S&P Global
Market Intelligence

Leggett & Platt, Incorporated NYSE:LEG
FQ1 2023 Earnings Call Transcripts

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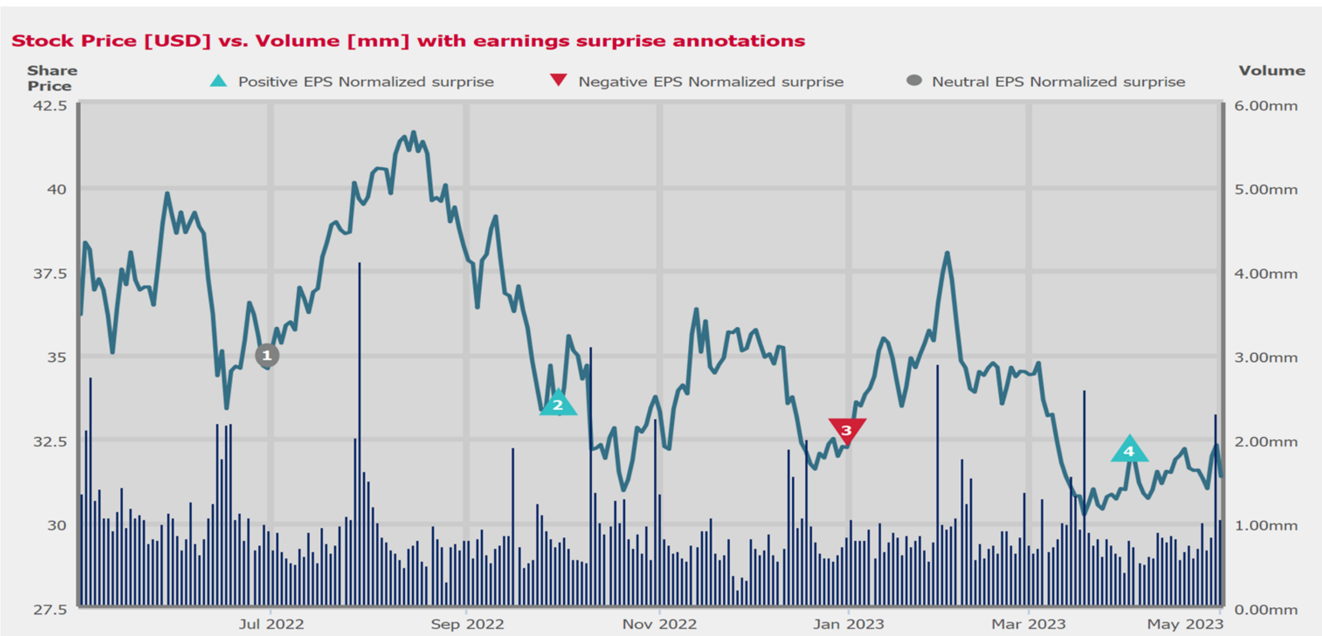
S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.26	0.39	50.00	0.43	1.59	NA
Revenue (mm)	1188.78	1213.60	2.09	1243.98	4911.95	NA

Currency: USD
Consensus as of May-02-2023 11:25 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	0.70	0.70	1 0.00 %
FQ3 2022	0.50	0.52	2 4.00 %
FQ4 2022	0.48	0.39	3 (18.75 %)
FQ1 2023	0.26	0.39	4 50.00 %

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Call Participants

EXECUTIVES

J. Mitchell Dolloff
CEO, President & Director

J. Tyson Hagale
Executive VP & President of Bedding Products

Jeffrey L. Tate
Executive VP & CFO

Steven K. Henderson
Executive VP and President of Specialized Products & Furniture, Flooring & Textile Products

Susan R. McCoy
Senior Vice President of Investor Relations

ANALYSTS

Keith Brian Hughes
Truist Securities, Inc., Research Division

Peter Jacob Keith
Piper Sandler & Co., Research Division

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

Susan Marie Maklari
Goldman Sachs Group, Inc., Research Division

Presentation

Operator

Greetings, and welcome to the Leggett & Platt First Quarter 2023 Earnings Call and Webcast. [Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Susan McCoy, Senior Vice President of Investor Relations for Leggett & Platt. Thank you. You may begin.

Susan R. McCoy
Senior Vice President of Investor Relations

Good morning, and thank you for taking part in Leggett & Platt's First Quarter Conference Call. On the call today are Mitch Dolloff, President and CEO; Jeff Tate, Executive Vice President and CFO; Steve Henderson, Executive Vice President and President of Specialized Products and Furniture, Flooring and Textile Products segments; Tyson Hagale, Executive Vice President and President of the Beddings Products segment; Cassie Branscum, Senior Director of IR; and joining us for the first time today is Kolina Talbert, Manager of Investor Relations, who will be working directly with Cassie and me.

Kolina joined Leggett in 2014 and has served in various roles, most recently working with the Bedding segment's Strategy and Business Intelligence team. We are excited to have Kolina as the newest member of IR.

The agenda for our call this morning is as follows: Mitch will start with a summary of the main points we made in yesterday's press release and discuss operating results and demand trends. Jeff will cover financial details and address our outlook for 2023, and the group will answer any questions you have.

This conference call is being recorded for Leggett & Platt and is copyrighted material. This call may not be transcribed, recorded or broadcast without our expressed permission. A replay is available from the IR portion of Leggett's website. We posted to the IR portion of the website yesterday's press release and a set of PowerPoint slides that contain summary of financial information along with segment details. Those documents supplement the information we discuss on this call, including non-GAAP reconciliations.

I need to remind you that remarks today concerning future expectations, events, objectives, strategies, trends or results constitute forward-looking statements. Actual results or events may differ materially due to a number of risks and uncertainties, and the company undertakes no obligation to update or revise these statements. For a summary of these risk factors and additional information, please refer to yesterday's press release and the sections in our most recent 10-K entitled Risk Factors and Forward-Looking Statements.

I'll now turn the call over to Mitch.

J. Mitchell Dolloff
CEO, President & Director

Good morning, and thank you for participating in our first quarter call. As expected, the current global macroeconomic environment and its impact on the consumer negatively impacted our first quarter results. Sales were $1.21 billion, EBIT was $89 million and earnings per share was $0.39. These results were better than anticipated but declined versus record first quarter results last year.

Sales in the quarter were down 8% versus first quarter 2022 from lower volume, raw material-related price decreases and currency impact. Acquisitions added 3% to sales. The volume decline was driven by continued demand softness in residential end markets, partially offset by growth in Automotive, Aerospace and Hydraulic Cylinders.

EBIT decreased 35% versus prior year, primarily from lower volume and lower metal margin in our Steel Rod business. As a result of these impacts, EBIT margin was 7.4%, down from 10.4% in the first quarter of 2022.

Earnings per share decreased 41% versus first quarter 2022. First quarter earnings were better than anticipated. While operating results were largely in line with our expectations, several expenses were lower due to other factors totaling approximately $20 million. Those included lower incentive compensation, favorable medical claims and other insurance trends, lower bad debt expense, a reduction to a contingent purchase price liability associated with the prior year acquisition and pandemic-related cost reimbursements.

Cash flow from operations was $97 million, up $58 million versus first quarter 2022. Our full year guidance range remains unchanged as we balance better-than-expected first quarter results with continuing macroeconomic uncertainty. Our diverse portfolio of businesses, solid financial position and the ingenuity and agility of our employees continue to help us navigate challenging markets.

Moving on to segment results and outlook. Sales in our Bedding Products segment were down 17% versus first quarter of 2022. Demand in the U.S. bedding market appears to have stabilized at low levels consistent with those experienced in the second half of 2022. We expect demand to remain at current levels through at least the first half of the year with a potential for modest increases in the second half of the year. Volume in U.S. Spring was down 13% in the first quarter, which we believe is comparable to the domestic mattress market. Although relatively consistent demand is assumed in 2023, we expect to increase production in our U.S. Spring business after limiting output last year to align inventory with lower demand levels.

Similar to 2022, steel rod production is expected to remain approximately 20% below historical levels. However, we believe it should be relatively consistent across quarters. We expect higher internal consumption to offset lower trade demand. As expected, metal margin has begun to narrow moderately as scrap cost increased and steel prices softened. While it's difficult to predict changes in the steel market, we anticipate metal margin to be down mid-teens versus 2022. However, we also expect rod pricing and metal margin to remain at historically elevated levels due to higher conversion cost.

The actions we have taken to reduce inventory across the segment have brought levels back in line with those needed to support current demand. With the capacity we have in place, we are prepared to respond quickly to changing demand, and we remain focused on servicing customer requirements.

Improving the performance of Specialty Foam remains a top priority. About 2/3 of the earnings challenge is a result of low demand driven by the general bedding market decline, the outsized impact on digitally native brands from changes in consumer privacy laws and cash constraints and share loss from a small number of customers, with some of those sales shifting from finished goods to components. The remaining challenges relate primarily to material inefficiency from practices that emerged during the pandemic as we prioritized servicing customers amid chemical shortages and surge in demand. While it will take some time to see significant improvements in Specialty Foam, especially with the continuing weak demand environment, we're confident in our recovery plan and are making progress.

Our team has a strong pipeline of opportunities supported by our specialty foam technologies. We also are focused on driving improvement in material margins through both process and equipment changes. We remain confident that our Specialty Foam business will drive long-term profitable growth for the segment and are placing our highest level of attention on improvements in sales and material management.

Sales in our Specialized Products segment increased 21% versus first quarter of 2022, in part from the Hydraulic Cylinders acquisition completed in August of last year. The April forecast for global automotive production shows approximately 4% growth in the major markets in 2023, consistent with industry forecast last quarter. While improving year-over-year, we expect automotive industry production to remain dynamic as supply chain, macroeconomic and geopolitical impacts bring continued volatility across different regions. Cost recovery is continuing in our Automotive business, and we expect to make further progress as we move through 2023.

In our Aerospace business, we expect continued strong demand throughout 2023. Demand for fabricated duct assemblies remained strong, and recovery of welded and seamless tube products accelerated in the quarter. Market production is expected to recover to pre-pandemic levels by the end of 2024.

End-market demand in Hydraulic Cylinders is strong, and order backlogs in both the material handling and heavy construction equipment market segments remain at elevated levels. Supply chain and labor issues have moderated but still impact our customers' ability to expand production. Demand is expected to remain strong throughout 2023.

Sales in our Furniture, Flooring & Textile Products segment were down 13% versus first quarter 2022. Home Furniture demand remained slow during the quarter, with the high end modestly outperforming low and middle price points. This demand softness also impacted volume in fabric converting. While improving inventory levels across the market remain high, we expect lower market volume through at least the first half of 2023 as consumer demand remains soft and inventory reduction continues. Work Furniture sales decreased in the first quarter as contract demand slowed and demand for products with residential exposure continued to soften. We expect demand to remain at these levels for the remainder of 2023.

In Flooring products, residential demand remained soft due to a slowing housing market and lower home improvement activity. Hospitality demand has improved but remains below pre-pandemic levels. While the first quarter is seasonally soft for Geo Components, demand remains solid, particularly in the civil construction market. Infrastructure spending is expected to help support demand over the next few years.

We are focused on improving the things that we can control and are continuing to mitigate the macroeconomic impacts on our businesses. We are working with our customers on new product opportunities, continuing our focus on improving operating efficiency and driving strong cash management. Our financial discipline allows us to withstand periods of economic uncertainty and enables us to manage our company for long-term success.

Before I turn the call over to Jeff, I would like to update you on some of our ESG activities. Last year, we conducted our first materiality assessment to identify opportunities that will drive the most value for our company. In mid-April of this year, we issued our third sustainability report. As we move through this year and into 2024, our key ESG activities include obtaining third-party limited assurance of our greenhouse gas emissions data and publicly reporting our data; developing and communicating our ESG goals, including climate-related targets; establishing a road map of actions that will support us in meeting our ESG goals and targets; continuing to advance our inclusion, diversity and equity efforts; upgrading our management systems to improve data collection and contribute to broader company-wide sustainability advancements; and continuing to enhance our supplier assessment process, including a heightened emphasis on labor and social standards and cybersecurity controls.

We're proud of the progress we have made in modernizing our businesses, building critical infrastructure and advancing our culture. Thanks to the skills and dedicated efforts of our teams, we are making significant progress in bringing these capabilities to life while navigating a challenging macroeconomic environment.

I'll now turn the call over to Jeff.

Jeffrey L. Tate
Executive VP & CFO

Thank you, Mitch, and good morning, everyone. In first quarter, we generated cash from operations of $97 million, $58 million higher than the $39 million we generated in first quarter 2022. This increase reflects a much smaller use of cash for working capital, partially offset by lower earnings. We continue to closely manage all elements of working capital in the current lower demand environment. We ended the quarter with adjusted working capital as a percentage of annualized sales of 15.8%.

Cash from operations is still expected to be $450 million to $500 million in 2023. Our long-term priorities for use of cash remain unchanged. They include, in order of priority, funding organic growth, paying dividends, funding strategic acquisitions and share repurchases with available cash.

In February, our Board of Directors declared a first quarter dividend of $0.44 per share, $0.02 or 5% higher than last year's first quarter dividend. At an annual indicated dividend of $1.76, the yield is 5.4% based upon Friday's closing price, one of the highest yields among the dividend kings.

We ended first quarter with total debt of $2.1 billion, including $317 million of commercial paper outstanding and no significant maturity until November 2024. Net debt to trailing 12-month adjusted EBITDA was 2.88x at quarter end. Total liquidity was $870 million at March 31, comprised of $345 million cash on hand and $525 million in capacity remaining under our revolving credit facility.

Our strong financial base gives us flexibility when making capital and investment decisions. We remain focused on cash generation while maintaining our balance sheet strength and deploying capital in a balanced and disciplined manner.

Now moving to the 2023 full year guidance. As Mitch stated earlier, our 2023 guidance range remains unchanged. 2023 sales are expected to be $4.8 billion to $5.2 billion or down 7% to up 1% versus 2022, reflecting continued macro uncertainty across our markets. Volume at the midpoint of our guidance is expected to be down low single digits, with Bedding Products down low single digits, Specialized Products up high single digits and Furniture, Flooring & Textile Products down low single digits. The guidance also assumes the impact of deflation in currency combined is expected to reduce sales mid-single digits, and acquisitions completed in 2022 should add approximately 3% to sales growth in 2023.

Volume growth is expected to continue in Automotive, Aerospace, Hydraulic Cylinders and Geo Components with declines expected in Work Furniture, Home Furniture, Adjustable Bed and trade sales of Steel Rod and Drawn Wire. We expect generally stable demand in our other bedding businesses, reflecting continued low volume levels.

2023 earnings per share are expected to be in the range of $1.50 to $1.90. The midpoint primarily reflects lower metal margins in our Steel Rod business, lower volume in some of our businesses and moderate pricing pressure from deflation. Based upon this guidance framework, our 2023 full year EBIT margin range is expected to be 7.5% to 8%.

Earnings per share guidance assumes a full year effective tax rate of 24%, depreciation and amortization of approximately $200 million, net interest expense of approximately $85 million and fully diluted shares of 137 million.

For the full year 2023, we expect capital expenditures of approximately $100 million to $130 million versus prior guidance of approximately $100 million, dividends of approximately $240 million and minimal spending for acquisitions and share repurchases.

In closing, while the macroeconomic environment is still challenging, we remain disciplined and agile in our approach. The Leggett team around the world continues to focus on our customers, our operating efficiency as well as our working capital discipline. As we progress, Leggett is well positioned to navigate through market uncertainty with a keen focus on strong cash generation, and our enduring fundamentals give us confidence in our ability to continue creating long-term value for our shareholders.

With those comments, I'll turn the call back over to Susan.

Susan R. McCoy
Senior Vice President of Investor Relations
That concludes our prepared remarks. We thank you for your attention, and we'll be glad to answer your questions. Operator, we're ready to begin the Q&A session.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Susan Maklari with Goldman Sachs.

Susan Marie Maklari
Goldman Sachs Group, Inc., Research Division

My first question, Mitch, is on the specialized segment in there. You saw a nice lift in the volumes across all 3 of those businesses. Can you talk a bit about how you're thinking of further gains as some of those end markets continue to recover from here and perhaps what that will mean for that segment margin as we go through the balance of this year and maybe even into next?

J. Mitchell Dolloff
CEO, President & Director

Yes. Great question, Susan. Thank you so much. Yes, we had seen significant gains across all 3 businesses, with volume up in Automotive about 7%; 30% in Aerospace and 22% in Hydraulic Cylinders. So great to see that recovery coming to life. Like we've seen post-pandemic, nothing just comes back to 100% or 120% of the normal production quickly, but we're starting to really see that impact take place, particularly in Aerospace. And we're seeing improved output from OEMs in the Hydraulic Cylinders area. And of course, Automotive remains a bit dynamic, but continuing to improve.

The outlook for automotive production volumes in major markets is up about 4% or a little more. We continue to see some volatility across different regions. But I think overall, we've been holding in that 3.5% to 4% range, and we expect that to continue for the next few years. As we think we talked about last time, production outlook is still below where it was in 2019. We really won't get there until 2026. But in my view, that provides some tailwinds over the next several years for production to increase.

Similarly, in Aerospace, I think we see us getting back to sort of pre-pandemic levels -- or see the industry getting back to pre-pandemic levels in about 2024. And as I said, the backlog in Hydraulic Cylinders for both material handling and heavy construction equipment is really long. So that will benefit the segment significantly. Absolutely, that increased volume will have an impact on our margins going forward. We've talked about some operational issues, particularly in the U.S. here.

On Automotive, we're making progress there. I think we have opportunities, frankly in all 3 of those businesses, to improve our operating efficiency. So we really like to get our margins back up into this -- closer to historical levels, and I think we'll be able to make that trip.

Steve, anything you would add there that I missed?

Steven K. Henderson
Executive VP and President of Specialized Products & Furniture, Flooring & Textile Products

Well, you did a pretty good job there, Mitch. I would only say if we go to back to Aerospace, certainly, the backlogs are there for long-term growth. They have actually been pretty stable. So for the long term, we should see that growth. And Aero has seen year-on-year growth for the last 5 quarters, and we certainly expect that to continue through 2023.

And then shifting back to Hydraulics, material handling, there's still significant backlog there, which should last us through this year and possibly into early next year. And then on the construction side of hydraulics, infrastructure spending is something that's just really starting to hit, so we expect that to be a tailwind as well. And as mentioned, as we're going through this, we're doing all the things to improve margins along the way. So fairly optimistic on these businesses.

Susan Marie Maklari
Goldman Sachs Group, Inc., Research Division

Okay. That's very helpful. And then my second question is, you guided to 7.5% to 8% margin -- operating margin for this year, which is what you had given us, I guess, 2 months ago or so. But Mitch, can you help us kind of bridge the range that you expect to end this year at relative to that longer-term guide that you've put out there of 11.5% to 12.5%? What do you need to see to come back in the businesses to get there? And what are the roles that the different segments will play in getting to those targets?

J. Mitchell Dolloff
CEO, President & Director

Yes. Another great question, Susan. I would say the biggest impact is volume by far. And so, of course, it's in Bedding both in terms of mattress units, innerspring volume and even rod -- trade rod volume there, too. But it also -- we see it across Furniture, Flooring & Textiles as well with Home Furniture down, Work Furniture down. Flooring not down quite as much and of course, Geo improving there. And then we see, fortunately, as we just talked about, stronger volumes in Specialized, but still below probably pre-pandemic norms in some of -- in at least Automotive and Aerospace side. So volume will be the biggest driver.

We've talked about before the impact of inflation has been a drag on our margins from a percentage standpoint, right? The teams have done just a terrific job of passing along commodity cost increases, but it has come with a drag on our margin percentages. I think continuing to drive operating efficiency will also help get us back to those targeted levels. We've talked about the work we have to do in our Specialty Foam business and a little bit in Automotive. But I think continuing to optimize our capacity provides opportunities for us improving our output and reducing costs through things like automation. I think those are always on the table for us.

Maintaining our pricing discipline. I think I would add that to the list. I think the teams have done a terrific job as we've gone through this inflationary time, but continuing to hold on to the lessons that we've learned as we've gone through that will be important. And then we always look at our fixed costs to make sure that we're limiting maybe things that provided more value historically but provide less value today, continuing to evolve our capabilities. I think that will drive it. And then ultimately, in the long term, it's innovation, right? Our ability to deliver differentiating new products to our customer bases has typically come with a little bit higher margins, and it provides us with new opportunities with our customers.

So I think from my perspective, those are really the big drivers that are all doable for us, right? We can't control the macroeconomic market, but we can make progress on those other things while we're looking for volumes to improve more broadly, but also look for the opportunities that we have with our customers.

Susan Marie Maklari
Goldman Sachs Group, Inc., Research Division

Okay. That's very helpful color, Mitch. I'm going to squeeze one more in here, which is with the events in the last month or so in the banking industry, there's just been more focus on cash flows and liquidity. Can you talk a bit about how you're thinking of the cash generation capabilities even if things maybe end up a bit weaker than what's currently being reflected in the business? And also, how you're thinking about the key priorities for the uses of cash. With the leverage coming up a bit more recently, any target there? And just how you're thinking about those priorities for capital allocation?

J. Mitchell Dolloff
CEO, President & Director

Okay. Yes. Thanks, Susan. Another great question. Well, I think we're very confident in our ability to deliver strong cash flow. We're coming into the year with our inventories in a much better place and continue to do a great job managing working capital. In short, I think our priorities for use of cash has -- really have not changed. They've been stable for many, many years. But Jeff, let me turn it over to you, and I'll let you answer the full question here.

Jeffrey L. Tate
Executive VP & CFO

Yes. Thanks, Mitch, and good morning, Susan. Yes, I think what Mitch started off there, Susan, is exactly where -- I think is an important element here. The working capital management that the team has continued to demonstrate even going back to the latter half of last year, especially on the inventory side, has positioned us well going into 2023.

So the sharp focus on working capital gives us a lot of confidence in our ability to generate the cash flow range that we've articulated here of $450 million to $500 million. If you recall, our cash flow has exceeded our dividends as well as our CapEx investment in 33 -- of the past 34 years, and we are very confident in our ability to be able to do that again in 2023.

Our revolver gives us a lot of flexibility, and our next debt maturity of $300 million is not due until November of 2024. So we're in a really good position from a liquidity perspective, and we have traditionally been able to demonstrate strong cash flow generation in economic downturns.

And in terms of our capital allocation, again, as Mitch mentioned, it's still very consistent. Our ability to be able to fund the dividend is something that we have very good confidence in. We're going to be very minimal and conservative in terms of share repurchases as well as acquisitions during the course of the year.

Second part of your question around the leverage target. We've still been very consistent here in terms of on a net debt basis, we have not communicated externally yet a leverage target at this point. But if you recall, when we were on a total debt basis, we said that 2.5x would be an appropriate target to consider. So you can expect on a net debt basis for us to be somewhere below 2.5x on a long term -- from a long-term standpoint.

Operator

Our next question comes from the line of Keith Hughes with Truist Securities.

Keith Brian Hughes
Truist Securities, Inc., Research Division

A couple of questions. In the Furniture business, Home Furniture, you would refer to channel inventory. Could you just talk a little more on what products you think are most heavily inventoried? And that would assume you'd be running below demand for a while to bring down your components. Is that correct?

J. Mitchell Dolloff
CEO, President & Director

Yes, I think that's right. I mean we're talking about inventory in the market. And Steve, I'll let you jump in here. But it's -- after the surge post-pandemic, there is such a backlog, and then those started to get eliminated and then resulted in high inventories throughout the channel. They're coming down. They're coming down at retail. I think they're probably at the lower to midpoint of the market higher, so it's just sort of having a weight on demand.

I think the outlook is that it'll continue to improve from a inventory environment, and we'll see the production volumes start to increase a bit as we go into the back half of the year. But it's been pretty steady at low levels, like we talked about in Bedding. But Steve, any other details you'd like to fill in?

Steven K. Henderson
Executive VP and President of Specialized Products & Furniture, Flooring & Textile Products

Yes, not too much more. I think the retail levels have dropped down to something more in the normal range, I would say. And then wholesale and manufacturer inventories are remaining high in certain areas there. April sales were a little lower than March kind of as an indicator there. So we are cautiously optimistic for a rebound a little bit later in the year, but those inventories are going to have to be worked through. That's essentially it.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Okay. Let me shift over to Bedding. Not a lot of inventory in that channel, but are you producing at demand? Are you having to bring your inventory levels down in the bedding market?

J. Mitchell Dolloff
CEO, President & Director

That's a great question. One I know Tyson would love to answer.

J. Tyson Hagale
Executive VP & President of Bedding Products

Last year, that was the situation we were in just after building it wasn't excessive levels of inventory in the last part of 2021, but making sure we were in a good place to support our customers. We did have higher inventories than we needed as demand started to shift down pretty quickly. So last year, through the course of the year, we did constrain our production even below the low demand levels. But really, as we got towards the end of the year, we ended up in a pretty good place.

And even back through the full value chain at Sterling, when we took days out to make sure we didn't have steel inventory as well, we ended the year in a good place. And actually, as we've moved through the first quarter, even though demand has maintained a pretty consistent level, we've actually had to produce more to shipment levels and in certain cases, above that just to get our inventories and specific product categories to a place we feel comfortable. So at this point, we feel like we have good flexibility for producing just whatever demand needs to be.

Keith Brian Hughes

Truist Securities, Inc., Research Division

Okay. And just one final question on Bedding. The units were down in the U.S. Spring. It was 13%. They were down about that much first quarter of last year. Given the flattening of the market, I would have thought that would have come down closer to 0. Can you talk about what's happening there?

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure. Really, if we think about the first quarter of last year, we're still on the downward trend. And so really, the first quarter last year was the highest level that we had for the full year, both for internal as we looked at our business but also for the market. Really from the second quarter through the end of the year and even the first quarter of this year, demand has been pretty stable. So really, after we saw that downshift in the first quarter last year, it's been a pretty consistent picture.

J. Mitchell Dolloff
CEO, President & Director

So the tough comp caught us this time.

J. Tyson Hagale
Executive VP & President of Bedding Products

That's right.

Operator

Our next question comes from the line of Bobby Griffin with Raymond James.

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

I guess, Mitch, our first one is to just talk a little bit about kind of your view of the environment today versus when we spoke last. You guys delivered some upside this quarter through some of the cost things that came in favor but left the year the same. Should we read into that, that the environment is tougher today than maybe when we spoke a few months ago? Or is it just kind of baking in an extra level of conservatism in the guidance?

J. Mitchell Dolloff
CEO, President & Director

Yes, Bobby, great question. I think it is relatively consistent. Certainly, everybody has concerns about is there going to be a banking crisis or something that pushes us into more of a substantial recessionary environment, but it's just unknown, right? And so I think about it as being pretty consistent with when we talked after the -- in our last earnings call that there's uncertainty out there. But as we keep saying in Bedding and Furniture, demand is relatively stable but at lower levels and has maintained that, and we see the improvements that we've talked about in Specialized.

So I think that as we've mentioned, those sort of nonoperating costs that benefited us in Q1 were -- really helped us with our outperformance in the first quarter. Everything else from an operating perspective was pretty much online. We still feel like that. We'll probably give up a little bit of those costs that came in. They varied quarter-to-quarter. But it's really just a view of, hey, we have a fairly broad range of our guidance just because of the economic uncertainty that's out there and the impact on the consumer. But I don't really think our view has changed since we initially issued that guidance.

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

Okay. And then maybe secondly, can you talk a little bit about just the midpoint of CapEx ticked up a little bit. Just what you're seeing there versus, I guess, how we started the year out from a capital spending standpoint.

J. Mitchell Dolloff
CEO, President & Director

Yes, great question. And it really just hasn't changed our -- how we allocate cash. But really, it's not a big change. It's just that we've seen the supply chain constraints have eased a bit that we've been able to make some more progress on some of these projects and able to get them moving through. So I think we have a pretty consistent list of items that would be on our CapEx list. We're just -- I think we made more progress in the first quarter in getting those moving than we have over the last several quarters. And so we thought it was appropriate to give ourselves a little range on the guidance, making it from $100 million to $130 million, somewhere in between there. So we'll see. It'll still play out over the rest of the year, but we'd just make a little bit more progress.

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

Okay. And then, I guess, lastly for me, Jeff or Susan, is just when we look at the guide for the year and think about tuning up the models on a quarterly basis, do we still expect 1Q to be the low watermark for the year within the EBIT guidance? Or is there another quarter we should keep in mind?

Susan R. McCoy
Senior Vice President of Investor Relations

I'm sorry.

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

That's a little bit from a margin standpoint, I'm sorry.

Susan R. McCoy
Senior Vice President of Investor Relations

Yes. So we do expect -- first quarter came in stronger than we expected. That's what we said. We would expect second quarter to be similar to first quarter and then a little bit of improvement in the back half of the year. So that's the -- I think the quarterly sequential cadence you should be thinking about relative to sales, a bit of normal seasonality as we move from first quarter into second and then third quarter and fourth quarter. And margins will follow the comment I just made relative to the earnings' sequential development. So second quarter similar to first quarter with improvement into the back half of the year.

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

Okay. Best of luck here going forward.

J. Mitchell Dolloff
CEO, President & Director

Thank you, Bobby.

Operator

[Operator Instructions] Our next question comes from the line of Peter Keith with Piper Sandler.

Peter Jacob Keith
Piper Sandler & Co., Research Division

So I know -- the commentary on the residential end markets, I think you've characterized this as stable over the last couple of months. But I guess I want to narrow it down even to just the last 2 months, and I apologize for the short-term nature of the question. But there does seem to be a lot of industry discussion and chatter around kind of a weakening of demand in the last 2 months. I'm curious if you're seeing that or if you're saying things are stable. It's been kind of hanging in there since the beginning of the year.

J. Mitchell Dolloff
CEO, President & Director

I think we're saying it's pretty stable. But Tyson, I'll let you dig into a little more detail on that and Steve, too, on Home Furniture.

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure. For the first quarter in total, it's been pretty much in line with where we saw things. Some ups and downs over the months, but what we saw from the second quarter of last year through the end of the year. Towards the end of March, we did see things soften a bit. Nothing too significant. It wasn't falling off a cliff or anything like that, but just a bit of softening towards the end of March. April saw a continuation of that trend, where, it was a bit softer than it had been, but still within a reasonable range of kind of where it's been over the last year or so.

And really, as we looked at it, we've said this for a little while, but really do feel like we're getting back to some of the more normal patterns of seasonality, and April is always a tough month in the year anyway. And looking back at kind of where we've been for at least the last few weeks and comparing it with October, November of last year, which are also weak months, it's kind of in that same range. So we'll see where it goes. We've been tracking a lot of that same type of industry information of are things starting to soften. But it's not been too significant, and we think it's more of a seasonal nature, but we'll continue to watch it.

Peter Jacob Keith
Piper Sandler & Co., Research Division

Okay. That's helpful. The other thing I wanted to ask about was the emerging price deflation or some of just the raw material declines, I guess, particularly focused on the Bedding segment. Maybe within Bedding, could you help us understand where the declines are most significant and perhaps where they're least significant?

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure, Peter. I think I'd point you to the slides that are part of the deck -- the presentation deck that include the organic and volume changes. I think you can see it there. There's a couple of areas that really stand out as part of the price changes. The first would be in Specialty Foam. And if you think back over the last couple of years, really the peak chemical cost period was late in 2021, the early part of last year. Since then, we've seen the costs moderate, but it hasn't been a steep moderation. They've been coming down.

But overall, we'd still see chemical costs being at pretty historic high levels. And I think we've talked publicly about this before, but inventory chemicals move through our system pretty quickly in Specialty Foam, and it makes its way to the customers both going up and going down in a pretty quick manner. So that's where we've seen the biggest change, and that's the reason why that's come through first.

The second biggest area would be in Steel Rod. And if you think about this time last year or the first quarter of last year, there was a pretty robust trade demand environment for rod. And so we had a pretty tough comparison just for what we were selling, and there was a pretty big need in the market for it. It was softer in the first quarter of this year, and we have seen some softening in the prices for the products that we sell to the trade. And so just from a total dollar standpoint, that would be the second most significant area of deflation within the Bedding group. There's a mixture in the other product categories, but far less significant than those 2 in terms of the total price change.

J. Mitchell Dolloff
CEO, President & Director

So if we look at -- from the Steel Rod standpoint, we see -- we do see the raw prices down a bit, but not to the levels that are sort of indicated here. Some of that is because of higher billet sales, right, and basically the mix impact shows up.

J. Tyson Hagale
Executive VP & President of Bedding Products

Yes. That's a great point, Mitch, because it does get a little confusing when you look at just the Steel Rod because we do sell different products within that category. I think we talked about it a couple of quarters ago. Sort of the last option or our least preferred option within the rod business is we'll sell semifinished products called billets. And there was an offset as we've sold fewer trade tons of rod that we have to [cut] sales of a lower-value billet product. And that -- there was a pretty big pickup of that in the first quarter of this year.

Peter Jacob Keith
Piper Sandler & Co., Research Division

Okay. Helpful. And maybe, Tyson, just looking at the Specialty Foam in the document, if I'm reading it properly, it looks like, I guess, the demand or the volumes were flat year-on-year. It just shows a line in the deck. And then the sales was down 15%. So does that imply prices were down 15% in foam?

J. Tyson Hagale
Executive VP & President of Bedding Products

Roughly to that level, but there is -- the volumes are flat. But there is the mix of what we were selling in Specialty Foam. It's kind of like -- going back to rod, it is different from what we sold last year. It's fewer mattresses. The mattress market remains challenging and especially the segment where we're most focused within digitally native customers. But we did make up a lot of that difference with some lower-value products, bedding accessories like toppers, pillows and things like that. So the teams are doing a good job selling what they can, but it is a lower-value product than what we normally would sell, and that was making up some of the difference in volume.

Peter Jacob Keith
Piper Sandler & Co., Research Division

Makes sense. Okay. And then one last question I wanted to ask, and it was related to Susan's question earlier around the banking crisis and some of the tighter lending standards. Certainly, no concern with Leggett's liquidity, but more concerned around some of your customers' liquidity and particularly, your smaller customers, who we are hearing about tightening lending standards with small companies and they're having to draw down inventory. Are you seeing any risk of that where maybe reduced orders as some of your small clients get a little more cautious?

J. Mitchell Dolloff
CEO, President & Director

Yes, great question. I'll talk about the credit side a little bit and Tyson, you can chime in if we see any impact on the volumes. But we've been really, really attentive to managing our credit as best we can from, gosh, March of 2020 when the pandemic kicked in. It's become just part of what we do every day, right? And so we feel good about where we are in -- for managing that, and we do have to sometimes limit, I think, the sales to some customers and make sure that they can pay for what we're delivering to them. But we've developed a good process to manage that and maintain our flexibility. So Tyson, what do you think about that and any impacts on volume?

J. Tyson Hagale
Executive VP & President of Bedding Products

Yes. It hasn't been too significant, but it is something that we've had to watch closely, like you said, Mitch, for a couple of years now. And I do think it's been a kind of a cooperative process with customers, where if we do see some that are getting tight or falling behind, we work out some plans to make sure that we can do it the right way. But it's probably something that we'll be seeing more of in the near term, just having to watch that more closely, especially the longer the demand environment stays like it is, it's probably just more of a reality of what we'll have to deal with.

Operator

Our next question comes from the line of Susan Maklari with Goldman Sachs.

Susan Marie Maklari
Goldman Sachs Group, Inc., Research Division

I wanted to ironically follow up on one of Peter's questions just now, which is going back to the price/cost situation. You mentioned some of those deflationary pressures that you're starting to see in Bedding. But as you think about, one, in Specialized, the ability to continue to get price, which you are getting a little bit more of in the first quarter, it seems like that's working. Just any updates there on that initiative? And then two, as we do think about cost flattening out and maybe coming down a bit, the ability to hold some of this price over time and how you think that will flow through in the different businesses and segments.

J. Mitchell Dolloff
CEO, President & Director

Yes, great question. So you're right. We are continuing to make progress on the Automotive cost recovery. I think we've -- it's a little bit of a moving target, right, as things change. But we've gone from, I think, about 60% recovery to about 70% now. So we still have a way to go, but are making progress. And just to remind that, that comes through multiple ways. It could be in price increases. It could be in reducing cost reductions in the future. So -- but feel good about our progress there.

The teams had done a great job of managing through this inflationary environment. And as we've talked about today, some of it -- those inflationary trends have been coming back down a little bit, but not radically. And so it's been in a way that we've effectively managed our inventory. And of course, we need to be fair with our customers and pass along those price reductions, which we do.

There's probably -- if we think about in Bedding, there's such a large portion, particularly in the U.S. Spring, of the business that is contract based. And so there's really less leverage there, right? It's more around just passing through those commodity products. But we, I think, do that in a very fair way, and history will show, whether up or down, like we've -- that's been a very good process for us. And as deflation comes down a little bit, we'll reduce some of the drag on our margins.

I think Specialized, the pricing is a little bit more fixed tends to be. And as I think we see that -- the input costs there are probably at the higher level, so that maybe will provide a little bit of benefit as well. Hard to see. It's been still a little bit dynamic there.

And then more particularly around some of our Furniture, Flooring & Textiles businesses, those are a little bit more near-term basis pricing and some of those things, and we've done a good job holding on to our pricing discipline there. So I'm not really concerned about a big fall, a downturn, which would have been on my mind when we -- earlier in the inflationary time. Now it seems to -- like it's moderating. Some things go up and some things go down, but I think we can continue to manage through it.

Susan Marie Maklari
Goldman Sachs Group, Inc., Research Division

Okay. That's helpful. And then just one last question, which is that you talked a bit about Bedding softening in late March and not holding into April. Do you think that some of that, and maybe not just in Bedding but in your other consumer businesses as well, was influenced by what was going on in the banking sector?

And as we move further out from there, are you hearing from your customers that the consumer is starting to come back? And any other sort of clouds or issues out on the horizon that they're watching in terms of consumer confidence or their willingness or ability to go out and spend on some of these items?

J. Mitchell Dolloff
CEO, President & Director

That is a great question that I wish I knew the precise answer to, Susan. But I think that -- I don't know, Tyson, I'll let you jump in as well. But I think it's been pretty consistent. And I think we've seen the higher-end product hold up a little better across many of our residential markets, which totally makes sense. And I think we saw some -- a bit of optimism that the home furniture market, for example, would come back a little bit more in the back half of the year and I think probably a little bit in Bedding as well.

J. Tyson Hagale
Executive VP & President of Bedding Products

Yes. I think so, Mitch. And it's a great question, one we think about all the time and our customers are thinking about it all the time, just the health of the consumer and where they want to spend their dollars. One thing that we've had in our minds and we've talked about has been just are there additional shocks within the economy that would have a greater impact than -- is it the banking situation or something else that pops up. But also just how sticky inflation continues to be and -- especially on really essential goods that consumers have to buy every day.

Can they continue to push out long-term durable purchases? It's a big question. Don't have the answer, but we're continuing to watch it. But overall, we still feel pretty good about just now we've had 4 quarters of relatively stable despite at low levels of where business has been.

J. Mitchell Dolloff
CEO, President & Director

Yes. And the last thing I would add is just that I think that is the big question. We don't see anything really negative at this point, but that's why we have our broader-than-normal guidance out there because there's some unknowables.

Operator

Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Ms. McCoy for any final comments.

Susan R. McCoy
Senior Vice President of Investor Relations

Thank you for joining us today. We'll talk to you again next quarter. If you have questions, please contact us using the information in yesterday's press release.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.