Leggett & Platt (LEG)

Updated August 9th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$48	**5 Year CAGR Estimate:**	7.8%	**Market Cap:**	$6.4B
Fair Value Price:	$47	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	09/14/21[1]
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.3%	**Dividend Payment Date:**	10/15/21
Dividend Yield:	3.5%	**5 Year Price Target**	$60	**Years Of Dividend Growth:**	48
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	5.0%

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 and more than 20,000 employees. The company qualifies for the Dividend Aristocrats Index as it has 48 years of consecutive dividend increases. Leggett & Platt was founded in 1883 and is headquartered in Carthage, MO.

Leggett & Platt reported its second quarter earnings results on August 2. The company reported revenues of $1.3 billion for the quarter, which represents a 50% increase compared to the prior year's quarter. Revenues beat the consensus analyst estimate by $40 million. The company's revenue increase represents a reversal of trends in previous quarters, but it should be noted that the comparison to Q2 2020 was an easy one, due to that period's low sales.

Leggett & Platt generated earnings-per-share of $0.66 during the second quarter, which represents a huge increase versus earnings-per-share of $0.15 that the company generated during the previous year's quarter. Leggett & Platt's earnings-per-share for the quarter beat the analyst consensus estimate easily, by $0.12. Management has also updated and increased its guidance for the current fiscal year, the company is forecasting revenues of $4.9 billion to $5.1 billion, and earnings-per-share of $2.86 to $3.06. This would represent a meaningful improvement versus the earnings-per-share of $2.13 that the company generated during fiscal 2020, and profits will, if management is correct about the outlook for the remainder of the year, breach above pre-crisis profits generated in 2019.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.04	$1.66	$1.54	$1.78	$2.34	$2.62	$2.46	$2.48	$2.57	$2.13	***$2.96***	***$3.78***
DPS	$1.10	$1.14	$1.18	$1.22	$1.26	$1.34	$1.42	$1.50	$1.58	$1.60	***$1.68***	***$2.04***
Shares[2]	147	143	139	138	136	134	132	131	135	136	***136***	***130***

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, however. More recently, Leggett & Platt's earnings-per-share growth rate declined substantially. Between 2013 and 2019 Leggett & Platt grew its earnings-per-share by 10% annually, and following 2016, there was no 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%, but the company's profits recovered to a new record level over 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 slightly over the last couple of years, backing out the impact of some share issuance during the Elite Comfort Solutions acquisition. During 2020, profits came under pressure due to the coronavirus-caused recession. We believe that the company will recover from this during the early 2020s, as the pandemic is more of a temporary issue.

[1] Estimated date

[2] In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	21.9	14.1	20.1	19.4	19.5	18.3	20.0	14.5	19.8	20.7	***16.2***	***16.0***
Avg. Yld.	4.8%	4.9%	3.8%	3.5%	2.8%	2.8%	2.9%	4.1%	3.1%	3.6%	***3.5%***	***3.4%***

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. Based on management's guidance figures, shares are trading for around 16 times this year's earnings right now. We do not believe that the 18-20 times earnings ratios from the past will remain in place forever, as growth slowed down even before the virus crisis, which is why a mid-teens earnings multiple seems more appropriate. Shares look fairly valued right now, we believe.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	106%	68.7%	76.6%	68.5%	53.8%	51.1%	57.7%	60.5%	61.5%	75.1%	***56.8%***	***54.1%***

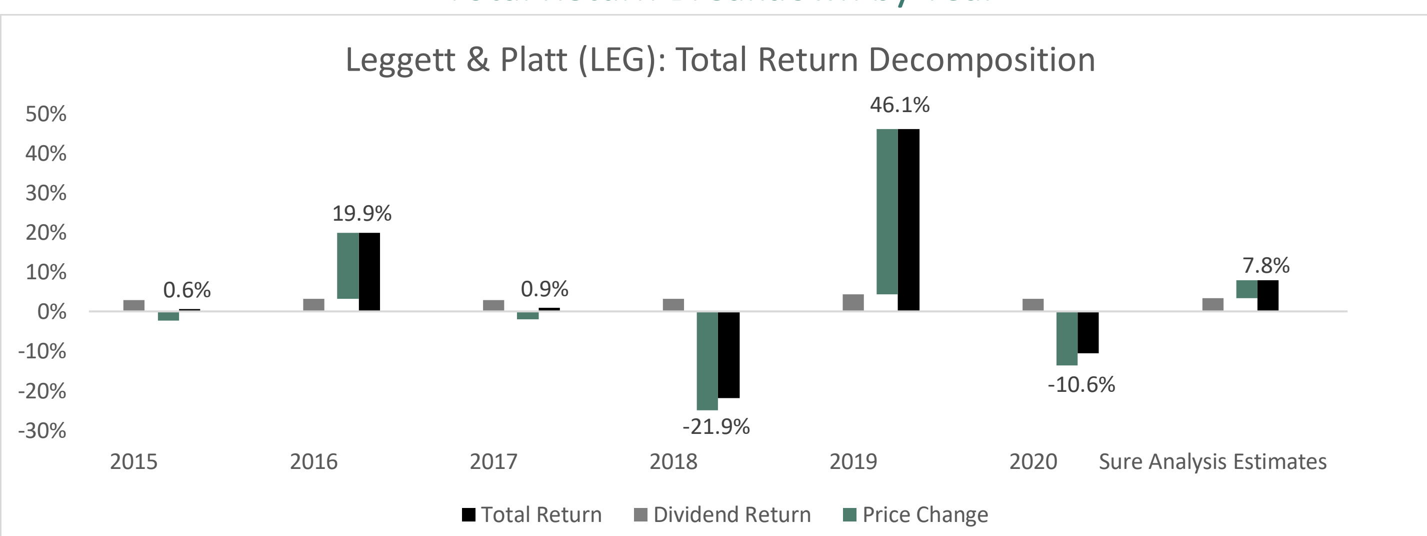
Leggett & Platt's dividend payout ratio was very high - well above 100% - during the last financial crisis. The company nevertheless did not cut its dividend during those troubled times. Since then the dividend payout ratio has declined considerably, although 2020's artificially low profits brought the payout ratio up to a high level again. Due to the strong dividend track record, we 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 will also hurt Leggett & Platt, although this will likely be temporary again. Leggett & Platt could 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 will offer solid total returns over the coming years, according to our current estimates. We rate the stock a hold at current prices, where it seems fairly valued.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3,619	3,415	3,477	3,782	3,917	3,750	3,944	4,270	4,753	4,280
Gross Profit	669	696	710	790	923	902	882	889	1,051	895
Gross Margin	18.5%	20.4%	20.4%	20.9%	23.6%	24.0%	22.4%	20.8%	22.1%	20.9%
SG&A Exp.	378	348	368	450	417	396	401	425	470	424
D&A Exp.	117	119	123	118	113	115	126	136	192	189
Operating Profit	273	323	319	322	485	486	461	443	518	405
Operating Margin	7.5%	9.5%	9.2%	8.5%	12.4%	13.0%	11.7%	10.4%	10.9%	9.5%
Net Profit	153	248	197	98	325	386	293	306	334	248
Net Margin	4.2%	7.3%	5.7%	2.6%	8.3%	10.3%	7.4%	7.2%	7.0%	5.8%
Free Cash Flow	254	379	336	288	256	429	284	281	525	536
Income Tax	60	56	51	70	122	120	138	78	96	73

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2,915	3,255	3,108	3,141	2,964	2,984	3,551	3,382	4,816	4,754
Cash & Equivalents	236	359	273	333	253	282	526	268	248	349
Accounts Receivable	439	412	433	469	448	449	521	544	563	564
Inventories	441	489	496	481	505	520	571	634	637	646
Goodwill & Int. Ass.	1,043	1,198	1,130	1,034	995	956	991	1,013	2,170	2,196
Total Liabilities	1,607	1,813	1,709	1,986	1,866	1,890	2,360	2,224	3,504	3,364
Accounts Payable	257	285	339	370	307	351	430	465	463	552
Long-Term Debt	836	1,055	870	968	945	960	1,252	1,169	2,118	1,900
Shareholder's Equity	1,297	1,435	1,391	1,147	1,086	1,092	1,190	1,157	1,312	1,390
D/E Ratio	0.64	0.74	0.63	0.84	0.87	0.88	1.05	1.01	1.61	1.37

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.2%	8.0%	6.2%	3.1%	10.7%	13.0%	9.0%	8.8%	8.1%	5.2%
Return on Equity	10.9%	18.2%	14.0%	7.7%	29.1%	35.4%	25.6%	26.1%	27.0%	18.3%
ROIC	6.9%	10.7%	8.3%	4.5%	15.6%	18.8%	13.0%	12.8%	11.6%	7.4%
Shares Out.	147	143	139	138	136	134	132	131	135	136
Revenue/Share	24.62	23.39	23.61	26.41	27.41	26.79	28.72	31.58	35.10	31.50
FCF/Share	1.73	2.59	2.28	2.01	1.79	3.06	2.07	2.08	3.88	3.95

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