# Leggett & Platt (LEG)

*Updated July 30th, 2018 by Nick McCullum*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $43 | **5 Year CAGR Estimate:** | 11.3% | **Volatility Percentile:** | 38.2% |
| **Fair Value Price:** | $47 | **5 Year Growth Estimate:** | 6.0% | **Momentum Percentile:** | 14.1% |
| **% Fair Value:** | 81% | **5 Year Valuation Multiple Estimate:** | 1.8% | **Valuation Percentile:** | 75.0% |
| **Dividend Yield:** | 3.5% | **5 Year Price Target** | $63 | **Total Return Percentile:** | 74.7% |

## 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 July, Leggett & Platt reported (7/26/18) financial results for the second quarter of fiscal 2018. In the quarter, sales of $1.1 billion increased by 11% over the same period a year ago, driven by 6% growth in volumes and 5% pricing increases. Unfortunately, the company was unable to translate this sales growth into strong bottom line performance. Leggett & Platt generated earnings-per-share of $0.63 in the quarter, a one cent decline over last year's comparable figure. As the company notes in its press release, "*the earnings benefit from sales growth was more than offset primarily by higher raw material costs, the timing of the pricing lag the company experiences when passing along the higher costs, and the corresponding increased LIFO expense*."

Shares of Leggett & Platt fell following the earnings release despite the fact that the company beat expectations for both earnings and revenue. This is likely due to the company's updated guidance for fiscal 2018. Leggett & Platt is reducing its full-year financial guidance due to a number of factors, including softening demand, higher steel costs, and lower-than-expected sales to certain major retailers. The company now expects to generate sales of $4.25-$4.35 billion (versus the prior range of $4.3-$4.4 billion). This represents an increase of 8%-10% over 2017's twelve-month reporting period. Earnings-per-share from continuing operating is expected to be $2.55-$2.70, which at the midpoint ($2.63) represents a $0.07/share reduction from the company's previous guidance band. We have updated our 2018 and 2023 earnings-per-share estimates accordingly.

Before that, Leggett & Platt increased (5/15/18) 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 selection 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 | ***$2.63*** | ***$3.52*** |
| **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 recent 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.

## 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 | ***16.5*** | ***18.0*** |
| Avg. Yld. | 5.7% | 6.3% | 5.0% | 4.8% | 4.9% | 3.8% | 3.5% | 2.8% | 2.8% | 2.9% | ***3.5%*** | ***2.9%*** |

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). Given the company's recent troubles (which include two consecutive quarters of negative guidance revisions) and comparable valuations in the diversified manufacturing industry, we are lowering our fair value price-to-earnings ratio to 18 (from 20 previously). If Leggett & Platt can revert to a price-to-earnings ratio of 18 over the next 5 years, this will contribute 1.8% to the company's annualized returns during this time period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

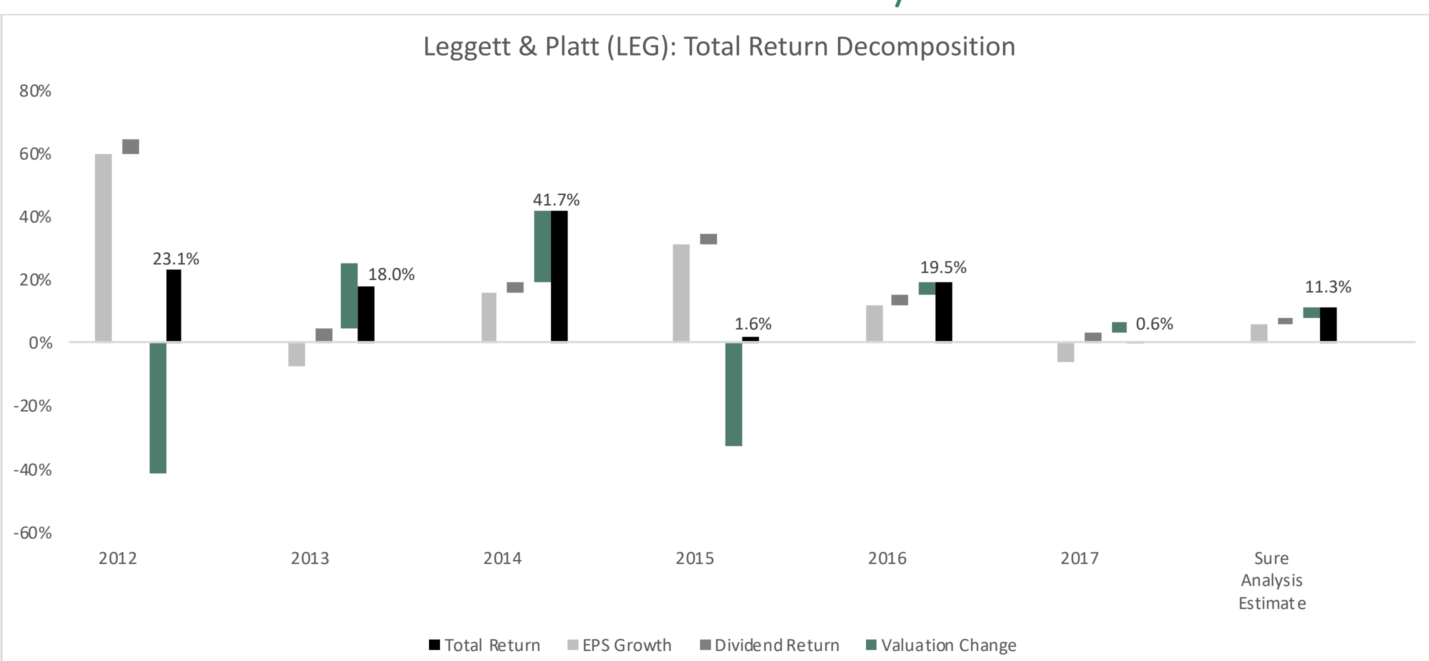
| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GP/A | 21.9% | 20.6% | 21.8% | 22.9% | 21.4% | 22.8% | 25.2% | 31.2% | 30.1% | 24.4% | ***25.0%*** | ***25.0%*** |
| Debt/A | 47.7% | 49.2% | 49.8% | 55.5% | 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. Our recommendation is unchanged since last quarter's research report. We suggest 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




*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.*