

Leggett & Platt Inc. (LEG)

\$41.27 (As of 08/11/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 08/11/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: C

Summary

Shares of Leggett have outperformed the industry in the past month. The trend is likely to continue, given impressive second-quarter 2020 earnings, which topped analysts' expectation by 100%. It has been witnessing higher demand in most of the markets served. Moreover, its cost-reduction actions implemented during the pandemic helped it deliver improved results. Notably, July sales were in line with the year-ago period. Earnings estimates for 2020 have moved north in the past seven days, depicting analysts' optimism over the stock's growth potential. However, it witnessed lower sales and earnings for the quarter, largely due to the economic impact of the COVID-19 pandemic. Organic sales fell 31% year over year, given 29% lower volume. Also, raw material-related selling price decreases and negative currency impacted sales by 2%.

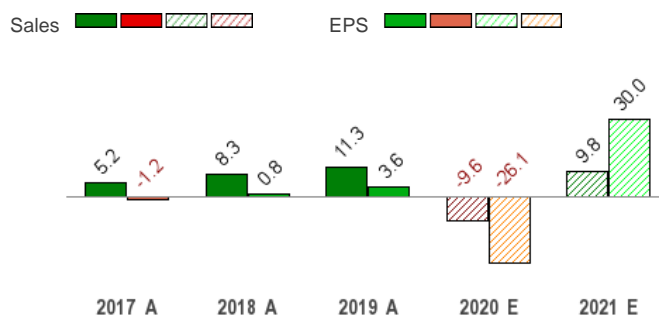
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.42 - \$22.03
20 Day Average Volume (sh)	1,530,112
Market Cap	\$5.5 B
YTD Price Change	-18.8%
Beta	1.60
Dividend / Div Yld	\$1.60 / 3.9%
Industry	Furniture
Zacks Industry Rank	Top 1% (3 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	100.0%
Last Sales Surprise	-7.5%
EPS F1 Est- 4 week change	44.0%
Expected Report Date	10/26/2020
Earnings ESP	0.0%
P/E TTM	20.5
P/E F1	21.7
PEG F1	2.4
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,132 E	1,065 E	1,315 E	1,208 E	4,720 E
2020	1,046 A	845 A	1,254 E	1,154 E	4,299 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	\$0.50 E	\$0.49 E	\$0.77 E	\$0.72 E	\$2.47 E
2020	\$0.41 A	\$0.16 A	\$0.67 E	\$0.66 E	\$1.90 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 08/11/2020. The reports text is as of 08/12/2020.

Overview

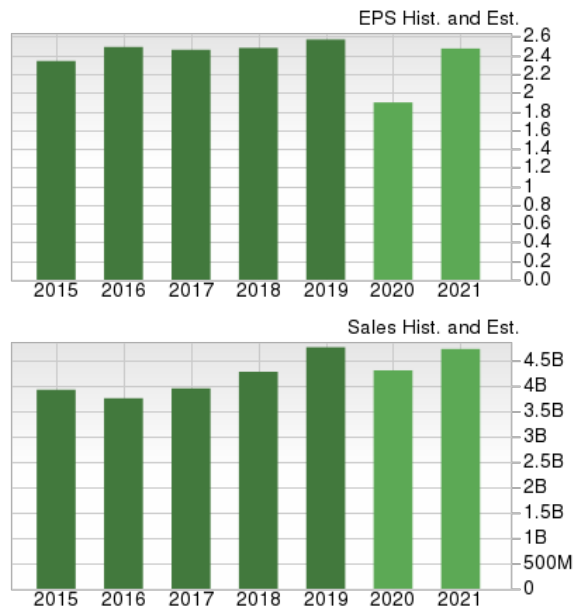
Headquartered in Carthage, MO, Leggett and Platt Inc. is a global manufacturer that conceives, designs, and produces a wide variety of engineered components and products found in many homes, offices, and automobiles.

The company's product lines include components for bedding, automotive seat and lumber systems, specialty bedding foams and private-label finished mattresses, residential as well as office furniture, flooring underlayment, adjustable beds, along with bedding industry machinery. The company operates under three segments, seven groups and 15 business units.

Bedding Products (accounted for 48.6% of total second-quarter 2020 revenues) segment supplies a variety of components and machinery used by bedding manufacturers in the production and assembly of their finished products. Also, it produces private-label finished mattresses for bedding brands and adjustable bed bases. Additionally, it produces and supplies specialty foam chemicals, steel rod and drawn steel wire to its own operations and customers.

The Specialized Products (16.7%) segment supplies lumbar support and seat suspension systems, motors and actuators, as well as control cables used by automotive manufacturers. Also, it produces and distributes tubing and tube assemblies for the aerospace industry, as well as engineered hydraulic cylinders used in the material-handling and construction industries.

The Furniture, Flooring & Textile Products (34.7%) segment supplies a wide range of components for residential and work furniture manufacturers, as well as selected private-label finished furniture. It also sells carpet cushion, hard surface flooring underlayment, and textile and geo components.



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. In 2019, the company's net sales grew 11% 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. Although the recent market slowdown arising from COVID-19-induced shutdowns may compel the company to carry out the plan at a slower pace in 2020, it will certainly gain traction as the effects of the pandemic gradually phase out.

- ▲ **Acquisitions to Boost Growth:** In December 2019, Leggett acquired a manufacturer and distributor of a wide range of geosynthetic fabrics, grids and erosion control products for \$21 million in cash. The acquisition was part of its Geo Components unit within the Residential Products segment.

In January 2019, Leggett & Platt concluded the acquisition of ECS — the largest buyout 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.

- ▲ **Strong Liquidity Position:** Leggett has enough liquidity to manage the ongoing crisis. As of Jun 30, 2020, the company had \$1.3 billion in total liquidity, including cash and equivalents of \$209 million and \$1.1 billion available capacity under the revolving credit facility. Notably, its current liquidity is more than enough to meet the short-term obligation (including current debt maturities and operating lease liabilities) of \$93 million.

Moreover, its \$2.2 billion of long-term debt (including operating lease) was down from \$2.5 billion at March-end. Importantly, it has no significant debt maturities until August 2022. As of Jun 30, the total debt to capital ratio was 65.5, down from 67.9 in the first quarter.

Risks

- **Coronavirus-Related Woes:** Through most of the second quarter, Leggett's sales were down from the last year. Sales were down more than 50% in April, 30% in May and 15% in June from prior year. Although the company's performance started improving from the beginning of the third quarter, it still remains uncertain about future results.

Sales in the Bedding Products segment were down 28% year over year due to the government stay-at-home mandates. In the Specialized Products segment, sales were down nearly 47% from the year-ago period as most of the automotive OEM plants remained closed and restricted. Currently, its Asian facilities are operating at 90% of capacity, while North American and European facilities are operating at 80% and 70% of capacity, respectively. The company expects Aerospace demand to remain weak in the near future, given the challenges in the industry. Also, demand for Hydraulic Cylinders is likely to remain low.

In the Furniture, Flooring & Textile Products segment, sales were down 22% for the second quarter. Moreover, industry demand is likely to be challenged for the next few months.

- **Dismal Sales Surprise Trend:** Leggett delivered a negative sales surprise in second-quarter 2020, post 2019 and first-quarter 2020's dismal performance, due to a 29% decline in volume, 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 10 of the last 13 quarters owing to lower deliveries across the business. Its exit from Fashion Bed and Drawn Wire, along with demand declines in U.S. Spring, Automotive and Hydraulic Cylinders, Work Furniture and Home Furniture businesses are concerns for the company.

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.

- **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 and first-quarter 2020 were down 3% and 12%, respectively, followed by 31% fall in second-quarter 2020 from a year ago. The downtrend in the second quarter was mainly attributed to 29% volume reduction, and raw material-related selling price decrease as well as negative currency impact of 2%.

Last Earnings Report

Leggett Q2 Earnings Top, Sales Miss on Lower Volumes

Leggett & Platt, Incorporated reported mixed second-quarter 2020 results, wherein earnings beat the Zacks Consensus Estimate but revenues missed the same.

It witnessed lower sales and earnings in the quarter, largely due to the economic impact of the COVID-19 pandemic. Also, the company did not provide any guidance for 2020 due to coronavirus-led macroeconomic uncertainty.

Quarter Ending **06/2020**

Report Date	Aug 03, 2020
Sales Surprise	-7.52%
EPS Surprise	100.00%
Quarterly EPS	0.16
Annual EPS (TTM)	2.01

Quarter in Details

Leggett reported adjusted earnings of 16 cents per share, which beat the Zacks Consensus Estimate of 8 cents by 100%. However, the figure declined 75% from the year-ago period due to lower EBIT.

Total sales were \$845 million, which missed the consensus mark of \$914 million by 7.5% and decreased 30% from the prior-year level. The downside was mainly due to a 31% decline in organic sales given 29% lower volume. Also, raw material-related selling price decreases and negative currency impacted sales by 2%. Meanwhile, acquisitions contributed 1% to sales growth.

Adjusted EBIT fell 62% from the prior-year period to \$51 million, partially offset by lower fixed costs. Adjusted EBIT margin also contracted 520 basis points (bps) to 6%. Adjusted EBITDA margin also contracted 380 bps year over year to 11.5%.

Segment Details

Net trade sales in Bedding Products decreased 28% from the year-ago level to \$410.6 million due to 25% lower volume. Raw material-related price decreases and currency impact reduced sales by 3% due to COVID-related disruptions, and exited volume in Fashion Bed and Drawn Wire.

Adjusted EBIT margin contracted 570 bps to 5.2%. Adjusted EBITDA margin also fell 430 bps year over year.

The Specialized Products segment's trade sales declined 47% from the prior-year figure to \$140.8 million. The downside was due to a 46% year-over-year decline in volumes, thanks to the COVID-19 outbreak. Negative currency further impacted sales by 1%. Adjusted EBIT margin decreased 1,150 bps to 4%. EBITDA margin also contracted 780 bps from the prior year.

Trade sales in the Furniture, Flooring & Textile Products segment declined 22% from the prior-year level to \$293.7 million, mainly due to 25% lower organic sales due to 24% volume decline. Raw material-related selling price decreases and currency impact reduced sales by 1%. Adjusted EBIT margin of 8.1% was down 60 bps from the prior year. Adjusted EBITDA margin also fell 30 bps year over year to 10.2%.

Financials

As of Jun 30, 2020, the company had \$1.3 billion of liquidity, \$209 million cash on hand and \$1.1 billion available under the revolving credit facility.

Long-term debt at June-end was \$2.1 billion, down from \$2.4 billion reported in the first quarter. There are no significant maturities until August 2022. Cash flow from operations was \$112 million, down \$60 million from a year ago.

It expects capital expenditure to be \$60 million for 2020.

Valuation

Leggett shares are down 18.8% in the year-to-date period but up 6.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 19.3% and 4.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 0.5% and 4.4%, respectively.

The S&P 500 index is up 3.3% in the year-to-date period and 14.1% in the past year.

The stock is currently trading at 18.34X forward 12-month earnings, which compares to 15.53X for the Zacks sub-industry, 33.38X for the Zacks sector and 22.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24X and as low as 8.81X, with a 5-year median of 17.62X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$47 price target reflects 20.89X 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 F12M	Current	18.34	15.53	33.38	22.8
	5-Year High	24	18.03	33.6	22.8
	5-Year Low	8.81	9.41	16.13	15.25
	5-Year Median	17.62	15.37	19.86	17.58
P/S F12M	Current	1.2	0.94	2.38	3.67
	5-Year High	1.79	1.13	2.95	3.67
	5-Year Low	0.61	0.59	1.68	2.53
	5-Year Median	1.39	0.96	2.5	3.05
EV/EBITDA TTM	Current	11.37	9.83	11.08	12.55
	5-Year High	14.32	12.14	17.86	12.84
	5-Year Low	6.9	6.53	8.32	8.24
	5-Year Median	11.58	10.13	12.29	10.9

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Top 1% (3 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
American Woodmark Corporation (AMWD)	Outperform	1
Masonite International Corporation (DOOR)	Outperform	1
Sleep Number Corporation (SNBR)	Outperform	1
Tempur Sealy International, Inc. (TPX)	Outperform	1
Bassett Furniture Industries, Incorporated (BSET)	Neutral	NA
LaZBoy Incorporated (LZB)	Neutral	2
WillScot Corporation (WSC)	Neutral	2
WilliamsSonoma, Inc. (WSM)	Neutral	2

Industry Comparison Industry: Furniture				Industry Peers		
	LEG	X Industry	S&P 500	AMWD	DOOR	LZB
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Outperform	Neutral
Zacks Rank (Short Term)	1	-	-	1	1	2
VGM Score	C	-	-	B	A	B
Market Cap	5.46 B	271.45 M	23.61 B	1.51 B	2.17 B	1.48 B
# of Analysts	3	2	14	1	5	2
Dividend Yield	3.88%	0.00%	1.69%	0.00%	0.00%	0.00%
Value Score	B	-	-	B	B	B
Cash/Price	0.04	0.12	0.07	0.07	0.10	0.18
EV/EBITDA	10.48	7.34	13.32	8.27	13.54	8.50
PEG Ratio	2.39	1.67	2.95	NA	NA	NA
Price/Book (P/B)	4.50	1.14	3.22	2.15	3.36	2.05
Price/Cash Flow (P/CF)	10.07	9.03	12.79	6.32	11.43	9.23
P/E (F1)	21.72	21.76	22.02	14.54	18.97	23.37
Price/Sales (P/S)	1.28	0.47	2.57	0.91	1.02	0.87
Earnings Yield	4.60%	4.45%	4.29%	6.88%	5.27%	4.29%
Debt/Equity	1.82	0.12	0.77	1.01	1.42	0.38
Cash Flow (\$/share)	4.10	1.96	6.94	14.08	7.76	3.45
Growth Score	D	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	-0.24%	3.45%	10.41%	22.50%	20.56%	10.92%
Proj. EPS Growth (F1/F0)	-26.20%	-18.33%	-6.51%	-7.13%	27.81%	-36.81%
Curr. Cash Flow Growth	14.34%	1.10%	5.22%	9.87%	1.55%	19.92%
Hist. Cash Flow Growth (3-5 yrs)	2.33%	5.97%	8.55%	37.37%	24.87%	12.38%
Current Ratio	1.82	1.80	1.34	2.09	2.95	1.79
Debt/Capital	64.55%	12.04%	44.59%	50.24%	58.62%	27.39%
Net Margin	5.29%	1.06%	10.13%	4.54%	3.77%	4.55%
Return on Equity	21.65%	1.30%	14.59%	16.46%	18.12%	14.15%
Sales/Assets	0.89	1.27	0.51	1.03	1.11	1.21
Proj. Sales Growth (F1/F0)	-9.55%	0.00%	-1.45%	-1.98%	-0.48%	-5.42%
Momentum Score	C	-	-	C	B	F
Daily Price Chg	0.49%	0.00%	-0.17%	0.03%	-1.93%	1.75%
1 Week Price Chg	-2.34%	3.49%	2.30%	8.14%	4.86%	8.71%
4 Week Price Chg	16.45%	17.39%	6.41%	21.84%	10.02%	18.32%
12 Week Price Chg	44.55%	59.42%	15.42%	65.72%	39.95%	35.92%
52 Week Price Chg	6.45%	0.92%	2.88%	12.79%	73.71%	-1.57%
20 Day Average Volume	1,530,112	101,923	2,007,486	126,161	186,021	248,472
(F1) EPS Est 1 week change	1.61%	0.00%	0.00%	0.00%	10.64%	0.00%
(F1) EPS Est 4 week change	43.96%	54.89%	1.84%	67.67%	34.19%	-2.73%
(F1) EPS Est 12 week change	54.51%	68.74%	2.40%	91.25%	44.12%	24.09%
(Q1) EPS Est Mthly Chg	70.94%	65.00%	0.72%	207.69%	65.75%	-13.03%

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	B
Growth Score	D
Momentum Score	C
VGM Score	C

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

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