



Leggett & Platt (LEG)

Updated May 13th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	14.7%	Volatility Percentile:	47.8%
Fair Value Price:	\$46	5 Year Growth Estimate:	6.0%	Momentum Percentile:	32.5%
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.4%	Growth Percentile:	52.8%
Dividend Yield:	4.3%	5 Year Price Target	\$61	Valuation Percentile:	80.6%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	84.1%

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 \$4.9 billion.

Leggett & Platt reported its first quarter earnings results on April 30. The company reported revenues of \$1.16 billion for the first quarter, which represents a 12.6% growth rate compared to the prior year's quarter. Revenues nevertheless missed the consensus analyst estimate. The company's revenue growth was based on a 13% sales gain thanks to the impact of acquisitions, while organic revenues declined by 1% year over year. Sales volumes were down 3% when acquisitions are backed out, but improved pricing offset those volume declines partially. Leggett & Platt generated earnings-per-share of \$0.49 during the first quarter, which represents a decline versus earnings-per-share of \$0.57 during the previous year's first quarter. Leggett & Platt's earnings-per-share for the first quarter also missed the analyst consensus estimate by \$0.03, or roughly 5%.

Leggett & Platt's guidance ranges for sales as well as for earnings-per-share were maintained at the previous level. 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 that closed earlier this year, and that has already positively impacted Q1's reported revenues. This takeover should generate additional revenues of about \$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
EPS	\$0.74	\$1.15	\$1.04	\$1.66	\$1.54	\$1.78	\$2.34	\$2.62	\$2.46	\$2.48	\$2.55	\$3.41
DPS	\$1.02	\$1.06	\$1.10	\$1.14	\$1.18	\$1.22	\$1.26	\$1.34	\$1.42	\$1.50	\$1.60	\$2.10
Shares	149	146	147	143	139	138	136	134	132	131	130	125

Leggett & Platt grew 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 grew its earnings-per-share by 10% annually, and following 2016, there was no positive growth at all. Leggett & Platt's profitability is also 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 as high as it was in the past.

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	14.5	18.0
Avg. Yld.	6.3%	5.0%	4.8%	4.9%	3.8%	3.5%	2.8%	2.8%	2.9%	4.1%	4.3%	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 most of these years. Right now shares look comparatively cheap, although we believe that shares will likely trade somewhat lower than the long-term median earnings multiple going forward. We nevertheless see upside potential towards a fair price to earnings multiple of 18, which should result in multiple expansion tailwinds. Leggett & Platt offers an above-average dividend yield of 4.3% on top of that.

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%	62.7%	61.6%

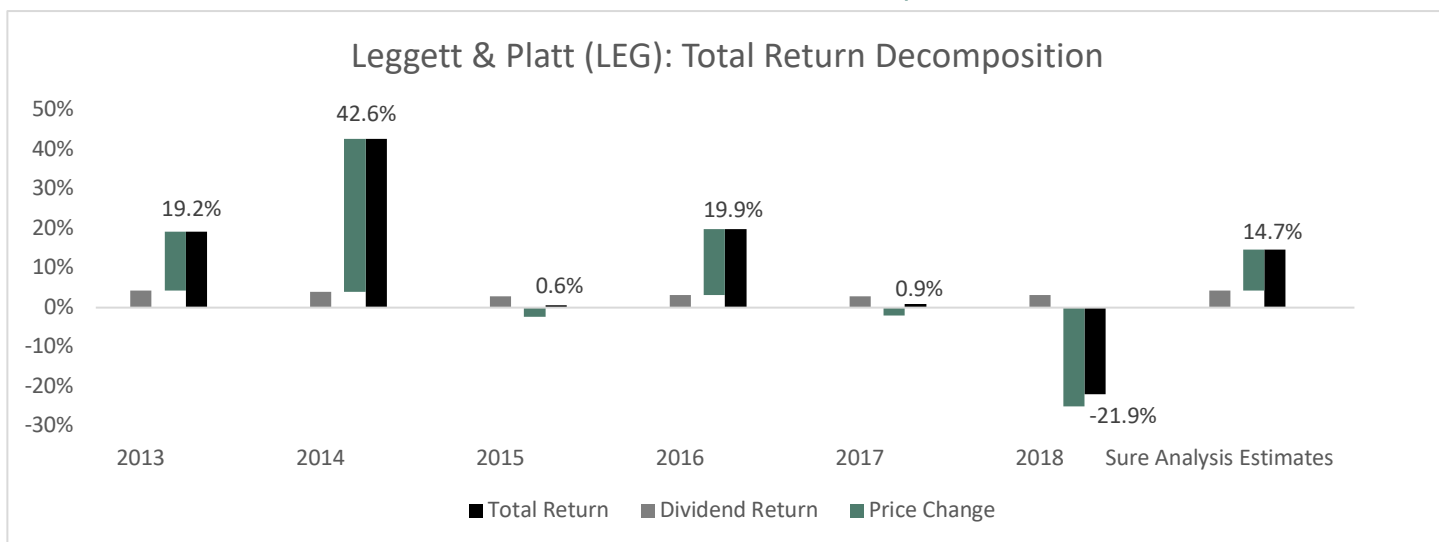
Leggett & Platt's dividend payout ratio was very high, well above 100%, during the last financial crisis. The company did not cut its dividend during those troubled times, though. Since then the dividend payout ratio has declined considerably, and the dividend coverage is solid today. Leggett & Platt's 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 is a company that has performed very well in the past, both in terms of generating earnings growth, as well as when it comes to its decades-long dividend growth track record. Going forward, we believe Leggett & Platt's earnings-per-share growth rate will be substantially slower, but the company's shares still offer a solid total return outlook over the coming years. Leggett & Platt is vulnerable to 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3055	3359	3619	3415	3477	3782	3917	3750	3944	4270
Gross Profit	630	655	669	696	710	790	923	902	882	889
Gross Margin	20.6%	19.5%	18.5%	20.4%	20.4%	20.9%	23.6%	24.0%	22.4%	20.8%
SG&A Exp.	363	354	378	348	368	450	417	396	401	425
D&A Exp.	130	123	117	119	123	118	113	115	126	136
Operating Profit	252	286	277	330	324	328	492	488	464	450
Operating Margin	8.3%	8.5%	7.7%	9.7%	9.3%	8.7%	12.6%	13.0%	11.8%	10.5%
Net Profit	112	177	153	248	197	98	325	386	293	306
Net Margin	3.7%	5.3%	4.2%	7.3%	5.7%	2.6%	8.3%	10.3%	7.4%	7.2%
Free Cash Flow	482	295	254	379	336	288	256	429	284	281
Income Tax	77	72	60	56	51	70	122	120	138	78

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3061	3001	2915	3255	3108	3141	2964	2984	3551	3382
Cash & Equivalents	261	245	236	359	273	333	253	282	526	268
Accounts Receivable	470	479	439	412	433	469	448	449	521	544
Inventories	409	435	441	489	496	481	505	520	571	634
Goodwill & Int. Ass.	1099	1083	1043	1198	1130	1034	995	956	991	1013
Total Liabilities	1486	1477	1607	1813	1709	1986	1866	1890	2360	2224
Accounts Payable	199	226	257	285	339	370	307	351	430	465
Long-Term Debt	799	764	836	1055	870	968	945	960	1252	1169
Shareholder's Equity	1552	1505	1297	1435	1391	1147	1086	1092	1190	1157
D/E Ratio	0.51	0.51	0.64	0.74	0.63	0.84	0.87	0.88	1.05	1.01

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.6%	5.8%	5.2%	8.0%	6.2%	3.1%	10.7%	13.0%	9.0%	8.8%
Return on Equity	7.0%	11.6%	10.9%	18.2%	14.0%	7.7%	29.1%	35.4%	25.6%	26.1%
ROIC	4.6%	7.6%	6.9%	10.7%	8.3%	4.5%	15.6%	18.8%	13.0%	12.8%
Shares Out.	149	146	147	143	139	138	136	134	132	131
Revenue/Share	19.10	21.92	24.62	23.39	23.61	26.41	27.41	26.79	28.72	31.58
FCF/Share	3.02	1.92	1.73	2.59	2.28	2.01	1.79	3.06	2.07	2.08

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

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