Leggett & Platt

Q3 2018 Earnings Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Greetings, and welcome to the Leggett & Platt, Incorporated Third Quarter 2018 Earnings Conference Call. At this time all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference please press "*" "0" on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Wendy Watson, Director of Investor Relations. Thank you, Ms. Watson. You may begin.

Wendy Watson
Good morning and thank you for taking part in Leggett & Platt's Third Quarter Conference Call.

I'm Wendy Watson, Director of Investor Relations. With me today are Karl Glassman, President, and CEO; Matt Flanigan, Executive Vice President and CFO; Perry Davis, EVP and President of the Residential Products and Industrial Products segment; Mitch Dolloff, EVP and President of the Furniture Products and Specialized Products segment; and Cassie Branscum, Manager of IR.

The agenda for our call this morning is as follows: Karl will start with a summary of the major statements we made in yesterday's press release; Matt will discuss financial details and address our outlook for the remainder of 2018; and finally, the group will answer any questions that you have.

 A replay is available from the IR portion of Leggett's website. We posted to the Investor Relations portion of the website yesterday's press release and a set of PowerPoint slides that contain summary financial information along with segment details. Those documents supplement the information we discuss on this call, including any non-GAAP reconciliations.

I need to remind you that remarks today's 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 section in our 10-K and 10-Qs entitled Forward Looking Statements and Risk Factors.

I'll now turn the call over to Karl Glassman.

Karl Glassman
Good morning. And thank you for participating in our third quarter call.
Yesterday we reported strong third quarter sales growth of 8% to $1.09 billion. Organic sales grew 6% with volume up 3%. Raw material-related selling price increases partially offset by currency impact also added 3%. Sales growth in U.S. Spring, Automotive, Adjustable Bed, Aerospace, Steel Rod, and Work Furniture was partially offset by soft demand in most other businesses. Acquisitions, net of divestitures, added 2% to sales growth.

Third quarter earnings per share were $0.67, up $0.06 from $0.61 in third quarter last year. Earnings grew primarily from expanded metal margin in our Steel Rod business and increased volume. Earnings growth was partially offset by higher raw material and transportation cost in several businesses, less overhead recovery where we reduced inventory, and startup costs in a few of our growing businesses. Earnings also benefited from the non-reoccurrence of last year's $5 million impairment charge and $3 million divestiture loss, but these charges were fully offset by the non-reoccurrence of last year's divestiture-related tax benefit.

Steel scrap cost, which is the primary input utilized by our rod and wire consuming businesses including U.S. Spring has been relatively stable in recent months, allowing selling price increases to catch up in certain of our businesses. As a result, EBIT margins improved sequentially from 11% in the second quarter to 11.4% in the third quarter. However, EBIT margin decreased slightly compared to the prior year's third quarter adjusted EBIT margin of 11.6%.

While raw material cost increases have moderated, they are still a headwind in several of our businesses, including Home Furniture, European Spring and Flooring Products. We had another quarter of strong demand in our U.S. Spring business with Comfort Core innerspring units up 22% primarily from market share gains. We recently entered into a long-term supply agreement with Simmons Bedding and are supplying inner springs to several of their facilities.

In Adjustable Bed, sales grew 27%, however, earnings were negatively impacted by promotional activity and lower overhead absorption as we reduced inventory. Automotive growth moderated to 4% in the quarter as vehicle production slowed, particularly in Europe and Asia. With our pipeline of awarded future programs, we continue to be confident in our expectations for strong long-term performance in this business.

In September, in our Geo Components business, we acquired a manufacturer and distributor of home and garden products that can be found in most major retailers. With annualized sales of $37 million, this acquisition provides a solid foundation on which to continue growing a retail-- our retail market presence in Geo Components.

I'll now turn the call over to Matt.

Matt Flanigan
Thanks, Karl. Good morning everyone. Cash from operations was $127 million in the third quarter, an increase of 21 million versus the third quarter last year. We ended the year with adjusted working capital as a percentage of annualized sales at 12%, end of the quarter of that is. We now expect our full year operating cash flow to approximate $400 million.
Regarding uses of cash for the full year, dividends should require about $195 million and capital expenditures should approximate $185 million. Our top priorities for use of cash remain organic growth, dividends, and strategic acquisitions. After funding these priorities, if there is still cash available, we will generally intend to repurchase stock.

Our financial base remains strong and this gives us considerable flexibility when making capital and investment decisions. We repatriated $50 million of offshore cash in the third quarter, bringing our year-to-date total to $173 million. We currently expect to repatriate approximately $275 million of cash for the full year. We ended the quarter with net debt to net capital of 41.3%, slightly above our targeted range of 30% to 40%. And total debt was 2.3 times our trailing 12 months adjusted EBITDA.

As we announced yesterday, we are lowering our 2018 EPS guidance and now expect full-year earnings to be $2.40 to $2.50 per share versus our prior range of $2.55 to $2.70 per share. This decrease is primarily due to lower than previously expected sales in Automotive, a pricing lag on raw material increases in our European Spring, Flooring Products and Fabric, continued volume weakness in Home Furniture and European Spring, and promotional activity and lower overhead recovery in Adjustable Bed. Based upon this guidance range, full-year EBIT margin should be between 10.8% and 11.2%. Guidance assumes an approximate 21% full year tax rate.

Full-year sales guidance is now approximately $4.25 billion, the low end of our prior range of $4.25 billion to $4.35 billion. This guidance represents an 8% increase versus our reported $3.94 billion of sales in 2017. We expect low-single-digit volume growth in raw material-related selling price increases should also add to sales growth. Acquisitions, net of divestitures, are expected to add 2% to sales growth.

As we previously discussed, two of our businesses--Home Furniture and Fashion Bed--are not meeting our expectations. And we are conducting an in-depth analysis which may result in some restructuring expenses. We expect to have this analysis completed in the fourth quarter.

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

Wendy Watson
That concludes our prepared remarks. We thank you for your attention and we will be glad to answer your questions. In order to allow everyone an opportunity to participate, we request that you ask only one question, then yield to the next participant. If you have additional questions, please re-enter the queue and we will answer those questions as well.
Michelle, we're ready to begin the Q&A Session.

QUESTION AND ANSWER

Operator
Thank you. If you would like to ask a question please press “*” “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “*” “2” if you’d like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the “*” keys.

One moment please, while we poll for questions. Our first question comes from the line of Susan Maklari with Credit Suisse. Please proceed with your question.

Susan Maklari
Good morning everyone.

Karl Glassman
Good morning, Susan.

Matt Flanigan
Hi, Susan.

Susan Maklari
My first question is around it sounds like there was just some weakness that came in this quarter globally as you sort of look across all your different businesses and end markets. Can you just give us a sense of maybe what some of the trends were on a more local basis in terms of Europe, Asia, the US? And maybe even thinking about consumer products versus non-

consumer products, just given that perspective that you guys have in all these different end markets and geographies?

Karl Glassman
Yes, Susan. It's a good holistic question. Your basic premise is correct in that there was some spotty softness, globally and structurally in some businesses, but overall, we feel really long-term optimistic about where we are. We're in a soft spot, a patch, I should say. The softness in Europe is embedded in pretty recent slowing in European Spring and in Automotive. Mitch will get into the details of that in a little bit. In Europe and Asia, US it's just general malaise. We haven't seen anything structurally change. Some businesses that consumer products and I should say specifically Fashion Bed and Home Furniture, we continue to analyze, as Matt said.

So that I wouldn't attribute to market weakness as much as us backing away from some specific parts of that business purely because of margins that aren't acceptable. And as we said on the second quarter call, we're not going to wear out our assets, just do volume for volume sake. If there are acceptable margins associated with that volume, we'll continue in those sub-sectors. Bedding, US was strong. We feel really good about where we're positioned there.

So to summarize, long-term, tough, admittedly tough third and fourth quarter. But long-term we feel really good about things.

Susan Maklari
Okay. That's helpful. Thank you. And then I guess in terms of the bedding side of things, that's certainly an industry that's never short of events. As we think about some of the more recent news that came down this quarter with Mattress Firm, can you just talk to what you've been seeing out there? I mean, obviously, it seems like third quarter held up, but how should we think about the go forward as some of these events come through?

Karl Glassman
Perry do you want to handle this?

Perry Davis
Yes, Susan, this is Perry Davis. We--first of all, with regards to the Mattress Firm developments, we view that very positively. We believe that a strong Mattress Firm is obviously good for the domestic industry. And with them being able to shed some cost and enhance their ability to generate cash, we think that's a very good thing. That helps in promotion and in a lot of other areas in stability in the market. Going forward, it's interesting times because as you know, there's a lot of macro factors outside of Leggett that are influencing business conditions.

Not the least of which I would say would be the ongoing anti-dumping case against finished mattress products from China. As that progresses along, if that begins to look positive, and we think it certainly will be, we believe there's certainly plenty of evidence of dumping. That should invigorate not only folks from the supply side, where we're at but also the finished bedding side and at retail. And so, we look at that as a--while it may be down the road a little ways, but we look at that as a positive development if it, in fact, comes to fruition.

As to demand, yes, next year, it's difficult to say at this point. We held our head up pretty good in the third quarter, and we'll have to wait and see what the fourth looks like. Generally, right now, we're in a relatively slow time in the industry. You can usually take April and October and those are two of the weaker months, but that's planned for. And hopefully, we'll see a pickup through the remainder of the year.

Over the last few years, we've seen some relatively good strength going into the end of November and into December.

Susan Maklari
Okay, guys. Thank you very much. Good luck.

Operator
Thank you. Our next question comes from the line of Bobby Griffin with Raymond James Financial. Please proceed with your question.

Bobby Griffin
Good morning everybody. And thank you for taking my questions.

Karl Glassman
Good morning Bobby.

Matt Flanigan
Hi Bobby.

Bobby Griffin
First, I wanted to touch base on was the Automotive business. We saw that business kind of decelerate from high-single-digit growth to kind of mid-single-digit growth in the quarter. Was there some timing issues that caused that? Or how should we think about that in terms of the plus 1,000 basis points over production rate you guys have always talked about?

Mitch Dolloff
Okay good morning Bobby. This is Mitch. Our Automotive business continues to perform very well and our long-term outlet really has--outlook really has not changed. We have that strong pipeline of business that we've won, future programs that continues to give us confidence in meeting our goal of exceeding the vehicle production growth by 1,000 basis points. Again, that's a long-term goal, right? We're going to have quarterly volatility, as we've talked about in the past. But we still stand by that target for us.

In the third quarter, you're right. We're up about 4% year-over-year excluding currency compared to an overall decline in the market of about 2%, probably, something higher than that if we look at our major markets. So it was really kind of a mixed bag as you go around the globe. North America was very strong, we had double-digit growth there versus slight decline in the market. Asia was lower than normal for us in sort of mid-single-digits versus slightly down for the market. And I think that there was the--based on the slowdown in sales in China and just some of the general economic concerns that Karl mentioned.

And then Europe was actually down a bit for us, pretty close to in line with the market and the issue there, in addition to the sort of economic issues and Brexit concerns that Karl talked the specific disruption at OEMs with the onset of new emission testing standards, called the Worldwide Harmonized Light Vehicle Test Procedures. So OEMs are actually having to slow or stop production on some models until the testing is complete. And so that has created quite a bit of disruption further back in the supply chain.

Bobby Griffin
Okay, that’s helpful. I appreciate that detail. So is the negative two kind of production growth that we saw in third quarter, is that somewhat close to the expectation for fourth quarter again? Or I guess, what do you--what is kind of your thoughts of the near term for production?

Mitch Dolloff
I don't have a market number for the fourth quarter. I see it for the full year, which is--so for 2018 now the forecast is slightly negative year-over-year for the major markets down about 0.2% and less than 1% for the global market. So the forecast has come down, the production forecast. So from July, it's down about 1.3 million vehicles or about 1.6% globally. So it's been a pretty rapid shift since the last time we talked.

Bobby Griffin
Okay.

Bobby Griffin
And then I guess on--go ahead.

Mitch Dolloff
I just wanted to say, for us, I'd probably see it pretty similar to where we are now for the third quarter.

Karl Glassman
Just to follow-on, Bobby. I would say that's the most significant contributor, that more recent news on Global Automotive to our downshift of our 4Q expectation.

Mitch Dolloff
Yes. It's--we have--our business fundamentally hasn't changed for us. We haven't lost programs, we're just seeing the volatility of the industry.

Bobby Griffin
Okay. And then I guess this is more of just a high-level-type question. But when you look at some of the headwinds that maybe surprised you here in this quarter, the promotional activity or the lower overhead, the step down in auto, which one of those are--have the chance to be longer term in nature verse shorter term in nature to help us kind of frame what we want to do with our 2019 estimates? Understand you guys don't provide guidance until the fourth quarter.

Karl Glassman
Yes, before I answer the whole question, Mitch, why don't you take the opportunity to talk about the promotional activity as it relates to Adjustables and to answer the first part of Bobby's question?

Mitch Dolloff
Okay, alright. I'll be glad to do that. Adjustable Bed business continues to be really strong on a unit basis. We are up 22% in the first quarter, 48% in the second quarter and 28% in the third quarter. As we mentioned last time we were on the call though, that forecast that we are getting were even stronger, too strong in hindsight. And so that left us with access inventory.

We agreed to work with one of our major retailers--retail customers to--on some promotions to reduce the inventory and facilitate a move to refresh the product line-up. So we agreed to a rebate on unit sales. And we also cut production significantly to help reduce the inventory.

So the good news is that it worked, our inventory is down over 13% since Q2. The bad news is that the loss of production and the promotional cost were even higher than we expected. So of course, we had those impacts baked into our forecast for the third quarter. But we ended up extending the rebate and curtailing production more severely to reduce the inventory.

So we think we'll start to see some increase in production during Q4. But expect to see some continuity--continued headwinds from the promotional cost and lower overhead absorption into the first quarter of 2019. So we're making progress, but we still got a ways to go.

Karl Glassman
And Bobby, to answer your higher-level question, and you're right, we're not giving 2019 guidance. But we really do believe that most of the issues that the company and the industry has dealt with in 3Q and 4Q are transitory. Automotive is expected to rebound. We feel very comfortable with our call on the 1,000 basis points of growth greater than build. That we have an expectation that most of the pricing issues that we've dealt with, based on the visibility that we have today, which is a caveat that I want to put on it, that the pass-through was taking place.

As we said, or I said in my prepared comments, we're mostly through that from a U.S. Spring, rod, wire value chain. There was a little bit of a hangover in early 3Q, that we're past. Scrap jumped up a little bit in October, $10 to $20. Forecast is it'll jump up slightly in November. But in the big picture, that's kind of insignificant and the lag will catch up.

The other points of raw material pass-through that we called out, European Spring, we've enacted pricing increases. Usually, European inflation is about a quarter behind US inflation. So they're raising prices, difficult in a very soft bedding economy. And it feels like the consumer has become more promotional in Europe with the macro uncertainty, but the pricing is going in play--in place, the mix might not be as attractive from a future perspective.

We mentioned flooring products, there was a 24% increase in the cost of foam scrap early in the third quarter that we're passing through, double-digit price increases are being put in place. Fabric, same situation, there has been some inflation there. 4Q, we're passing through that. Furniture and consumer products, those businesses continue to be challenged. They will be healthier next year. They will probably be smaller, but they'll be healthier.

So structurally, at a macro level, again not putting guidance on it--well, and one other thing I want to interject, this metal margin that we're dealing with in the steel mill, the supply chain, that should continue for the foreseeable future. So we're really optimistic about 2019. We'll obviously, on February 4, put some numbers around that. But we really do believe what we're dealing with right now, assuming that the macro economy is reasonable next year, were outliers.

Bobby Griffin
I appreciate all of the detail. And best of luck in the fourth quarter and into 2019.

Karl Glassman
Thanks, Bobby.

Operator
Thank you. Our next question comes from the line of Daniel Moore with CJS Securities. Please proceed with your question.

Daniel Moore
Good morning. Thanks for taking the questions as always. Your Q4 guide implies a little bit of further slowdown to the low single-digit organic growth, if my math is correct. You gave a lot of color on auto, very helpful. Maybe can you break that down a little bit by segments? And just give us a better, a little better sense of where you're expecting the biggest kind of near-term slowdowns?

Karl Glassman
Wendy?

Wendy Watson
Yes, the biggest impact you'll see will be in our Furniture Products segment in Q4. But sales, we still expect sales in residential to be up mid-single digits for the year. Industrial will be up high teens. And furniture, despite this sort of second-half slowdown, should be up low single digits for the year. Specialized will be up low teens.

Daniel Moore
For the year or Q4--you mean to say special.

Wendy Watson
Specialized will be up low teens for the year. For the quarter--.

Daniel Moore
For the year, right.

Wendy Watson
Yes, they, for the fourth quarter, they'll still be up probably low double-digit.

Karl Glassman
Yes. Some of that should grow.

Wendy Watson
And that's acquisition.

Karl Glassman
Right. The inorganic growth not having lapped through the Hydraulic Cylinders acquisition.

Daniel Moore
Very helpful. Appreciate it. And then one other quick one, yes--go ahead.

Karl Glassman
Sorry, just to be repetitive. That auto in 4Q, growth is expected in that guidance to be about the same as it was in 3Q just to be repetitive, which is a big swinger obviously, in Specialized.

Daniel Moore
Indeed. That's perfect. Thank you. Last quick one for me is, if I look at just overall trends in Q3, you mentioned foam prices being up, but input cost on raw materials, if they stayed where they were today and, obviously, nothing ever stays where it is today, but if they did, when do you think would be kind of fully caught up or close to fully caught up with price increases catching up with the raw materials? Thanks, again.

Karl Glassman
Dan, if it's--thanks for the questions by the way. If everything stayed the way they are today, which I agree is questionable to forecast, but I think we'll be caught up by the end of the quarter. That, yes, we should be fully through on all of those businesses we called out by the end of the quarter.

Daniel Moore
Got it. Helpful. Thank you.

Operator
Thank you. Our next question comes from the line of Keith Hughes with SunTrust Robinson Humphrey. Please proceed with your question.

Keith Hughes
Thank you. In industrial, we saw the influence of what's going on with the spreads and you've been talking about for some time, some big numbers. But in Residential and Furniture, raw material still called out as a negative, both of those saw the EBIT decline year-over-year. Can you just sort of talk about the relationship there? And what specifically is happening in Residential and Furniture to have raw material hit them?

Karl Glassman
Yes, Keith, I'll ask Perry and Mitch to take those respectively. Other than, I don't want you to think, and it's easy to assume that the Residential raw material commentary has to do with the bedding, rod, wire supply chain. That is not the case. The commentary around Residential really was these other ancillary products. So it was more recent inflation and I spoke to the pass-through. But bedding, we're caught up. So, but anyway, Perry will answer it.

Perry Davis
Yes. The other part of that Keith, I think, in Residential, in our Flooring Products group, as Karl said, we saw some really significant and kind of two tranches of raw material increase, which is on scrap foam primarily. But we also saw it earlier in the year on some input chemicals like MDI and things like that. But scrap foam, I believe, in September was about double the price it was in April of this year. And the second tranche of that increase really came on quick. And so, we've reacted quickly, we have price increases, double-digit price increases going into effect basically it'd be about next week I guess.

And so we expect, as Karl said, we'll be caught up there fairly quickly. The other area was, we saw some real significant polypropylene increases, which influences our Fabric groups, both Hanes Converting, and Hanes Geotextile and so we've had a bit of a catch up there, we've been pursuing, where we've got most of it, we'll have the rest of it by mid-November. The other complicating factor in that business is lot of that product is imported. And some of it--a lot of it from Asia and we've got to the tariffs that we're dealing with. But we have passed through the initial tariffs. We certainly don't intend to absorb those in any business.

But waiting to see if in fact, that goes up to 25% at the end of the year, we're fully prepared to act immediately. And we've been talking that up with our customers and have had good acceptance of that. It's not a cost anybody can avoid if it comes to be. So, but yes, for the most part, and then the other thing is the kind of the downdraft we've still experienced in Europe. It is still a little later as far as getting those raw material increases and getting those passed-through. And as Karl said, the macro environment for bedding on the mainland in Europe, and then in UK, is not very good right at the moment.

So it's always kind of difficult whenever you're going up in a kind of a depressed environment. But we're working to get all that caught up too. And then, that may linger on into the first part of the year before we get fully recovered there.

Mitch Dolloff
Yes. This is Mitch. In Furniture, the biggest impact is in the Home Furniture business. And there are still costs were about, were up about 15% in the first quarter and closer to 25% in the second quarter. But we were only able to recover about one-third of the material inflation. So really adversely impacted our results. So as we said, we're transferring production to our

Chinese operations to take advantage of lower input cost, and we're also shedding low margin accounts.

So in the third quarter, steel cost for us was up about 17% year-over-year and we improved our recovery ratio to about 60% to 65%. So, made some progress there. We expect to continue to close that gap in the fourth quarter, probably get closer to 90%. So we might not be completely there by year-end, but we'll be pretty close.

Keith Hughes
Okay. And that's flat steel, right?

Mitch Dolloff
That's flat steel.

Keith Hughes
All right. And then, as you look to the fourth quarter and the guidance you gave I think you talked about, I guess more slower growth in Automotive. But kind of get the impression, are we going to see volumes slow in a--just a large number of your businesses, based on this guidance in the fourth?

Karl Glassman
That's a darn good question. It’s difficult to forecast in this environment. We have pretty good visibility in Automotive. We've talked about virtually no change in the growth rate there. Bedding is always difficult to forecast, but we like our position. The content gains and the market share gains will continue. Certainly, I'm confident that we're outperforming the US bedding market without any question from a domestic producer perspective. But yes, it does forecast some continued softness.

The majority of it is the automotive side of it, some of it is European Spring, and the remainder would be Home Furniture and Consumer Products. So it's really those four businesses.

Keith Hughes
Okay.

Matt Flanigan
Yes. Keith, this is Matt, I would just add and complement exactly what Karl said. So sales, this coming fourth quarter versus last year's fourth quarter will still be up about 5%-ish give or take. But a key note is, just as Karl said, when you hear about Automotive being a bit softer and European bedding a bit softer, that mix shift of not as many sales there as opposed to elsewhere in the company, that's a meaningful EPS impact when we see those sales dissipate just a bit in those two key parts of the company.

Keith Hughes
Okay. Thank you.

Wendy Watson
And Keith just to pile on, I mean, the only segment where we would expect to see contraction year-over-year in Q4 would probably be Furniture Products.

Operator
Thank you. Our next question comes from the line of John Baugh with Stifel. Please proceed with your question.

John Baugh
Good morning and thank you. I wanted to I guess sort of touch on that market share comment you made Karl, and then Perry you can chime in as needed. But I'm curious as we, I don't know try to look out the future and assume there's a meaningful dumping rate assigned, and the industry, at least the sub $1,000 spring kind of industry rebounds to some meaningful degree. I'm trying to get a sense, you, I think reported a 1% or something growth in springs or there is some growth in the springs in the quarter?

I'm assuming that share gains you've referenced, Simmons among other things. But the simple question is, if we got a meaningful duty, and let's say the low end of the domestic producers saw growth next year with your share gains, content gains what kind of spread would we expect to see from Leggett, say, on a unit basis, let's leave inflation of steel out in that--given those assumptions.

Perry Davis
Well, that's a good question, John.

Karl Glassman
Why I gave it to Perry.

Perry Davis
I guess I'd start off by saying that the domestic US mattress market is somewhere around 30 million. We believe that --.

Karl Glassman
That's in units. Total mattresses.

Perry Davis
In units, I'm sorry. Yes. The China part of the business is 4.5 million, 5 million maybe as much as that. So if those got repatriated, some of them likely would go elsewhere, but most of that, if there's successful effort on a dumping action would be repatriated.

You're talking about a significant uplift, and that would, I believe, more effect the promotional end of the market. As you said, that could be both innerspring and the foam part of the market. So it'll provide a meaningful uplift for US manufacturers. And beyond that as far as percentage growth, I think I'll stay away from that at this point.

Karl Glassman
John, it's really tough to forecast when that business comes back. And we're confident that, and we're starting to see some early signs of it coming back. So we're confident that there will be a positive uplift. But it's hard to forecast today when it comes back, will it come back as innerspring or foam or hybrid? And what's the channel of distribution as it comes back?

It left as brick-and-mortar low-end innerspring. It more than likely is probably going to come back as a higher percentage of foam, possibly hybrid, than it left and a greater percentage of it would probably come back as e-commerce than it would brick-and-mortar. But trying to understand that balance is difficult and that's why it's so difficult to answer your question. That's the best we can. We don't know.

John Baugh
How about this question? If we just looked at Q3, which is in the books, what did your US Springs business do in units versus what you think the trade did overall?

Karl Glassman
We were up 1%. ISPA has not published domestic units yet. But they said that 2Q units were down 3%. I don't see any reason to expect that changed. And our dollars were up 5% and that's a tribute to content gains and inflation.

Perry Davis
Yes. And John, just a little more color on content gains during the quarter, which we've talked about the shift and the share gains with regards to Comfort Core. But the two things we talk about generally in content gains are Quantum Edge and then some of these lower height Comfort Core products that are used in upholstery layers. And just looking at the third quarter year-on-year, Quantum Edge is up a little over 27% compared to last year. So that's terrifically good.

And then, the upholstery part of the equation with the lower height Comfort Core units were up a little over 50%. So that, while that started at a relatively low basis, that’s beginning to become quite meaningful as manufacturers utilize those products in mid- to upper-end product lines.

Karl Glassman
And John to even give more granular, as it relates to the Comfort Core's share of our US total innersprings, 2016 it was 33%; 2017, 37%; year-to-date, it's 43%; third quarter was 45%; September was 48%. So that trend continues to expand and admittedly taking some of the Simmons business helped facilitate that. And to Perry's point, as we put Quantum Edge around an increasing number of Comfort Core from a value per mattress perspective, that story is a wonderful story that continues to hold up.

John Baugh
Okay. And maybe a question for Mitch on Automotive, because I don't cover that space and I certainly don't track quarterly or annually even the major market of auto builds and global and all that stuff. You talked in the past about, still in the future, still expecting this 1,000 basis points spread. I guess is that then and I know the quarters are lumpy, but if we look, I don't know back to eight quarters and then we look forward, say eight quarters as best as you can. Is that 1,000 basis points holding up? And which, are you doing the major markets or are you doing global? It seems to me that spread has been a little bit lower in the last several quarters, then maybe I'm off.

Mitch Dolloff
I think it's been up and down over the last several quarters. Again, we didn't really set it out there as a quarterly metric, but more of a long-term goal. I think that we've been hitting it over the last several years, and when we look out into the future and remember, we have really good visibility here, we see us overall continuing to be able to maintain that goal.

So, I kind of talk about the major markets versus developing markets for a couple of reasons. One, just the scale is quite different. The major markets are about 80 million vehicles today versus the developing markets at about 15 million. So not surprisingly the major markets growth is lower, right, because they're developed markets. So if you look at a long-term CAGR, call it 2017 through 2021 for the major markets, that is shown at a little less than 1%. Still good on 80 million vehicles, but it's a lower growth rate.

In contrast, when you look at the developing markets, that's a higher growth rate about 5.5% on a much lower base the 15 million units. So, the distinction is, I think, important in a couple of ways. One, we have certainly more content in the major markets, that are higher level vehicles. We have less in than the developing markets, but the developing markets are our long-term future opportunity. We continue to see content gains as economies develop, and that's someplace that we'll end up playing in a bigger way over the long term.

John Baugh
Okay. Thanks for that color. Appreciate it. Good luck.

Karl Glassman
Thanks, John.

Operator
Thank you. Once again as a reminder if you would like to ask a question please press "*" "1" on your telephone keypad. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the "*" keys.

Our next question comes from the line of Peter Keith with Piper Jaffray. Please proceed with your question.

Peter Keith
Hi. Thanks. Good morning, everyone. Thanks for all the detail. I wanted to just circle back on the promo activity in the Adjustable Bed business side. I wasn't quite clear, was that self-induced promo activity? Or is there broader promotional dynamics starting to play out in the industry right now?

Mitch Dolloff
This is Mitch, Peter. No, it's a program that we participate with in conjunction with one of our retail customers.

Karl Glassman
Really, it's a wind out of their existing product line. And to be completely candid, they had forecasted more robust sales than they actually delivered on, so we had excess inventory. We are working with them to wind down that existing program. And as Mitch said earlier that, it's really been a good monetization of that inventory. The problem is we are working together to discount the product and that it's because we're selling out of inventory instead of new production, it's hurt us from an overhead recovery perspective.

Peter Keith
Okay. That's helpful color. Thank you. Lastly from me, the Flooring and Carpet Cushion business doesn't usually get a lot of attention, it's pretty steady. I guess I don't have context on any history of it double-digit price increase. Is there any unit elasticity in that category? Could that impact future demand? There's certainly a lot of dynamics going on in Flooring right now with moving to hard surface and how should we think about that price increase and how it will play out to your overall volume growth?

Perry Davis
Yes. Peter, we used to see a lot of volatility in that business, and we've been fortunate enough not to have too much over the last few years. So this is the most significant moves in both scrap foam raw material and chemicals that we've seen in a while. There are fewer players today in that business than there were a few years ago. We believe the industry overall has a better pricing discipline than it used to have. And you're right, the growth of hard surface flooring, particularly luxury vinyl tile over the last few years has taken some share away from soft surface or carpet. But also has taken share away from things such as ceramic tile and hardwoods and other hard surface flooring.

So and incidentally, we participate in a growing part of our business with a synthetic rubber underlay product for luxury vinyl tile that's a very good acoustical, or sound-deadening product, and that's growing significantly. We're holding our own pretty well, in carpet. Our unit volume is about flat. And like I said, we've had a little bit of a challenge this year with some unexpected increases, but overall that's a healthy business unit.

Peter Keith
Okay. Sounds good, guys. Thank you. Good luck.

Karl Glassman
Thanks, Peter.

Operator
Thank you. Our next question comes from the line of Herb Hardt with Monness, Crespi, & Hardt. Please proceed with your question.

Herb Hardt
Good morning.

Karl Glassman & Matt Flanigan
Good morning, Herb.

Herb Hardt
Two questions. One, you used to speak much more about aerospace and the stability, long-term growth. I see one comment. It was up 10% in the written release. But is there anything, especially given what's going on with military spending these days, on the outlook that could improve it?

Mitch Dolloff
Hi, Herb. This is Mitch Dolloff. Yes, I think we didn't talk a lot about aerospace, because it was generally good news, this quarter. I think that business continues to perform very well. We are winning new awards. We're improving the profitability. We continue to have a strong flow of deals from an M&A standpoint, although we haven't put anything together. So we continue to be very enthusiastic about the business and it’s performing well.

Herb Hardt
Thank you. The other question is, back to the carpet underlay, I believe you said you were close to doubling of raw material cost in some places, which seems to be pretty rough to pass through. You've talked about this several times this morning, but is there, in general, a longer-term delay in doing that? Or are you able to bring it on pretty quickly?

Perry Davis
Yes. Herb, this is Perry. We have reacted quickly. As I said, there's been kind of two tranches this year, this last increase over the last 90 days has been, came upon us, somewhat unexpectedly and happened quickly, but we reacted immediately. We are the largest provider of those products we feel. And we have led the way with increases and sometimes when you lead the way, your nose bumps into the wall, but with this, there is nobody that's not affected in this business by what we've seen. And the magnitude of the increases are just simply impossible to absorb, so we’ve quickly taken action to pass those through, and we fully expect to recover, like I said by the mid-end of November, something like that.

Herb Hardt
Okay. Thank you very much.

Karl Glassman
Thanks, Herb.

Operator
Thank you. There are no further questions at this time. I would like to turn the call back over to Ms. Watson for any closing remarks.

CONCLUSION

Wendy Watson
Thank you, everybody, for participating today. And we'll talk to you next quarter.

Operator
Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.