Leggett & Platt (LEG)

Updated February 7th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	6.4%	**Market Cap:**	$6.0B
Fair Value Price:	$40	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	03/14/20[1]
% Fair Value:	115%	**5 Year Valuation Multiple Estimate:**	-2.8%	**Dividend Payment Date:**	04/15/20[2]
Dividend Yield:	3.5%	**5 Year Price Target**	$54	**Years Of Dividend Growth:**	47
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	5.3%

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 $6 billion.

Leggett & Platt reported its fourth quarter earnings results on February 3. The company reported revenues of $1.14 billion for the quarter, which represents an 8.6% growth rate compared to the prior year's quarter. Revenues missed the consensus analyst estimate slightly. The company's revenue growth was based on a 13% sales gain thanks to the impact of acquisitions, while the company's decision to exit some businesses resulted in a small headwind to revenues.

Leggett & Platt generated earnings-per-share of $0.68 during the fourth quarter, which represents a solid gain of 10% versus earnings-per-share of $0.62 during the previous year's quarter. Leggett & Platt's earnings-per-share for the fourth quarter also beat the analyst consensus estimate slightly.

Leggett & Platt's management announced new guidance ranges for sales and earnings-per-share for fiscal 2020 during the earnings call. The company forecasts revenues of $4.7 billion to $4.9 billion for fiscal 2020, which represents a very small revenue increase versus 2019, using the midpoint of the guidance range. Leggett & Platt also guides for earnings-per-share in a range of $2.40 to $2.60 for the current year, which represents a small decline versus 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.15	$1.04	$1.66	$1.54	$1.78	$2.34	$2.62	$2.46	$2.48	$2.57	***$2.50***	***$3.35***
DPS	$1.06	$1.10	$1.14	$1.18	$1.22	$1.26	$1.34	$1.42	$1.50	$1.58	***$1.60***	***$2.04***
Shares[3]	146	147	143	139	138	136	134	132	131	136	***133***	***125***

Leggett & Platt grew its earnings-per-share by 14% annually between 2009 and 2019, which is a highly compelling growth rate. This included easy comparables following the last financial crisis, though. More recently, Leggett & Platt's earnings-per-share growth rate has declined substantially. Between 2013 and 2019 Leggett & Platt grew its earnings-per-share by 10% annually, and following 2016, there was no meaningful 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 the company's profits recovered to a new record level in the following years.

In the long run, Leggett & Platt will likely continue to deliver 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, backing out the impact of some share issuance during the Elite Comfort

[1] Estimated date
[2] Estimated date
[3] In Millions

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Solutions acquisition. The acquisition of Elite Comfort Solutions should continue to benefit Leggett & Platt's growth rate over the coming years, although it looks like 2020 will be a year during which earnings will be slightly down.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	18.6	21.9	14.1	20.1	19.4	19.5	18.3	20.0	14.5	19.8	***18.4***	***16.0***
Avg. Yld.	5.0%	4.8%	4.9%	3.8%	3.5%	2.8%	2.8%	2.9%	4.1%	3.1%	***3.5%***	***3.8%***

Leggett & Platt 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. Following a small share price decline since our last update, shares are looking less expensive now, but we nevertheless see downside potential towards a fair price to earnings multiple of 16, which will, we believe, result in a headwind for the company's total returns. Leggett & Platt offers an above-average dividend yield of 3.5% at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	92.2%	106%	68.7%	76.6%	68.5%	53.8%	51.1%	57.7%	60.5%	61.5%	***64.0%***	***61.0%***

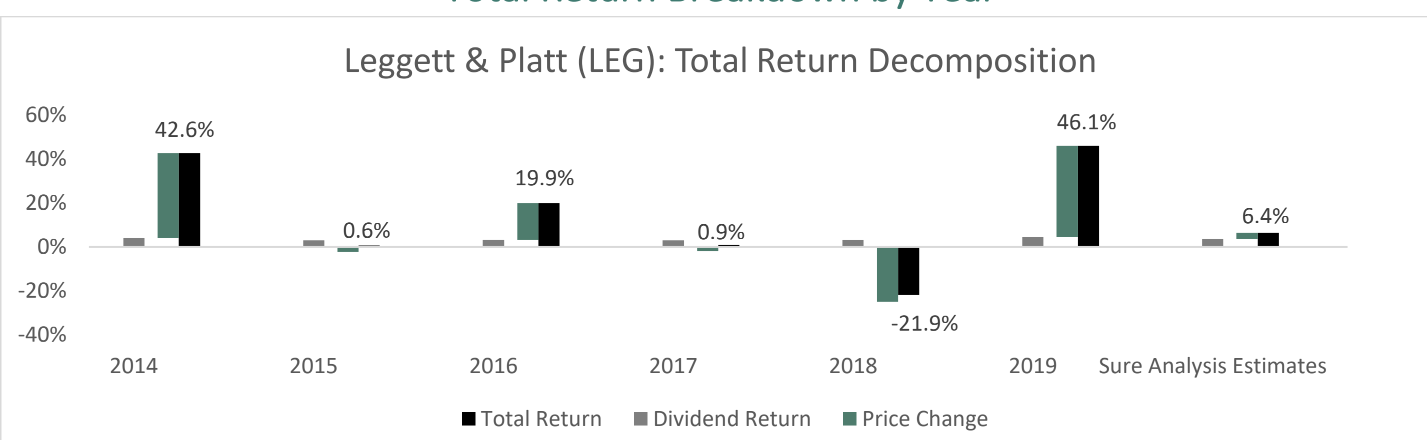
Leggett & Platt's dividend payout ratio was very high - well above 100% - during the last financial crisis. The company nevertheless did not cut its dividend during those troubled times. Since then the dividend payout ratio has declined considerably, and dividend coverage is solid today. Leggett & Platt's 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 also hurt Leggett & Platt. 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 lower, but the company's earnings-per-share should still continue to grow in the long run. Leggett & Platt is vulnerable to steep economic downturns, and shares look overvalued at current prices, which is why we rate Leggett & Platt a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3,359	3,619	3,415	3,477	3,782	3,917	3,750	3,944	4,270	4,753
Gross Profit	655	669	696	710	790	923	902	882	889	1,051
Gross Margin	19.5%	18.5%	20.4%	20.4%	20.9%	23.6%	24.0%	22.4%	20.8%	22.1%
SG&A Exp.	354	378	348	368	450	417	396	401	425	470
D&A Exp.	123	117	119	123	118	113	115	126	136	192
Operating Profit	281	273	322	317	321	486	486	461	443	513
Operating Margin	8.4%	7.5%	9.4%	9.1%	8.5%	12.4%	13.0%	11.7%	10.4%	10.8%
Net Profit	177	153	248	197	98	325	386	293	306	334
Net Margin	5.3%	4.2%	7.3%	5.7%	2.6%	8.3%	10.3%	7.4%	7.2%	7.0%
Free Cash Flow	295	254	379	336	288	256	429	284	281	525
Income Tax	72	60	56	51	70	122	120	138	78	96

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3,001	2,915	3,255	3,108	3,141	2,964	2,984	3,551	3,382	4,816
Cash & Equivalents	245	236	359	273	333	253	282	526	268	248
Accounts Receivable	479	439	412	433	469	448	449	521	544	592
Inventories	435	441	489	496	481	505	520	571	634	637
Goodwill & Int. Ass.	1,083	1,043	1,198	1,130	1,034	995	956	991	1,013	2,170
Total Liabilities	1,477	1,607	1,813	1,709	1,986	1,866	1,890	2,360	2,224	3,504
Accounts Payable	226	257	285	339	370	307	351	430	465	463
Long-Term Debt	764	836	1,055	870	968	945	960	1,252	1,169	2,118
Shareholder's Equity	1,505	1,297	1,435	1,391	1,147	1,086	1,092	1,190	1,157	1,313
D/E Ratio	0.51	0.64	0.74	0.63	0.84	0.87	0.88	1.05	1.01	1.61

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	5.8%	5.2%	8.0%	6.2%	3.1%	10.7%	13.0%	9.0%	8.8%	8.1%
Return on Equity	11.6%	10.9%	18.2%	14.0%	7.7%	29.1%	35.4%	25.6%	26.1%	27.0%
ROIC	7.6%	6.9%	10.7%	8.3%	4.5%	15.6%	18.8%	13.0%	12.8%	11.6%
Shares Out.	146	147	143	139	138	136	134	132	131	136
Revenue/Share	21.92	24.62	23.39	23.61	26.41	27.41	26.79	28.72	31.58	35.10
FCF/Share	1.92	1.73	2.59	2.28	2.01	1.79	3.06	2.07	2.08	3.88

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