,346
(F1) EPS Est 1 week change	-8.44%	0.00%	0.00%	0.00%	1.87%	0.00%
(F1) EPS Est 4 week change	-8.44%	0.00%	-0.00%	0.00%	1.99%	0.00%
(F1) EPS Est 12 week change	-8.44%	-0.55%	-0.16%	2.04%	3.81%	-3.42%
(Q1) EPS Est Mthly Chg	-20.86%	0.00%	0.00%	0.47%	4.67%	0.00%

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	F
VGM Score	B

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.

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