



# Leggett & Platt (LEG)

Updated November 10<sup>th</sup>, 2018 by Jonathan Weber

## Key Metrics

|                             |      |  |       |                                 |       |
|-----------------------------|------|--|-------|---------------------------------|-------|
| <b>Current Price:</b>       | \$38 | <b>5 Year CAGR Estimate:</b>               | 13.1% | <b>Volatility Percentile:</b>   | 44.5% |
| <b>Fair Value Price:</b>    | \$44 | <b>5 Year Growth Estimate:</b>             | 6.0%  | <b>Momentum Percentile:</b>     | 14.1% |
| <b>% Fair Value:</b>        | 86%  | <b>5 Year Valuation Multiple Estimate:</b> | 3.0%  | <b>Growth Percentile:</b>       | 48.1% |
| <b>Dividend Yield:</b>      | 4.1% | <b>5 Year Price Target</b>                 | \$59  | <b>Valuation Percentile:</b>    | 78.4% |
| <b>Dividend Risk Score:</b> | B    | <b>Retirement Suitability Score:</b>       | A     | <b>Total Return Percentile:</b> | 79.3% |

## 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. Leggett & Platt was founded in 1883, is headquartered in Carthage, MO, and is currently valued at \$4.9 billion.

Leggett & Platt announced its third quarter earnings results on October 25. During the third quarter Leggett & Platt was able to generate revenues of \$1.09 billion, which represents an increase of 7.9% compared to the prior year's quarter. Leggett & Platt's revenues increased due to organic growth primarily (6%), but acquisitions added 2% to the company's strong sales growth rate. The company generated a slightly lower operating margin during Q3, which is why operating income grew by only 6% year over year, compared to the ~8% revenue growth rate. The company nevertheless was able to grow its earnings-per-share at a solid pace of 10% compared to Q3 2017, earnings-per-share totaled \$0.67 during the quarter. Leggett & Platt has lowered its guidance for 2018. The company now forecasts sales of roughly \$4.25 billion during the current fiscal year, with earnings-per-share being forecasted in a range of \$2.40 to \$2.50. We have lowered our estimate for the current fiscal year to reflect the reduced guidance range.

In early November, Leggett & Platt has announced that the company will acquire Elite Comfort Solutions for \$1.25 billion. Elite Comfort Solutions is a specialty foam & hybrid boxed bed company that generates about \$600 million in sales annually. Leggett & Platt forecasts that the acquisition will close in early 2019, and that earnings-per-share will be enhanced from 2020 onwards. The acquisition is expected to be neutral to earnings-per-share in 2019.

## Growth on a Per-Share Basis

| Year          | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018          | 2023          |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>    | \$0.73 | \$0.74 | \$1.15 | \$1.04 | \$1.66 | \$1.54 | \$1.78 | \$2.34 | \$2.62 | \$2.46 | <b>\$2.45</b> | <b>\$3.28</b> |
| <b>DPS</b>    | \$1.00 | \$1.02 | \$1.06 | \$1.10 | \$1.14 | \$1.18 | \$1.22 | \$1.26 | \$1.34 | \$1.42 | <b>\$1.50</b> | <b>\$2.00</b> |
| <b>Shares</b> | 156    | 149    | 146    | 147    | 143    | 139    | 138    | 136    | 134    | 132    | <b>130</b>    | <b>120</b>    |

Leggett & Platt has grown its earnings-per-share by 14.5% annually between 2008 and 2017, which is a highly compelling growth rate. Earnings-per-share declined substantially during the financial crisis, though, from \$1.57 during 2006 to \$0.73 during 2009. Since then earnings have recovered strongly and set new records.

Leggett & Platt will likely continue to deliver meaningful earnings-per-share growth through a combination of organic sales increases, acquisitions, and ongoing share repurchases (which have lowered the company's share count considerably over the last couple of years). Earnings-per-share growth is unlikely to remain in the mid-teens.

## Valuation Analysis

| Year             | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Now         | 2023        |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| <b>Avg. P/E</b>  | 24.0 | 21.9 | 18.6 | 21.9 | 14.1 | 20.1 | 19.4 | 19.5 | 18.3 | 20.0 | <b>15.5</b> | <b>18.0</b> |
| <b>Avg. Yld.</b> | 5.7% | 6.3% | 5.0% | 4.8% | 4.9% | 3.8% | 3.5% | 2.8% | 2.8% | 2.9% | <b>4.1%</b> | <b>3.5%</b> |

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.



# Leggett & Platt (LEG)

Updated November 10<sup>th</sup>, 2018 by Jonathan Weber

Leggett & Platt has been trading at a high-teens to low 20s earnings multiple throughout most of the last decade. Compared to its historic valuation shares look relatively inexpensive right here, which is why we forecast considerable multiple expansion over the coming years. This should be a major benefit for Leggett & Platt's total returns. The relatively high dividend yield of 4.1% is another relevant factor. Coupled with a long and successful history of dividend increases, the relatively high dividend yield makes Leggett & Platt suitable for dividend growth oriented investors.

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

| Year             | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018         | 2023         |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| <b>GP/A</b>      | 21.9% | 20.6% | 21.8% | 22.9% | 21.4% | 22.8% | 25.2% | 31.2% | 30.1% | 24.4% | <b>26.0%</b> | <b>28.0%</b> |
| <b>Debt/A</b>    | 47.7% | 49.2% | 49.8% | 55.5% | 55.9% | 55.2% | 63.5% | 63.4% | 63.4% | 66.5% | <b>67.0%</b> | <b>68.0%</b> |
| <b>Int. Cov.</b> | 6.0   | 7.4   | 9.0   | 8.6   | 9.0   | 7.6   | 9.4   | 13.4  | 15.1  | 13.2  | <b>13.0</b>  | <b>12.0</b>  |
| <b>Payout</b>    | 137%  | 138%  | 92.2% | 106%  | 68.7% | 76.6% | 68.5% | 53.8% | 51.1% | 57.7% | <b>61.2%</b> | <b>61.0%</b> |
| <b>Std. Dev.</b> | 54.5% | 41.5% | 29.9% | 34.3% | 23.2% | 19.1% | 17.3% | 21.4% | 19.4% | 17.8% | <b>18.0%</b> | <b>20.0%</b> |

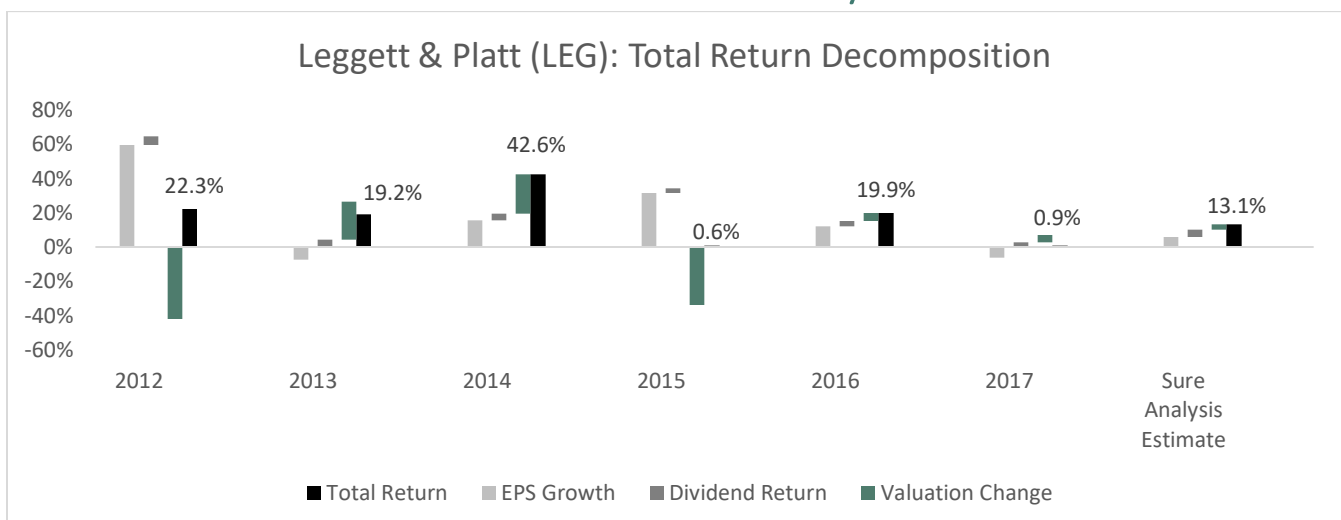
Leggett & Platt generates a solid amount of gross profits with its assets. The ratio has expanded slightly over the last decade. Leggett & Platt's leverage has risen as well. Roughly two-thirds of its assets are financed via debt today. This is not problematic, though, as Leggett & Platt's interest coverage ratio is still very strong. Leggett & Platt plans to use a \$500 million term loan for its acquisition of Elite Comfort Solutions. Leverage will likely grow a bit more during 2019.

Leggett & Platt has a long and successful history, but during the last financial crisis its earnings got decimated. Earnings-per-share dropped by roughly half between 2006 and 2008, which made the payout ratio rise above 100%. Leggett & Platt continued to raise the dividend, though, and rising earnings made the payout ratio decline over the following years. It is likely that another deep recession would hurt Leggett & Platt again. Overall, the company is not recession-resilient.

## Final Thoughts & Recommendation

Leggett & Platt is a high-quality engineered products manufacturer with Dividend Aristocrat status and solid fundamentals. Two downwards guidance revisions during 2018 have made its share price decline considerable. For long-term oriented investors this provides an attractive opportunity to enter a position in this dividend growth stock. Shares are trading below fair value, and offer a strong dividend yield as well as a promising total return outlook. Overall, Leggett & Platt earns a buy recommendation from Sure Dividend at current prices.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# Leggett & Platt (LEG)

Updated November 10<sup>th</sup>, 2018 by Jonathan Weber

## Income Statement Metrics

| Year                    | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Revenue</b>          | 4076  | 3055  | 3359  | 3619  | 3415  | 3477  | 3782  | 3917  | 3750  | 3944  |
| <b>Gross Profit</b>     | 691   | 630   | 655   | 669   | 696   | 710   | 790   | 923   | 899   | 868   |
| <b>Gross Margin</b>     | 17.0% | 20.6% | 19.5% | 18.5% | 20.4% | 20.4% | 20.9% | 23.6% | 24.0% | 22.0% |
| <b>SG&amp;A Exp.</b>    | 423   | 363   | 354   | 378   | 348   | 368   | 450   | 417   | 397   | 404   |
| <b>D&amp;A Exp.</b>     | 140   | 130   | 123   | 117   | 119   | 123   | 118   | 113   | 115   | 126   |
| <b>Operating Profit</b> | 259   | 252   | 286   | 277   | 330   | 324   | 328   | 492   | 485   | 446   |
| <b>Operating Margin</b> | 6.4%  | 8.3%  | 8.5%  | 7.7%  | 9.7%  | 9.3%  | 8.7%  | 12.6% | 12.9% | 11.3% |
| <b>Net Profit</b>       | 104   | 112   | 177   | 153   | 248   | 197   | 98    | 325   | 386   | 293   |
| <b>Net Margin</b>       | 2.6%  | 3.7%  | 5.3%  | 4.2%  | 7.3%  | 5.7%  | 2.6%  | 8.3%  | 10.3% | 7.4%  |
| <b>Free Cash Flow</b>   | 318   | 482   | 295   | 254   | 379   | 336   | 288   | 256   | 429   | 284   |
| <b>Income Tax</b>       | 65    | 77    | 72    | 60    | 56    | 51    | 70    | 122   | 120   | 138   |

## Balance Sheet Metrics

| Year                            | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------------------|------|------|------|------|------|------|------|------|------|------|
| <b>Total Assets</b>             | 3162 | 3061 | 3001 | 2915 | 3255 | 3108 | 3141 | 2964 | 2984 | 3551 |
| <b>Cash &amp; Equivalents</b>   | 165  | 261  | 245  | 236  | 359  | 273  | 333  | 253  | 282  | 526  |
| <b>Accounts Receivable</b>      | 551  | 470  | 479  | 439  | 412  | 433  | 469  | 448  | 449  | 521  |
| <b>Inventories</b>              | 495  | 409  | 435  | 441  | 489  | 496  | 481  | 505  | 520  | 571  |
| <b>Goodwill &amp; Int. Ass.</b> | 1073 | 1099 | 1083 | 1043 | 1198 | 1130 | 1034 | 995  | 956  | 991  |
| <b>Total Liabilities</b>        | 1509 | 1486 | 1477 | 1607 | 1813 | 1709 | 1986 | 1866 | 1890 | 2360 |
| <b>Accounts Payable</b>         | 175  | 199  | 226  | 257  | 285  | 339  | 370  | 307  | 351  | 430  |
| <b>Long-Term Debt</b>           | 874  | 799  | 764  | 836  | 1055 | 870  | 968  | 945  | 960  | 1252 |
| <b>Shareholder's Equity</b>     | 1653 | 1552 | 1505 | 1297 | 1435 | 1391 | 1147 | 1086 | 1092 | 1190 |
| <b>D/E Ratio</b>                | 0.53 | 0.51 | 0.51 | 0.64 | 0.74 | 0.63 | 0.84 | 0.87 | 0.88 | 1.05 |

## Profitability & Per Share Metrics

| Year                    | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 2.9%  | 3.6%  | 5.8%  | 5.2%  | 8.0%  | 6.2%  | 3.1%  | 10.7% | 13.0% | 9.0%  |
| <b>Return on Equity</b> | 5.5%  | 7.0%  | 11.6% | 10.9% | 18.2% | 14.0% | 7.7%  | 29.1% | 35.4% | 25.6% |
| <b>ROIC</b>             | 3.6%  | 4.6%  | 7.6%  | 6.9%  | 10.7% | 8.3%  | 4.5%  | 15.6% | 18.8% | 13.0% |
| <b>Shares Out.</b>      | 156   | 149   | 146   | 147   | 143   | 139   | 138   | 136   | 134   | 132   |
| <b>Revenue/Share</b>    | 24.24 | 19.10 | 21.92 | 24.62 | 23.39 | 23.61 | 26.41 | 27.41 | 26.79 | 28.72 |
| <b>FCF/Share</b>        | 1.89  | 3.02  | 1.92  | 1.73  | 2.59  | 2.28  | 2.01  | 1.79  | 3.06  | 2.07  |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.