



# Leggett & Platt (LEG)

Updated February 5<sup>th</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$41	<b>5 Year CAGR Estimate:</b>	12.0%	<b>Volatility Percentile:</b>	37.2%
<b>Fair Value Price:</b>	\$46	<b>5 Year Growth Estimate:</b>	6.0%	<b>Momentum Percentile:</b>	58.3%
<b>% Fair Value:</b>	89%	<b>5 Year Valuation Multiple Estimate:</b>	2.3%	<b>Growth Percentile:</b>	50.7%
<b>Dividend Yield:</b>	3.7%	<b>5 Year Price Target</b>	\$61	<b>Valuation Percentile:</b>	56.3%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	56.1%

## 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 \$5.3 billion.

Leggett & Platt reported its fourth quarter and full year earnings results on February 4. The company reported revenues of \$1.05 billion for the fourth quarter, which represents a 6.7% growth rate compared to the prior year's quarter. Leggett & Platt's revenues grew by 8% during all of 2018. The company's revenue growth was based on a 3% volume gain and higher price realizations. Volumes were driven by gains for the Automotive, Bedding, Work Furniture, and Aerospace segments, whereas sales for Home Furniture and Flooring declined compared to the prior year's quarter. Leggett & Platt also benefited from acquisitions, which added 2% to the company's revenue growth. Leggett & Platt generated earnings-per-share of \$0.62 during the fourth quarter, which represents an increase of 5% compared to the prior year's fourth quarter. For all of 2018, Leggett & Platt grew its earnings-per-share by 1%, from \$2.46 to \$2.48.

Leggett & Platt has announced guidance ranges for sales as well as for earnings-per-share during the Q4 earnings call. The company forecasts revenues of \$4.95 billion to \$5.10 billion during fiscal 2019, which represents a revenue growth rate of 16% to 19% compared to the revenues that the company generated during fiscal 2018. Revenue growth will be positively impacted by the acquisition of Elite Comfort Solutions, a specialty foam & hybrid boxed bed company that Leggett & Platt acquired in January. This takeover will generate revenues of \$675 million during fiscal 2019, which means that organic revenues will likely grow by 0%-3% during the current year. Leggett & Platt guides for earnings-per-share in a range of \$2.45 to \$2.65 for fiscal 2019.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$0.74	\$1.15	\$1.04	\$1.66	\$1.54	\$1.78	\$2.34	\$2.62	\$2.46	\$2.48	<b>\$2.55</b>	<b>\$3.41</b>
<b>DPS</b>	\$1.02	\$1.06	\$1.10	\$1.14	\$1.18	\$1.22	\$1.26	\$1.34	\$1.42	\$1.50	<b>\$1.58</b>	<b>\$2.10</b>
<b>Shares</b>	149	146	147	143	139	138	136	134	132	131	<b>130</b>	<b>125</b>

Leggett & Platt has grown its earnings-per-share by 14.4% annually between 2009 and 2018, which is a highly compelling growth rate. This included the easy comps following the last financial crisis, though. More recently, Leggett & Platt's earnings-per-share growth rate has declined substantially. Between 2013 and 2018 Leggett & Platt has grown its earnings-per-share by 10% annually, and following 2016 there was no positive growth at all. Leggett & Platt's profitability is vulnerable during recessions. Between 2008 and 2009, Leggett & Platt's earnings-per-share declined by more than 50%, although they recovered to a new record level during the following years.

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 will not be in the double-digits, though.

*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.*



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## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	21.9	18.6	21.9	14.1	20.1	19.4	19.5	18.3	20.0	14.5	16.1	18.0
Avg. Yld.	6.3%	5.0%	4.8%	4.9%	3.8%	3.5%	2.8%	2.8%	2.9%	4.1%	3.7%	3.4%

Leggett & Platt has traded at a relatively high valuation throughout much of the last decade, with shares being valued at a high teens to low 20s earnings multiple during almost every year. Right now shares look comparatively cheap, although we believe that shares will likely trade somewhat lower than the long-term median earnings multiple, due to Leggett & Platt's lower earnings growth rate. We nevertheless see upside potential towards a fair price to earnings multiple of 18. Leggett & Platt offers an above-average dividend yield of 3.7% to its owners right here.

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

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	138%	92.2%	106%	68.7%	76.6%	68.5%	53.8%	51.1%	57.7%	60.5%	62.0%	61.6%

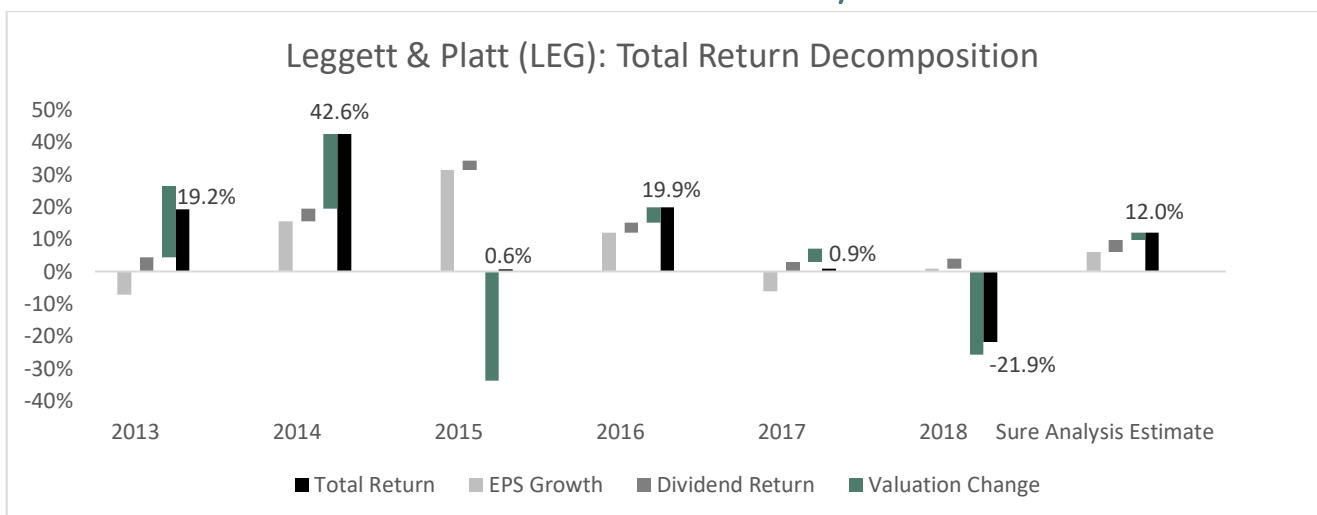
Leggett & Platt's dividend payout ratio has been very high, well above 100%, during the last financial crisis. The company did not cut its dividend during those troubled times, though. Since then the dividend payout ratio has declined considerably, and the dividend coverage is solid right here. Leggett & Platt's dividend payout ratio could rise above 100% during another recession, but due to the decades-long dividend track record we still rate the payout as relatively safe.

Leggett & Platt has a long and successful history, but during the last financial crisis its earnings were decimated. It is likely that another deep recession would hurt Leggett & Platt. Overall, the company is not recession-resilient. Leggett & Platt will likely continue to make acquisitions in order to grow its size and scale, which serve as advantages versus peers.

## Final Thoughts & Recommendation

Leggett & Platt has generated strong earnings growth in the past, and the dividend growth track record of close to 50 years is very compelling as well. Going forward we believe Leggett & Platt's earnings-per-share growth rate will be slower, but the company's shares still offer solid total returns over the coming years. Leggett & Platt is vulnerable versus steep economic downturns, but for those that are not afraid of this risk, the company earns a buy recommendation at current prices.

## Total Return Breakdown by Year



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## 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.

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