



Leggett & Platt (LEG)

Updated November 17th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	9.3%	Market Cap:	\$4.6 B
Fair Value Price:	\$36	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/14/22 ¹
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	01/15/22 ²
Dividend Yield:	5.2%	5 Year Price Target	\$43	Years Of Dividend Growth:	51
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

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 Kings list as it has 51 years of consecutive dividend increases. Leggett & Platt was founded in 1883 and is headquartered in Carthage, MO.

Leggett & Platt reported its third quarter earnings results on October 31. The company reported revenues of \$1.29 billion for the quarter, which represents a 2% decline compared to the prior year's quarter. Revenues were in-line with the consensus estimate. The company's revenue performance was weaker than the one recorded during the previous quarter, when Leggett & Platt had recorded a small revenue increase instead of a decline.

Leggett & Platt generated earnings-per-share of \$0.52 during the third quarter, which was weaker than the company's earnings-per-share during the previous quarter, when Leggett & Platt had earned \$0.70 per share. A pullback in profits was expected, however, and did not come as a surprise to the market. Management has lowered its revenue guidance for the current fiscal year. The company is forecasting revenues of \$5.1 billion to \$5.2 billion, implying growth of around 1% versus the previous year. The earnings-per-share guidance range has been set at \$2.30 to \$2.45 for 2022. This represents a sizeable decline of almost 20% compared to the earnings-per-share that Leggett & Platt generated during 2021, using the midpoint of the current guidance range of \$2.38.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.66	\$1.54	\$1.78	\$2.34	\$2.62	\$2.46	\$2.48	\$2.57	\$2.13	\$2.94	\$2.38	\$2.90
DPS	\$1.14	\$1.18	\$1.22	\$1.26	\$1.34	\$1.42	\$1.50	\$1.58	\$1.60	\$1.68	\$1.76	\$2.04
Shares³	143	139	138	136	134	132	131	135	136	136	135	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 issuances during the Elite Comfort Solutions acquisition. During 2020, profits came under pressure due to the coronavirus-caused recession, but 2021 was a way stronger year again. We believe that the company will continue to experience growth over the coming years.

¹ Estimated date

² Estimated date

³ In Millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.1	20.1	19.4	19.5	18.3	20.0	14.5	19.8	20.7	13.9	14.3	15.0
Avg. Yld.	4.9%	3.8%	3.5%	2.8%	2.8%	2.9%	4.1%	3.1%	3.6%	4.1%	5.2%	4.7%

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 14 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 pandemic, which is why a mid-teens earnings multiple seems more appropriate. Shares trade slightly below our fair value estimate today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	68.7%	76.6%	68.5%	53.8%	51.1%	57.7%	60.5%	61.5%	75.1%	57.1%	73.9%	70.5%

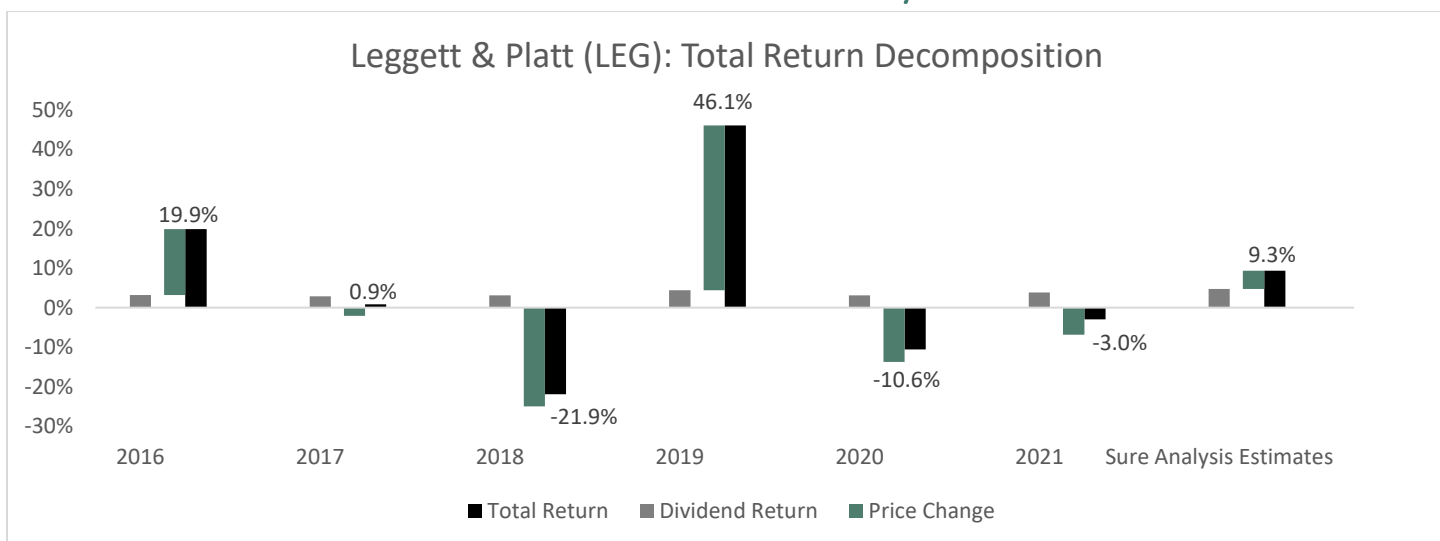
Leggett & Platt's dividend payout ratio was very high - well above 100% - during the last financial crisis. The company nevertheless did not cut its dividend during those troubled times. Since then the dividend payout ratio has declined considerably, although 2020's artificially low profits brought the 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 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, as expected returns are not quite high enough for a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3,415	3,477	3,782	3,917	3,750	3,944	4,270	4,753	4,280	5,073
Gross Profit	696	710	790	923	902	882	889	1,024	904	1,038
Gross Margin	20.4%	20.4%	20.9%	23.6%	24.0%	22.4%	20.8%	21.5%	21.1%	20.5%
SG&A Exp.	348	368	450	417	396	401	425	470	424	422
D&A Exp.	119	123	118	113	115	126	136	192	189	187
Operating Profit	323	319	322	485	486	461	443	491	415	549
Operating Margin	9.5%	9.2%	8.5%	12.4%	13.0%	11.7%	10.4%	10.3%	9.7%	10.8%
Net Profit	248	197	98	325	386	293	306	314	253	402
Net Margin	7.3%	5.7%	2.6%	8.3%	10.3%	7.4%	7.2%	6.6%	5.9%	7.9%
Free Cash Flow	379	336	288	256	429	284	281	525	536	165
Income Tax	56	51	70	122	120	138	78	89	75	120

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,255	3,108	3,141	2,964	2,984	3,551	3,382	4,816	4,800	5,307
Cash & Equivalents	359	273	333	253	282	526	268	248	349	362
Accounts Receivable	412	433	469	448	449	521	544	563	534	619
Inventories	489	496	481	505	520	571	634	637	692	993
Goodwill & Int. Ass.	1,198	1,130	1,034	995	956	991	1,013	2,170	2,090	2,157
Total Liabilities	1,813	1,709	1,986	1,866	1,890	2,360	2,224	3,504	3,375	3,659
Accounts Payable	285	339	370	307	351	430	465	463	552	614
Long-Term Debt	1,055	870	968	945	960	1,252	1,169	2,118	1,900	2,090
Shareholder's Equity	1,435	1,391	1,147	1,086	1,092	1,190	1,157	1,312	1,425	1,648
LTD/E Ratio	0.74	0.63	0.84	0.87	0.88	1.05	1.01	1.61	1.33	1.27

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.0%	6.2%	3.1%	10.7%	13.0%	9.0%	8.8%	7.7%	5.3%	8.0%
Return on Equity	18.2%	14.0%	7.7%	29.1%	35.4%	25.6%	26.1%	25.4%	18.5%	26.2%
ROIC	10.7%	8.3%	4.5%	15.6%	18.8%	13.0%	12.8%	10.9%	7.5%	11.4%
Shares Out.	143	139	138	136	134	132	131	135	136	136
Revenue/Share	23.39	23.61	26.41	27.41	26.79	28.72	31.58	35.10	31.50	37.11
FCF/Share	2.59	2.28	2.01	1.79	3.06	2.07	2.08	3.88	3.95	1.20

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

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