

Leggett & Platt Inc. (LEG)

\$39.40 (As of 07/29/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/04/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: A

Summary

Shares of Leggett have underperformed its industry year to date. Lower raw material-related selling price, reduced volumes across the business and currency headwinds have been impacting Leggett's performance. In fact, the company has a dismal sales surprise history. It missed the consensus mark for sales in nine of the last 12 quarters owing to lower deliveries across the business. Furthermore, coronavirus-led disruptions are pressing concern. Nonetheless, its long-term strategic plan, disciplined capital allocation, inorganic drive to enhance business portfolio are encouraging. Earnings estimates for 2020 and 2021 have increased 8.2% and 1.9%, respectively, depicting analysts' optimism over the stock's growth potential.

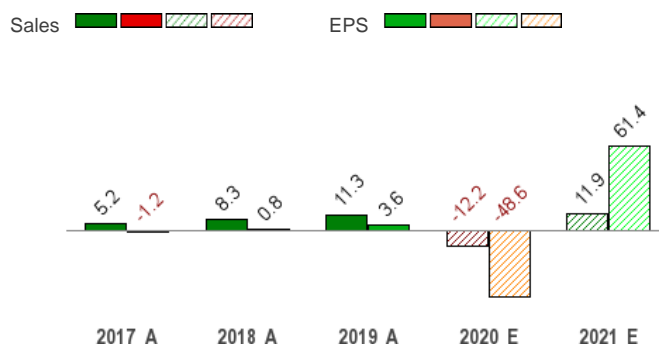
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.42 - \$22.03
20 Day Average Volume (sh)	997,399
Market Cap	\$5.2 B
YTD Price Change	-22.5%
Beta	1.57
Dividend / Div Yld	\$1.60 / 4.1%
Industry	Furniture
Zacks Industry Rank	Top 16% (40 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.5%
Last Sales Surprise	-6.4%
EPS F1 Est- 4 week change	8.4%
Expected Report Date	08/03/2020
Earnings ESP	-100.0%

P/E TTM	15.8
P/E F1	29.9
PEG F1	3.3
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,112 E	1,143 E	1,244 E	1,170 E	4,670 E
2020	1,046 A	914 E	1,113 E	1,099 E	4,172 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	\$0.47 E	\$0.41 E	\$0.60 E	\$0.68 E	\$2.13 E
2020	\$0.41 A	-\$0.02 E	\$0.38 E	\$0.55 E	\$1.32 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.

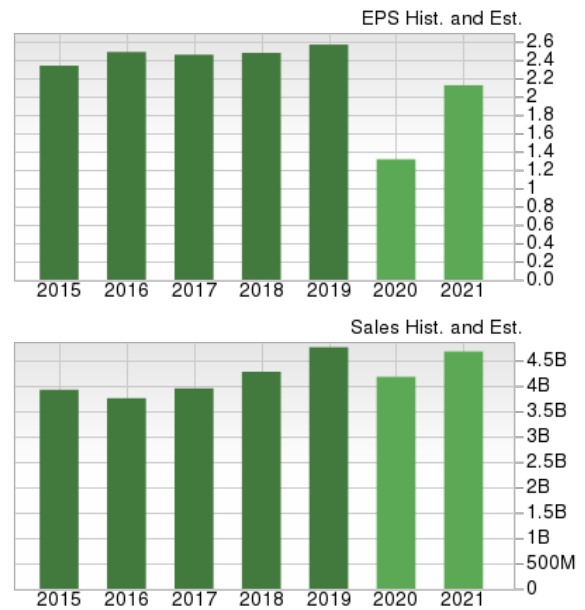
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/29/2020. The reports text is as of 07/30/2020.

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 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 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.

▲ **Enough Liquidity to Tide Over Coronavirus Pandemic:** Leggett has enough liquidity to manage the ongoing crisis. As of Mar, 31, 2020, the company had \$2,466.4 million of total debt, versus \$2,117.6 million at 2019-end. It ended the quarter with cash and cash equivalents of \$505.8 million, higher than \$247.6 million at 2019-end. As of Mar 31, the company's Debt/EBTIDA covenant was 4.25x but after Mar 31, its leverage covenant dropped to 3.5x (in line with the terms of the ECS acquisition). Although the company's cash on hand is quite low in comparison to debt, it has no debt maturities until August 2022. Also, it currently has \$734 million in total liquidity (including \$505.86 million of cash on hand and \$228 million in available capacity under the commercial paper program), which is enough to overcome short-term liabilities (including current debt maturities and operating lease liabilities) of \$90.8 million.

Reasons To Sell:

▼ **Coronavirus-Related Woes:** Through most of the first quarter, Leggett's weekly sales remained consistent with the last year. However, the last two weeks witnessed rapid sales decline across the business, with weekly sales average down nearly 40-50% on a year-over-year basis. Although the company's performance has started improving from the beginning of the second quarter, it still remains uncertain about future results.

Coronavirus-led impacts, lower volumes across the business, pricing lag and currency woes have been hurting the bottom line

In the Specialized Products segment, sales were down more than 60% in the first three weeks of the second quarter, as automotive OEM plants remain idle. Currently, its European and North American Automotive operations are inoperative, but Asian facilities are operating at a reduced rate. Although several OEMs plan to restart production in mid-May, it will take time to ramp up the supply chain, which still remains complex.

In the Furniture, Flooring & Textile Products segment, sales were down approximately 30% in the beginning of the second quarter.

Although it has undertaken several initiatives to overcome the burden of higher costs in this unprecedented scenario, the company has revoked its 2020 guidance due to coronavirus-led uncertainty.

▼ **Dismal Sales Surprise Trend:** Leggett delivered a negative sales surprise in first-quarter 2020 post 2019's dismal performance due to a 9% 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 nine of the last 12 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 affected the results in the first quarter.

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, from a year ago. The downtrend in the first quarter was mainly attributed to 9% volume reduction, a 3% impact from exited businesses and another 3% from raw material-related selling price decreases and negative currency impact.

Last Earnings Report

Leggett Q1 Earnings Top, Down Y/Y on Low Organic Sales

Leggett & Platt, Incorporated reported impressive earnings in first-quarter 2020. However, its top and bottom line declined on year over year basis.

It witnessed lower sales in the last two weeks of the first quarter and stabilized sales trends in the first three weeks of April, with an average level of 55%. Backed by aggressive cost reductions, aligned variable cost structure to current demand levels and eliminated non-essential expenses, the company expects fixed cost reduction of \$130-\$150 million in 2020. It reduced capital expenditure by more than 60% to \$60 million and suspended future acquisitions.

The company revoked its previously announced 2020 guidance due to coronavirus-led uncertainty.

Quarter Ending **03/2020**

Report Date	May 04, 2020
Sales Surprise	-6.42%
EPS Surprise	2.50%
Quarterly EPS	0.41
Annual EPS (TTM)	2.49

Quarter in Details

The company reported adjusted earnings of 41 cents per share, beating the Zacks Consensus Estimate of 40 cents by 2.5%. However, the figure declined 16.3% from the year-ago period due to lower EBIT and a higher tax rate (2 cents per share).

Net trade sales totaled \$1.046 billion, which missed the consensus mark of \$1.117 billion by 6.4% and decreased 9.5% from the prior-year level. The downside was mainly due to a 12% decline in organic sales, partially offset by 3% contribution from acquisition (primarily ECS).

Adjusted EBIT fell 11.4% from the prior-year period to \$93 million, owing to lower volume and higher bad debt expense, partially offset by low raw material costs. Adjusted EBIT margin also contracted 20 basis points (bps) to 8.9%. Adjusted EBITDA margin improved 30 bps year over year to 13.4%.

Segment Details

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.

Net trade sales in Bedding Products (excluding inter-segment sales) decreased 11% from the year-ago level to \$490.6 million. Organically, sales fell 15% from the prior-year quarter. Nonetheless, acquisitions added 4% to total net sales.

Adjusted EBIT margin contracted 120 bps to 7.8%. Adjusted EBITDA margin also fell 30 bps year over year.

The Specialized Products segment's trade sales declined 11% from the prior-year figure to \$234.5 million. Organically, sales contracted 11% year over year. The downside was owing to a 9% year-over-year decline in volumes on reduced demand in Automotive and Hydraulic Cylinders. Negative currency further impacted sales by 2%. EBIT margin decreased 180 bps to 11.8%. EBITDA margin also contracted 90 bps from the prior year.

Trade sales in the Furniture, Flooring & Textile Products segment declined 5% from the prior-year level to \$320.4 million, mainly due to 7% lower organic sales. Nevertheless, a small Geo Components acquisition contributed 2% to sales. Adjusted EBIT margin of 8.3% was up 260 bps from the prior year. Adjusted EBITDA margin also expanded 270 bps year over year to 10.3%.

Financials

As of Mar 31, 2020, the company had \$734 million of liquidity, \$506 million of cash on hand and \$228 million in available capacity under the commercial paper program, within a revolving credit facility.

Long-term debt at March-end was \$2.4 billion, slightly up from the corresponding period of last year. Debt of \$37.5 million is scheduled to mature in 2020, with no other maturity until August 2022. Trailing 12-month debt-to-adjusted EBITDA was 3.48.

The quarterly dividend was 40 cents, which was 2 cents higher than the prior-year quarter. Cash flow from operations was \$10.4 million, down from \$31.4 million a year ago.

Valuation

Leggett shares are down 22.5% in the year-to-date period and 1.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 16.1% and 7.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 0.4% and 2%, respectively.

The S&P 500 index is up 1.3% in the year-to-date period but up 9.7% in the past year.

The stock is currently trading at 22.07X forward 12-month earnings, which compares to 16.16X for the Zacks sub-industry, 33.89X for the Zacks sector and 22.44X 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 Neutral recommendation indicates that the stock will perform in-line with the market. Our \$41 price target reflects 22.91X 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	22.07	16.16	33.89	22.44
	5-Year High	24	19.28	33.89	22.44
	5-Year Low	8.81	9.41	16.12	15.25
	5-Year Median	17.62	15.39	19.85	17.52
P/S F12M	Current	1.22	0.85	2.31	3.54
	5-Year High	1.79	1.13	3.22	3.54
	5-Year Low	0.61	0.59	1.68	2.53
	5-Year Median	1.39	0.97	2.5	3.02
EV/EBITDA TTM	Current	10.24	9.7	10.48	12.11
	5-Year High	14.53	12.14	17.79	12.85
	5-Year Low	6.9	6.53	8.33	8.25
	5-Year Median	11.6	10.13	12.23	10.89

As of 07/29/2020

Industry Analysis Zacks Industry Rank: Top 16% (40 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
American Woodmark Corporation (AMWD)	Outperform	1
Sleep Number Corporation (SNBR)	Outperform	1
Tempur Sealy International, Inc. (TPX)	Outperform	1
Bassett Furniture Industries, Incorporated (BSET)	Neutral	NA
Masonite International Corporation (DOOR)	Neutral	3
LaZBoy Incorporated (LZB)	Neutral	3
WillScot Corporation (WSC)	Neutral	2
WilliamsSonoma, Inc. (WSM)	Neutral	3

Industry Comparison Industry: Furniture				Industry Peers		
	LEG	X Industry	S&P 500	AMWD	DOOR	LZB
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	3
VGM Score	C	-	-	A	B	A
Market Cap	5.21 B	334.58 M	22.69 B	1.39 B	2.19 B	1.30 B
# of Analysts	3	2.5	14	1	4	2
Dividend Yield	4.06%	0.00%	1.8%	0.00%	0.00%	1.98%
Value Score	C	-	-	A	C	B
Cash/Price	0.11	0.11	0.07	0.07	0.06	0.21
EV/EBITDA	10.16	7.39	13.11	7.80	13.94	7.48
PEG Ratio	3.26	1.72	3.05	NA	NA	NA
Price/Book (P/B)	4.21	1.41	3.15	1.98	3.71	1.82
Price/Cash Flow (P/CF)	9.61	8.19	12.28	5.82	11.52	8.19
P/E (F1)	29.64	22.23	22.27	13.39	23.71	20.74
Price/Sales (P/S)	1.12	0.49	2.46	0.84	1.00	0.76
Earnings Yield	3.35%	4.22%	4.25%	7.47%	4.22%	4.84%
Debt/Equity	2.05	0.14	0.75	1.01	1.52	0.38
Cash Flow (\$/share)	4.10	1.98	6.94	14.08	7.76	3.45
Growth Score	D	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	2.21%	7.14%	10.85%	22.50%	31.48%	10.92%
Proj. EPS Growth (F1/F0)	-48.77%	-12.07%	-7.70%	-7.13%	3.07%	-36.81%
Curr. Cash Flow Growth	14.34%	1.55%	5.31%	9.87%	1.55%	19.92%
Hist. Cash Flow Growth (3-5 yrs)	2.33%	6.42%	8.55%	37.37%	24.87%	12.38%
Current Ratio	2.08	1.80	1.31	2.09	2.89	1.79
Debt/Capital	67.16%	19.71%	44.23%	50.24%	60.25%	27.39%
Net Margin	6.86%	0.41%	10.45%	4.54%	3.22%	4.55%
Return on Equity	26.61%	2.83%	14.99%	16.46%	16.83%	14.15%
Sales/Assets	0.94	1.21	0.53	1.03	1.15	1.21
Proj. Sales Growth (F1/F0)	-12.22%	0.00%	-1.97%	-1.98%	-6.15%	-5.42%
Momentum Score	A	-	-	C	A	C
Daily Price Chg	4.23%	2.74%	1.52%	4.93%	3.73%	2.72%
1 Week Price Chg	-1.67%	-0.83%	0.37%	4.12%	-1.61%	-0.83%
4 Week Price Chg	14.60%	13.30%	5.44%	13.30%	15.98%	4.31%
12 Week Price Chg	41.93%	53.65%	15.38%	66.14%	49.54%	30.22%
52 Week Price Chg	-1.43%	-11.94%	-1.61%	-3.43%	67.81%	-14.19%
20 Day Average Volume	997,399	87,675	1,846,377	137,917	190,225	227,290
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	8.37%	19.23%	0.27%	67.67%	19.23%	-2.73%
(F1) EPS Est 12 week change	0.13%	24.09%	-0.85%	91.25%	10.69%	24.09%
(Q1) EPS Est Mthly Chg	9.98%	35.76%	0.13%	80.23%	26.53%	16.85%

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	D
Momentum Score	A
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.

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