



Leggett & Platt (LEG)

Updated July 17th, 2018 by Nick McCullum

Key Metrics

Current Price: \$46	5 Year CAGR Estimate: 12.7%	Volatility Percentile: 38.2%
Fair Value Price: \$54	5 Year Growth Estimate: 6.0%	Momentum Percentile: 15.1%
% Fair Value: 85%	5 Year Valuation Multiple Estimate: 3.4%	Valuation Percentile: 86.2%
Dividend Yield: 3.3%	5 Year Price Target \$72	Total Return Percentile: 83.7%

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 14 business units, 22,000 employees, and 130 manufacturing facilities across 18 countries. The company qualifies for the Dividend Aristocrats Index as it has 47 years of consecutive dividend increases.

In late April, Leggett & Platt reported (4/26/18) financial results for the first quarter of fiscal 2018. In the quarter, sales of \$1,029 million increased by 7% over the prior year's period. Sales growth was driven by strength in Leggett & Platt's industrialized products and specialized products segments, particularly the recent acquisition of Precision Hydraulic Cylinders (which closed in February). Earnings-per-share of \$0.57 decreased by \$0.05 over last year's quarter, primarily due to the impact of input cost inflation. More specifically, Leggett & Platt's steel costs were up significantly year-on-year, which resulted in a material decrease in gross margins for this Dividend Aristocrat. We believe that this quarter's performance represents a temporary phenomenon for Leggett & Platt and that performance should improve moving forward as gross margin compression is partially offset by share repurchases, debt paydown, and accelerating sales growth. The markets seem to agree, as the company's stock has recovered all of its losses after dropping by as much as 5% following the earnings release.

Leggett & Platt also updated its 2018 financial guidance with the release of first quarter financial results. More specifically, the company now expects to generate 2018 sales growth of 9%-12%. Moreover, the pricing lag associated with steel cost inflation is expected to drag on net income. This has resulted in a \$0.05 reduction in earnings-per-share guidance, which now sits at \$2.60-\$2.80 (down from \$2.65-\$2.85 previously). Leggett & Platt also provided guidance for a 22% effective tax rate, 11.5%-12.0% operating margin, and approximately \$450 million in cash flow from operations.

More recently (5/15/18), Leggett & Platt increased its quarterly dividend by 5.6% per share to \$0.38. This marked the company's 47th consecutive year of dividend increases. Leggett & Platt also announced in the same press release the results of its annual meeting. More specifically, results were distributed on the selected of 9 board directors, the ratification of PricewaterhouseCoopers as Leggett & Platt's public accountant for 2018, and the endorsement of the company's current executive officers.

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	\$2.70	\$3.61
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

We are reducing our 2018 earnings-per-share guidance (and, accordingly, our 2023 estimate) to reflect Leggett & Platt's \$0.05/share reduction in 2018 net income guidance. We believe that despite these short-term challenges, the company will continue to reward its shareholders through generous dividend increases. Accordingly, we have left our dividend-per-share estimates for both 2018 and 2023 unchanged.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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	16.9	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 ratios over the last decade have both been around 20. The company is trading at a 16.9 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 3.4% to the company's annualized returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

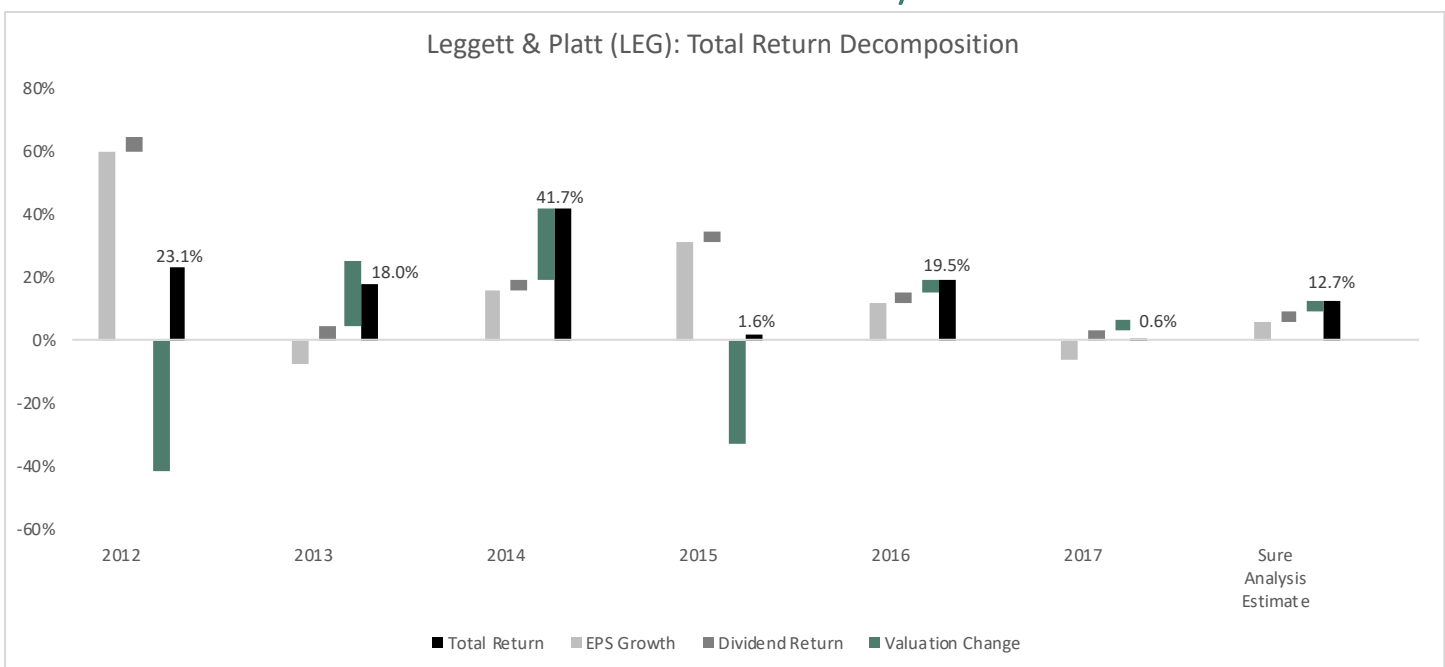
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	21.9%	20.6%	21.8%	22.9%	21.4%	22.8%	25.2%	31.2%	30.1%	24.4%	25.0%	25.0%
Debt/A	47.7%	49.2%	49.8%	55.5%	55.9%	55.2%	63.5%	63.4%	63.4%	66.5%	67.0%	70.0%
Int. Cov.	6.0	7.4	9.0	8.6	9.0	7.6	9.4	13.4	15.1	13.2	13.0	15.0
Payout	137%	138%	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%. The company still showed its willingness to place its shareholders' interests first by continuing to raise its dividend payment during this difficult operating environment. Its other quality metrics have improved since then – most notably, its low-to-mid double-digit interest coverage ratio has improved significantly.

Final Thoughts & Recommendation

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



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