<u>Leggett & Platt – Strategy Overview</u>

March 2018

Key Financial Metric

Total Shareholder Return is the key financial measure that we use to assess long-term performance. Our goal is to achieve TSR in the top third of the S&P 500 over the long term through an approach that employs four TSR sources: revenue growth, margin expansion, dividends, and share repurchases.

We monitor our TSR performance relative to the S&P 500 on a rolling three-year basis. For the three-year period that ended on December 31, 2017, we generated TSR of 7% per year on average, just below the midpoint of the S&P 500.

Portfolio Management

We utilize a rigorous strategic planning process to help guide decisions regarding business unit roles, capital allocation priorities, and new areas in which to grow. We review the portfolio classifications of each unit on an annual basis to determine its appropriate role (Grow, Core, Fix, or Divest). This review includes criteria such as competitive position, market attractiveness, business unit size, and fit within our overall objectives, as well as financial indicators such as business unit return, growth of EBIT, EBIT margin, EBITDA, and operating cash flows. Business units in the Grow category should provide avenues for profitable growth from competitively advantaged positions in attractive markets. Core business units are expected to enhance productivity, improve market share, and generate cash flow from operations while using minimal capital. To remain in the portfolio, business units are expected to consistently generate after-tax returns in excess of our cost of capital. Business units that fail to consistently attain minimum return goals will be moved to the Fix or Divest categories.

Disciplined Growth

For quite some time we have envisioned profitable revenue growth as the main driver of our TSR. In 2016, we revised our TSR framework to moderately increase the expected long-term contribution from revenue growth to 6-9% (from 4-5% previously). Over the last three years, we have generated combined volume and acquisition growth of 5% per year on average, but this growth was partially offset by divestitures, commodity deflation, and currency impact.

We expect revenue growth to continue coming primarily from organic sources – opportunities we have developed within our Grow businesses (such as Automotive, Bedding, Adjustable Bed, Work Furniture, Geo Components, and Aerospace) along with market growth - and be augmented by carefully screened, strategic acquisitions that meet our established criteria.

Recent Growth Sources should continue for at least the next few years. The combination of content gain, market growth, and small bolt-on acquisitions should enable us to achieve our growth target for the foreseeable future. To ensure continuing success, we have implemented a **Growth Identification Process** to generate additional growth opportunities in our <u>current markets</u>. By better understanding our competitive strengths, customer needs, and market trends, we have widened our lens to seek further growth in current markets. In addition, we are utilizing our **Styles of Competition** to identify longer-term opportunities in <u>new, faster-growing markets</u> where we do not currently participate, but where we would have a sustainable competitive advantage.

As mentioned above, our long-term growth objective envisions periodic acquisitions. We primarily seek acquisitions within our Grow businesses, and look for opportunities to enter new, higher growth markets (carefully screened for sustainable competitive advantage). We expect all acquisitions to (a) have a clear strategic rationale, a sustainable competitive advantage, a strong fit with the company, and be in an attractive and growing market; (b) create value by enhancing TSR; (c) for stand-alone businesses: generally possess annual revenue in excess of $50 million, strong management, and future growth opportunity with a strong market position in a market growing faster than GDP; and (d) for bolt-on businesses: generally possess revenue in excess of $15 million, significant synergies, and a strategic fit with an existing business unit.

Returning Cash to Shareholders

Leggett & Platt has consistently been a strong cash generator. During the past three years, we produced $1.4 billion of operating cash, and we returned much of this cash to shareholders in the form of dividends and share repurchases.

Our target for dividend payout is 50-60% of earnings, and future dividend growth should approximate earnings growth. We have increased our annual dividend for 47 consecutive years, and we plan to extend that record.

Our priorities for use of cash are: 1) fund organic growth in attractive businesses, 2) pay dividends, 3) fund strategic acquisitions, and 4) repurchase stock with available cash, if any remains. We have a standing authorization from the Board to buy up to 10 million shares each year; however, no specific repurchase commitment or timetable has been established. We assume an annual 1% net reduction in share count on average, which will generate 1% TSR annually. However, it is likely that there will be some years with little or no share reduction (i.e. when growth and acquisitions have used most or all of the available capital).

Management Compensation

Our incentive programs reward strong performance. Senior executives participate in an incentive program with a three-year performance period equally weighted on (1) relative TSR compared to the performance of a group of approximately 320 peers; and (2) company or segment EBIT CAGR. Annual bonuses at the business unit level emphasize the achievement of higher return on assets along with free cash flow generation.