Leggett & Platt (LEG)

Updated April 10th, 2018 by Nick McCullum

Key Metrics

Current Price:	$44	**5 Year CAGR Estimate:**	13.7%	**Quality Percentile:**	N/A
Fair Value Price:	$55	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	N/A
% Fair Value:	80%	**5 Year Valuation Multiple Estimate:**	4.4%	**Total Return Percentile:**	N/A
Dividend Yield:	3.3%	**5 Year Price Target**	$74	**Valuation Percentile:**	N/A

Overview & Current Events

Leggett & Platt is an engineered products manufacturer. The company's products include furniture, bedding components, store fixtures, die castings, and industrial products. Leggett & Platt has 17 business units, 20,000 employees, and 130 manufacturing facilities across 19 countries. The company qualifies for the Dividend Aristocrats Index with 46 years of consecutive dividend increases.

In February (2/5/2018), Leggett & Platt reported financial results for the fourth quarter of fiscal 2017. Quarterly sales increased by 9% while adjusted earnings-per-share increased by 11% (which excludes the impact of the U.S. Tax Cuts and Jobs Act). For the full-year period, sales increased by 5% while adjusted earnings-per-share declined by 1%. The company also provided guidance for the upcoming fiscal 2018. Leggett & Platt is expecting to generate between $2.65 and $2.85 of earnings-per-share on sales of $4.2 billion and $4.3 billion. Over the long-term, Leggett & Platt is targeting $5 billion of sales, a 13% EBIT margin, and earnings-per-share of $3.50 by 2020.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.73	$0.74	$1.15	$1.04	$1.66	$1.54	$1.78	$2.34	$2.62	$2.46	***$2.75***	***$3.68***
DPS	$1.00	$1.02	$1.06	$1.10	$1.14	$1.18	$1.22	$1.26	$1.34	$1.42	***$1.50***	***$2.00***

Between 2008 and 2017, Leggett & Platt compounded its adjusted earnings-per-share at a phenomenal rate of 14.5% per year. This is largely because 2008's earnings were depressed from normal levels. We believe that a 6% rate of long-term earnings-per-share growth is a reasonable estimate for Leggett & Platt, although we emphasize that this earnings growth will be lumpy. Leggett & Platt tends to perform poorly during recessions as consumers and businesses alike tend to trim their furniture budgets. Next year, the company's guidance is calling for $2.75 of earnings-per-share at the midpoint. Applying a 6% growth rate to this number gives a $3.68 figure for earnings-per-share in 2023.

Much of Leggett & Platt's future growth will come from acquisitions. Over the past few years, the company has acquired a U.S. manufacturer of aerospace tube assemblies, a distributor of geosynthetic products, a South African producer of mattress inner-springs, a surface critical bent tube manufacturer, and a producer of bonded carpet underlays. Based on Leggett & Platt's track record, we believe that more acquisition-based growth is very likely for this high-quality Dividend Aristocrat.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	24.0	21.9	18.6	21.9	14.1	20.1	19.4	19.5	18.3	20.0	***16.1***	***20.0***
Avg. Yld.	5.7%	6.3%	5.0%	4.8%	4.9%	3.8%	3.5%	2.8%	2.8%	2.9%	***3.3%***	***2.8%***

Leggett & Platt's median and mean price-to-earnings ratio over the last decade has been around 20. The company is trading at a 16.1 earnings multiple today (using expected 2018 earnings-per-share). Accordingly, we believe that valuation expansion should be a tailwind for the company's future total returns. If Leggett & Platt can revert to its long-term average price-to-earnings ratio of 20 over the next 5 years, this will contribute 4.4% to the company's annualized returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	21.9%	20.6%	21.8%	22.9%	21.4%	22.8%	25.2%	31.2%	30.1%	24.4%	***25.0%***	***25.0%***
Debt/A	47.7%	49.2%	49.8%	55.5%	55.9%	55.2%	63.5%	63.4%	63.4%	66.5%	***67.0%***	***70.0%***
Int. Cov.	6.0	7.4	9.0	8.6	9.0	7.6	9.4	13.4	15.1	13.2	***13.0***	***15.0***
Payout	137%	138%	92.2%	106%	68.7%	76.6%	68.5%	53.8%	51.1%	57.7%	***54.5%***	***54.3%***
Std. Dev.	54.5%	41.5%	29.9%	34.3%	23.2%	19.1%	17.3%	21.4%	19.4%	17.8%	***18.0%***	***20.0%***

Leggett & Platt's poor performance during the 2008-2009 financial crisis decimated its earnings and caused its payout ratio to temporarily exceed 100%. With that said, the company showed its willingness to place its shareholders' interests first by continuing to raise its dividend payment during this difficult operating environment. Leggett & Platt's other quality metrics have improved since then – most notably, its low-to-mid double-digit interest coverage ratio is far superior to the comparable metrics during the last recession.

Qualitatively, Leggett & Platt's competitive advantage comes from being a large player in a fragmented industry. In most of its product markets, there are few, or no, large competitors. In addition, the company has a deep intellectual property portfolio that consists of 1,500 patents and approximately 1,000 registered trademarks. The company's size, scale, and entrenched position in the engineered manufacturing industry makes it difficult for upstart competitors to enter the industry and gain market share.

Final Thoughts & Recommendation

Leggett & Platt's multi-decade streak of consistent dividend increases and durable competitive advantages shows that it is indeed a high-quality business. Moreover, the company is trading at a valuation multiple that is noticeably lower than its long-term averages. This will be a significant tailwind to future returns if its valuation expands to historical averages.

We believe that Leggett & Platt is on pace to deliver market-beating total returns moving forward, *provided that* there is not a major recession in the near-term. We recommend that investors layer in here, purchasing an initial position while prepared to deploy more capital should the economy experience a meaningful contraction.

Total Return Breakdown by Year