



Leggett & Platt (LEG)

Updated August 21st, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	6.9%	Market Cap:	\$3.6B
Fair Value Price:	\$23	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	09/14/23 ¹
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	10/14/23 ²
Dividend Yield:	6.8%	5 Year Price Target	\$28	Years Of Dividend Growth:	52
Dividend Risk Score:	C	Retirement Suitability Score:	B	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 52 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 July 31. The company reported revenues of \$1.22 billion for the quarter, which represents an 8% decline compared to the prior year's quarter. Revenues were slightly lower than the consensus estimate. The company's revenue performance was comparable to the one recorded during the previous quarter, when Leggett & Platt had recorded a similar revenue decline.

Leggett & Platt generated earnings-per-share of \$0.38 during the second quarter, which was weaker than the company's earnings-per-share during the previous quarter, when Leggett & Platt had earned \$0.39 per share. A pullback in profits was expected, however, and did not come as a surprise to the market. Management has updated its revenue guidance for the current fiscal year. The company is forecasting revenues of \$4.75 billion to \$4.95 billion, implying a revenue decline for the current year. The earnings-per-share guidance range has been set at \$1.45 to \$1.65 for 2023. This represents a major decline of around 30% compared to the earnings-per-share that Leggett & Platt generated during the previous year, using the midpoint of the current guidance range of \$1.55.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.54	\$1.78	\$2.34	\$2.62	\$2.46	\$2.48	\$2.57	\$2.13	\$2.94	\$2.27	\$1.55	\$1.89
DPS	\$1.18	\$1.22	\$1.26	\$1.34	\$1.42	\$1.50	\$1.58	\$1.60	\$1.68	\$1.76	\$1.84	\$1.93
Shares³	139	138	136	134	132	131	135	136	136	133	132	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. 2022 was weaker again, and it looks like 2023 will be a worse year.

¹ Estimated date

² Estimated date

³ In Millions

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	20.1	19.4	19.5	18.3	20.0	14.5	19.8	20.7	13.9	14.1	17.4	15.0
Avg. Yld.	3.8%	3.5%	2.8%	2.8%	2.9%	4.1%	3.1%	3.6%	4.1%	5.5%	6.8%	6.8%

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. Based on management's guidance figures, shares are trading for 17 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 above our fair value estimate today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	76.6%	68.5%	53.8%	51.1%	57.7%	60.5%	61.5%	75.1%	57.1%	77.5%	119%	103%

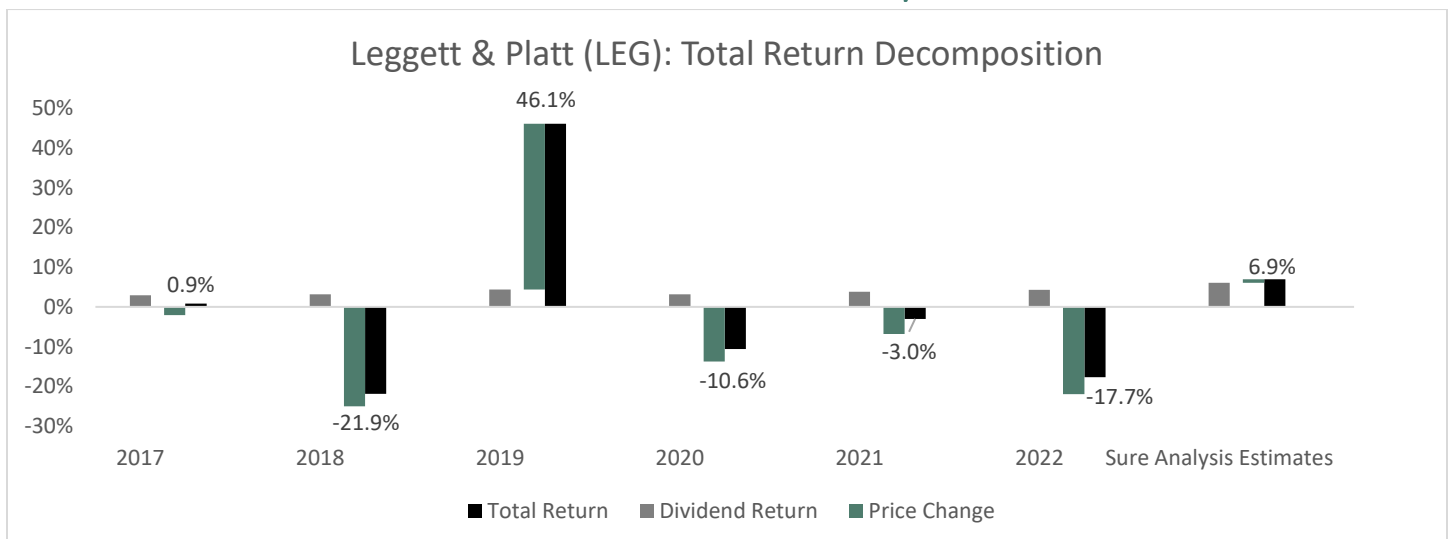
Leggett & Platt's dividend payout ratio was very high - well above 100% - during the last financial crisis. The company nevertheless did not cut its dividend during those troubled times. Due to profit declines in 2022 and 2023, according to current management forecasts, the payout ratio is climbing. So far, Leggett & Platt has not cut the dividend, but there is a risk that they might do that in the future, even though the company has kept the dividend in place for decades.

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 grow in the long run, relative to the current level. Leggett & Platt will not offer especially attractive total returns over the coming years, according to our current estimates. We rate the stock a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3,477	3,782	3,917	3,750	3,944	4,270	4,753	4,280	5,073	5,147
Gross Profit	710	790	923	902	882	889	1,024	904	1,038	977
Gross Margin	20.4%	20.9%	23.6%	24.0%	22.4%	20.8%	21.5%	21.1%	20.5%	19.0%
SG&A Exp.	368	450	417	396	401	425	470	424	422	427
D&A Exp.	123	118	113	115	126	136	192	189	187	180
Operating Profit	319	322	485	486	461	443	491	415	549	483
Operating Margin	9.2%	8.5%	12.4%	13.0%	11.7%	10.4%	10.3%	9.7%	10.8%	9.4%
Net Profit	197	98	325	386	293	306	314	253	402	310
Net Margin	5.7%	2.6%	8.3%	10.3%	7.4%	7.2%	6.6%	5.9%	7.9%	6.0%
Free Cash Flow	336	288	256	429	284	281	525	536	165	341
Income Tax	51	70	122	120	138	78	89	75	120	94

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,108	3,141	2,964	2,984	3,551	3,382	4,816	4,800	5,307	5,186
Cash & Equivalents	273	333	253	282	526	268	248	349	362	317
Accounts Receivable	433	469	448	449	521	544	563	534	619	609
Inventories	496	481	505	520	571	634	637	692	993	908
Goodwill & Int. Ass.	1,130	1,034	995	956	991	1,013	2,170	2,090	2,157	2,150
Total Liabilities	1,709	1,986	1,866	1,890	2,360	2,224	3,504	3,375	3,659	3,545
Accounts Payable	339	370	307	351	430	465	463	552	614	518
Long-Term Debt	870	968	945	960	1,252	1,169	2,118	1,900	2,090	2,084
Shareholder's Equity	1,391	1,147	1,086	1,092	1,190	1,157	1,312	1,425	1,648	1,639
LTD/E Ratio	0.63	0.84	0.87	0.88	1.05	1.01	1.61	1.33	1.27	1.27

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.2%	3.1%	10.7%	13.0%	9.0%	8.8%	7.7%	5.3%	8.0%	5.9%
Return on Equity	14.0%	7.7%	29.1%	35.4%	25.6%	26.1%	25.4%	18.5%	26.2%	18.9%
ROIC	8.3%	4.5%	15.6%	18.8%	13.0%	12.8%	10.9%	7.5%	11.4%	8.3%
Shares Out.	139	138	136	134	132	131	135	136	136	133
Revenue/Share	23.61	26.41	27.41	26.79	28.72	31.58	35.10	31.50	37.11	37.70
FCF/Share	2.28	2.01	1.79	3.06	2.07	2.08	3.88	3.95	1.20	2.50

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

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