S&P Global
Market Intelligence

Leggett & Platt, Incorporated NYSE:LEG

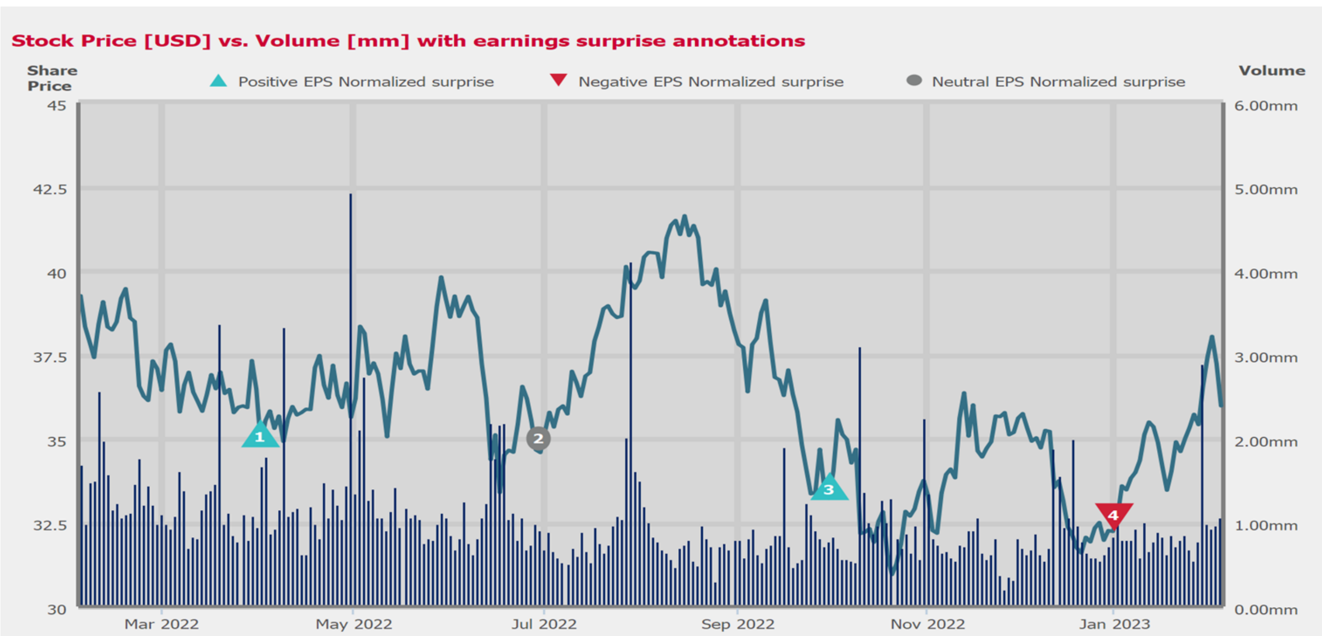
FQ4 2022 Earnings Call Transcripts

Tuesday, February 7, 2023 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.48	0.39	(18.75 %)	0.46	2.36	2.27	(3.81 %)	2.00
Revenue (mm)	1235.57	1195.80	(3.22 %)	1254.93	5186.47	5146.70	(0.77 %)	5074.54

Currency: USD
Consensus as of Feb-07-2023 11:26 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	0.56	0.66	1 17.86 %
FQ2 2022	0.70	0.70	2 0.00 %
FQ3 2022	0.50	0.52	3 4.00 %
FQ4 2022	0.48	0.39	4 (18.75 %)

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Call Participants

EXECUTIVES

J. Mitchell Dolloff
CEO, President & Director

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

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

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

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

Matt Egger
Piper Sandler & Co., Research Division

Presentation

Operator

Greetings, and welcome to the Leggett & Platt Fourth Quarter 2022 Conference Call.

[Operator Instructions]

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Susan McCoy, Senior Vice President of Investor Relations. 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 Fourth 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 the Specialized Products and Furniture, Flooring and Textile Products segments; Tyson Hagale, Senior Vice President and President of the Beddings Products segment; and Cassie Branscum, Senior Director 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 and subsequent 10-Q 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 fourth quarter call. Leggett & Platt's diverse portfolio of businesses, strong cash discipline and the ingenuity and agility of our employees helped us deliver solid results in 2022 despite weak demand in residential end markets.

Sales grew 1% in 2022 to a record from continuing operations of $5.15 billion primarily from acquisitions. Organic sales were flat, with volume declines of 7% and negative currency impact of 2%, offset by raw material-related selling price increases of 9%. Acquisitions, net of divestitures, added 1% to sales growth. Volume declines were driven by demand softness in residential end markets, partially offset by growth in automotive and industrial end markets.

2022 EBIT was $485 million, a decrease of $111 million versus 2021 EBIT and a decrease of $83 million versus 2021 adjusted EBIT, primarily from lower volume, lower overhead absorption from reduced production, operational inefficiencies in Specialty Foam and higher raw material and transportation costs and operational inefficiencies in automotive.

These decreases were partially offset by metal margin expansion in our Steel Rod business and pricing discipline in the Furniture, Flooring and Textile Products segment. EBIT margin was 9.4% down from 2021's EBIT margin of 11.7% and adjusted EBIT margin of 11.2%. Earnings per share in 2022 was $2.27, a decrease of 23% versus EPS of $2.94 in 2021 and a decrease of 18% versus adjusted EPS of $2.78.

Cash flow from operations was $441 million, a 63% increase versus 2021. The current global macroeconomic environment and its impact on the consumer negatively impacted our fourth quarter results. Sales were $1.2 billion. EBIT was $91 million and earnings per share was $0.39. Sales in the quarter were down 10% versus fourth quarter 2021, primarily from lower volume and currency impact, partially offset by raw material-related price increases.

Acquisitions added 2% 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 40% versus fourth quarter of 2021, primarily from lower volume and lower overhead absorption as we intentionally cut production in our Steel Rod business below demand to reduce inventory levels.

These declines were partially offset by metal margin expansion. As a result of these impacts and inflation, EBIT margin was 7.6%, down from 11.4% in the fourth quarter of 2021. Earnings per share decreased 49% versus fourth quarter of 2021. During the year, we completed 4 strategic acquisitions. In late August, we acquired a leading global manufacturer of hydraulic cylinders for heavy construction equipment with operations in Germany, China and the U.S. and annualized sales of approximately $100 million.

This acquisition builds scale in our Hydraulic Cylinders growth platform and brings us into an attractive segment of the market that aligns well with trends in automation and autonomous equipment. Also in August, we acquired a small textiles business that converts and distributes construction fabrics for the furniture and bedding industries with annual sales under $10 million.

In early October and mid-December, we acquired 2 Canadian-based distributors of products used for erosion control, storm-water management and various other applications with combined sales of approximately $50 million. We have successfully expanded our textiles business over the years through small and strategic acquisitions that leverage textile supply chain expertise in attractive end markets.

Now moving on to the segments. Sales in our Bedding Products segment were down 19% versus fourth quarter of 2021 and decreased 4% for the full year. Demand in the U.S. bedding market softened during the fourth quarter as macroeconomic impacts on consumer spending persisted. We expect demand in 2023 to remain consistent with levels experienced in 2022 with relatively consistent sequential volumes continuing in the first half of the year and modest increases in the second half of the year.

Volume in U.S. Spring was down 22% in 2022, which is comparable to the domestic mattress market. After a mid-single-digit share loss early in the pandemic related to supply shortages, we estimate that our share of the innerspring mattress market has remained stable over the last 2 years despite a volatile environment. Although consistent demand is assumed in 2023, we expect to increase production after limiting output in 2022 to align inventory with lower demand levels. Strong trade demand for rod and wire provided earnings benefit in the first half of the year. However, trade raw demand slowed considerably in the back half of 2022. And as a result, we cut production significantly to reduce inventory. Steel Rod production in 2023 is expected to be in line with 2022 but remain well below normal levels.

We expect higher internal consumption to offset lower trade demand. Increased metal margin provided earnings benefit throughout the year but to a lesser extent in the latter part of the year as steel prices soften. While it is difficult to predict steel pricing, we anticipate continued softening in 2023. However, we expect rod pricing and metal margins to remain at historically elevated levels due to higher conversion costs.

Demand in European Bedding has stabilized in recent months, and we expect demand in 2023 to be relatively flat with 2022. The actions we took in 2022 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.

Full year 2022 segment earnings were significantly impacted by difficulties experienced in our Specialty Foam business. About 2/3 of the earnings challenge in Specialty Foam was a result of low demand, which dropped quickly in the fourth quarter of 2021 and remained at depressed levels throughout 2022. Demand was impacted from 3 areas, the first being the general bedding market decline of approximately 20% following demand surges in 2020 and 2021 and chemical shortages in 2021.

The second was channel-focused. Finished goods production in Specialty Foam is weighted heaviest to digitally native brands, which declined more than the overall market due to changes in consumer privacy laws and customer cash constraints. And finally, we suffered share loss from a small number of customers with sales shifting from finished goods to components in some cases.

Specialty Foam earnings were also impacted by the volatile chemical supply environment. Like all other foam producers, we experienced significant chemical inflation through the course of 2021, and costs remained at historically high levels in 2022. Given the level of material costs, efficiently pouring and converting foam is of even greater importance than normal. However, because of high demand in 2021 and chemical shortages, our first priority became servicing customers.

Between paused integration and the need to service customers, we have not operated at target-material efficiency levels. Material inefficiencies at these high chemical costs had a detrimental impact on earnings. While it will take some time to see improvements in

Specialty Foam, especially with the continued challenging demand environment, we're confident in our recovery plan and are making progress.

Our team has a strong pipeline of opportunities influenced by our Specialty Foam technologies. We've also 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 short-term improvements in sales and material management.

Sales in our Specialized Products segment increased 15% versus fourth quarter of 2021 and were up 12% for the full year. The January forecast for global automotive production shows approximately 4% growth in the major markets in 2023. While improving year-over-year automotive industry production forecast could remain dynamic as supply chain, macroeconomic, geopolitical and COVID impacts bring continued volatility. Cost recovery is continuing in automotive, and we expect to make further progress in 2023.

In our Aerospace business, we expect continued strong demand in 2023. However, raw material and labor shortages are creating some volatility across the industry. 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.

Demand is expected to remain strong into the first half of 2023 with some potential slowing in the back half of the year as backlogs ease. Sales in our Furniture, Flooring and Textile Products segment were down 12% versus fourth quarter of 2021 and up 3% for the full year. Home Furniture demand slowed during the quarter at both the mid and high end of the market, and customer backlogs largely have been depleted.

Demand at lower price points remained extremely weak and customers across all price points are working to reduce inventory levels. This demand softness also impacted volume in Fabric Converting. We expect lower market volume through at least the first half of 2023. Work Furniture sales decreased in the fourth quarter as contract demand slowed and demand for products with residential exposure continued to soften. We expect this trend to continue into 2023.

In Flooring products, residential demand has softened modestly with the slowing housing market and lower home improvement activity. Hospitality demand is slowly improving but remains well below pre-pandemic levels. Geo components demand remains solid heading into 2023, particularly in the civil construction market and to a somewhat lesser extent in retail.

As we move through 2023, we are focused on improving the things that we can control and continuing to mitigate the impacts of market challenges on our business. We are working with our customers on new product opportunities, continuing our focus on improving operating efficiency and driving strong cash management. Our financial strength gives us confidence in our ability to successfully navigate challenging markets while investing in long-term opportunities.

Finally, I would like to thank our employees for your strength, tenacity and dedication to driving long-term results. Your commitment to our values results in the collaboration, agility and ingenuity required to drive our company forward despite challenging macroeconomic circumstances. Each of you is key to our continued success. I'll now turn the call over to Jeff.

Jeffrey L. Tate
Executive VP & CFO

Thank you, Mitch, and good morning, everyone. In 2022, we generated cash from operations of $441 million, $170 million higher than the $271 million we generated in 2021. This large increase reflects a much smaller use of cash for working capital, partially offset by lower earnings. Working capital increased significantly in 2021 due to restocking efforts following inventory depletion in 2020 but increased to a much lesser extent in 2022 as we return to inventory levels more reflective of current demand.

This improvement was partially offset by a decrease in accounts payable as purchases slowed due to lower volume and our efforts to reduce inventory levels. We ended the year with adjusted working capital as a percentage of annualized sales of 15.3%. Cash from operations is expected to be $450 million to $500 million in 2023 as we continue to focus on optimizing working capital in a softer macroeconomic environment.

Our long-term priorities for use of cash are consistent and unchanged. They include in order priority, funding organic growth, paying dividends, funding strategic acquisitions and share repurchases with available cash. Total capital expenditures in 2022 were $100 million, reflecting a balance of investing for the future while controlling our spending. We raised our annual dividend for the 51st consecutive year in 2022, honoring our ongoing commitment to return value to our shareholders.

In November, our Board of Directors declared a quarterly dividend of $0.44 per share, $0.02 or 5% higher than last year's fourth quarter dividend. At an annual indicated dividend of $1.76, the yield is 4.7% based upon Friday's closing price, one of the highest among the dividend kings.

We used $83 million during the year for the 4 strategic acquisitions that Mitch discussed earlier. With the deleveraging we accomplished over the past few years, share repurchases returned as one of our uses of cash in 2022. During the year, we used $60 million to repurchase 1.7 million shares at an average price of $35.94. We used our commercial paper program to repay $300 million of 3.4% 10-year bonds that matured in August.

We ended the year with net debt to trailing 12-month adjusted EBITDA of 2.66x and total liquidity of $1 billion. 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. 2023 sales are expected to be $4.8 billion to $5.2 billion or down 7% to up 1% versus 2022, reflecting 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 and 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 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, in line with 2022. Dividends of approximately $240 million and spending for acquisitions and share repurchases are expected to be minimal as we focus on conserving cash. And while we're not providing quarterly guidance, we do expect first quarter earnings to be down meaningfully versus fourth quarter of 2022, primarily due to the timing of performance-based compensation accruals, which are typically highest in the first quarter as well as normal seasonality in some of our businesses.

We expect the continuation of normal seasonality with higher earnings in the second and third quarters of the year. In closing, while the macroeconomic environment remains challenging, especially in the first half of the year, Leggett is well positioned to navigate these challenges with continued operating and financial discipline. We are keenly focused 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 questions come from the line of Susan Maklari with Goldman Sachs.

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

My first question is -- and thank you for all the details in the prepared comments. I think it was very helpful. When you think about the efforts in Specialty Foam and you walk through some of those changes that you're making, can you give us a sense of where you are within that process? And how we should be thinking about the benefits of that starting to flow through to the results perhaps later this year? Or is it something that will be more of a 2024 event?

J. Mitchell Dolloff
CEO, President & Director

Yes, that's a great question, Susan, and thanks for listening in on the comments. I know it was long, but we wanted to try and provide some clarification there. Tyson, I'll let you comment on ECS. I know you've been working really diligently with the team there to assess where we are and put some recovery plans in place.

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

Sure thing. And good morning Susan, I'll start with the commercial side of our plans. As was noted in the prerecorded remarks, it's tough in a slow demand environment, especially where we've weighted our business historically, but our commercial team has done a really good job even in the slow environment building our commercial pipeline and looking at opportunities to diversify our customer base.

So despite some near-term headwinds just with the overall market slowness, I feel good about our pipeline there. And especially because we're able to really return and our customers are interested in returning to looking at some of our Specialty Foam technologies. When chemicals got really short, our development team really had to pivot and spend more of their time and resources working on formulations just to make sure we could continue servicing our customers.

But as those have improved, as our constraints have eased and our customers have returned to looking at differentiation and other new product introductions, we've been able to get back to that as well. So I feel good about our pipeline, both from the quality of leads and opportunities that we have, and those are developing throughout the year. We'll start to see some of the benefits in the back half of the year, I think, from some of the business that were being awarded.

But still, overall, with slow demand and the full benefit probably coming into next year, but also the fact that we're using our Specialty Foam technologies as part of those projects as well. So on the commercial side of things, that's how we feel about it. The operations, which we've mentioned as well, working through challenges there.

I feel good about the team that's being put together both from the team that came along with the acquisition and also filling in some gaps along the way. So we're in a good place with our operational leadership. Some of the things that we've talked about, I think, before as well, just being able to really get back to the integration of 4 companies now being brought under the L&P umbrella but heavy focus just on our overall data and process control, and I feel good about the steps we're taking there.

And I think we'll see those really take hold as we move through the year. We're also investing and rolling out an improved IT system that's already underway, but we're being -- I would -- not cautious but realistic about the time frame to install the IT system across all of our Specialty Foam business. We also, during the pandemic made investments in equipment, especially focused on automation and helping us control material efficiency. That equipment is starting to arrive.

But like a lot of investments over the last couple of years, lead times are pretty long. So even if they start to show up, it will take some time to get it integrated and up and running to full efficiency. So I would say back half of this year and into next year, we'll start to see more of the benefits from our equipment investments. So I know that was a lot, but just to give you a little bit of a frame reference, both on the commercial and operational side, just how things are rolling out.

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

Yes. No, that's very helpful. And I guess following up on that, as we do think about the outlook that you gave us for 2023, especially as it does relate to some of the different parts of the Bedding business, how are you thinking about the cadence of the margins in that segment for this year? When you think about normal seasonality on top of some of these company-specific dynamics that are coming through, any thoughts on how we should be thinking about where that margin eventually gets to and the path of getting from where we are today to that endpoint?

J. Mitchell Dolloff
CEO, President & Director

Susan, Cassie, do you have any detail there that you'd like to share? I think for us, the biggest -- one of the biggest impact is what happens from a scrap to rod spread. And it's really difficult to precisely predict that we have anticipated some contraction over the course of the year. That's probably that and volume would be the biggest impact.

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

And also just one more comment. Yes, we do see the market returning to more normal seasonal patterns. And also, we talked about this before as well. But over the course of the last year, as demand was soft, but we were also really intentional about bringing down our inventory, our production was below even the demand level so that we could control that, which is tough to do in a slow demand environment, but our team really did a good job in pushing that through and even towards the end of the year.

So I think even as we get back to this year and more normal seasonal patterns, we should be back to a place we're producing and have better overhead recovery. So that was a real challenge for us over the last year.

J. Mitchell Dolloff
CEO, President & Director

Yes, particularly at the end of the year. I think that's a great point, Tyson. So if we looked at the first half of the year, call it, or even a little longer, we had really strong trade rod volume, right? And now we're anticipating that to be a little bit lower than last year, but pretty similar, but much more consistent, right, as opposed to the big -- high levels we had in the first part of the year and lower in the last half of the year. And then similarly, as you said, with just overall production being more similar. So I think it would just be a bit more normalized hopefully than what we saw last year.

Susan R. McCoy
Senior Vice President of Investor Relations

Yes. Susan, a little bit specific on your margin question. We talked about lower first quarter expectations for the company overall that holds true with Bedding with a return to more seasonal patterns as we move through the year. So that also helps to the Bedding with, again, their historically highest seasonal quarter has been third quarter. So a step-up in margins as we move through the year from a margin percentage perspective, what we're showing.

Operator

Our next questions come from the line of Keith Hughes with Truist Securities.

Keith Brian Hughes
Truist Securities, Inc., Research Division

I guess you had indicated the slow start to the year in the first quarter. Are you still planning to see rod production curtailments into the first quarter? Is that playing a role?

J. Mitchell Dolloff
CEO, President & Director

Keith, good question. Tyson, I'll let you handle that one.

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

Sure. Yes, we really keep that something that at this point, we're playing really throughout the year. As we got into the back half of 2022, and we saw trade demand slow, we had to take more aggressive actions in the back half of the year. So it was really heavily weighted towards the third and fourth quarter and pulling our production down especially in the fourth quarter. So overall, through the course of this year, we expect things to be relatively consistent from a total production standpoint but more evenly balanced throughout the year.

J. Mitchell Dolloff
CEO, President & Director

So Tyson, if we looked at it from sequentially from the fourth quarter '22 to the first quarter of '23, we would see increased production. But if we looked at it year-over-year, we see significantly lower production because it was so strong in Q1 of '22.

Is that right way to think about it?

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

I think that's the right way to think about it.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Okay. And so if that's the case, I'm a little confused with why the EPS is going to be so much lower, I know seasonal change always -- seasonally, your EPS comes down from fourth or first, given the seasonality in the business. But it seems like some higher production would be offsetting that. Is -- are you assuming the metal margin steps down a lot in the first quarter?

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

Versus last year, we're starting to expect -- well, we are expecting and experiencing some modest decline in overall metal margin, especially compared to the first part of last year when the conflict in Ukraine and just overall market capacity constraints really drove things up higher in the first part of the year. So it's overall relatively modest, but still less than the first half of last year, when we look at our production and metal margin.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Okay. And are you assuming -- for the guidance for '23, are you assuming those metal margins deteriorate all through the year? And kind of where do they end up at the end of the year?

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

Sure. So through the course of the year, we have some modest compression. It's really hard to predict. It's been especially difficult over the last couple of years. But for the full year, yes, it's down modestly as we move through the year.

And if we looked at the year in total, so 2023 versus 2022 on a percentage basis, we would expect right now metal margin to be down in the mid-teens.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Down mid-teens. Okay. Is there more of an emphasis in the second half of the year on that?

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

Slightly more, but still relatively consistent as we get through the back half of the year.

J. Mitchell Dolloff
CEO, President & Director

And get a little deeper here, I should. But in the first -- I guess, probably 3 quarters, we saw metal markets continuing to expand and then in the fourth quarter contracted a little bit like...

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

10% as seen in the fourth quarter.

J. Mitchell Dolloff
CEO, President & Director

Exactly. So nothing is tanking, that's just moderating.

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

That's right. And fourth quarter was a little difficult as an indicator just because I think the overall steel market was soft as people got to end of the year, and there was quite a bit of uncertainty. People bringing inventory or consumers bringing inventories down, might be a little tough to predict, especially as we started off 2023, scraps has been a little higher in demand. Prices have been going up, conversion costs remain high. So it's still pretty dynamic and trying to predict, but that's right, Mitch.

Keith Brian Hughes
Truist Securities, Inc., Research Division

So one final question, sorry to hog the call here. But -- so particularly at the low end of the range, it's a pretty substantial reduction in EPS from what we saw in '22. If you had to kind of list 1, 2, 3, the biggest drivers for that, what would those be for the reduction?

J. Mitchell Dolloff
CEO, President & Director

Susan, Cassie, you guys want to take that?

Susan R. McCoy
Senior Vice President of Investor Relations

Keith, as always, volume is the driver but we're trying to predict what's happening with metal margin and frankly, nobody knows that. So we have our assumption built into the forecast. But if it drops more than we're expecting, then that's also meaningful downsize.

Keith Brian Hughes
Truist Securities, Inc., Research Division

So number one would be volume and then things like metal margin and maybe some deflation would be secondary drivers. Is that a fair statement?

Susan R. McCoy
Senior Vice President of Investor Relations

Yes, that's a fair statement. It definitely leads with volume. That's where probably the greatest amount of uncertainty exists in this environment. And it could be up, it could be down. That's why we've got such a wide range.

Operator

Our next questions come from the line of Bobby Griffin with Raymond James.

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

I appreciate the detail there on the metal margins, always hard to predict, but helpful to know what the underlying assumption is in the guidance. I guess, first, Mitch, I wanted to ask about Specialized Products and where you guys are in the journey of the cost recovery and kind of what's embedded for 2023. I was admittedly a little surprised to kind of see them step back down sequentially despite a little bit better volume sequentially.

But I understand that there is a lot moving around inside that segment. So maybe just kind of given how each business is recovering at a different rate, can you talk about what the drivers would be kind of for those margins in 2023 and where you and the company are on the journey of trying to get back the very high margins that you guys used to be able to do in those businesses?

J. Mitchell Dolloff
CEO, President & Director

Sure. And Steve, I'll make a few comments, but then invite you to join in as well. So yes, it is a little bit dynamic for sure. We continue to see strong volume gains in Specialized across all 3 of the businesses and expect those to continue as we go into 2023. We definitely had some impacts in the fourth quarter and particularly in automotive, we had a little bit higher material costs, as you mentioned, we've been working on those, but also some labor inflation, particularly where we had increased overtime premiums in China when the COVID restrictions were lifted.

And then there is the large outbreak there that certainly impacted us like it did the rest of the country pretty much. And we -- surge in our employees who were -- had to be -- had not come to work, and so that led to additional overtime for some of those. So that was a bit of a one-off there. I would say in automotive overall, I don't want to go in too much detail here, but we continue to make good progress in the pricing recovery, in the cost recovery.

I'd say that we got about 60% to 65% of it recovered in 2022 with the balance we expect to come in '23. We've talked about that it's a challenging thing to accomplish. The team has done a great job, and we're confident in our ability to close that. But we have made really, really good progress there.

From the outlook for production in automotive, see the major markets forecast to be up about 3.6% year-over-year, which is good, continued progress. It continues to be dynamic, right? There's supply chain, labor shortages throughout the supply chain at the OEM level as well, but making progress, continue to see really low inventories and vehicles age rates at very high levels that were around 12 years or so in the U.S. So I think that outlook is good.

We see that kind of 3% to 4% growth forecasted for the next 3 years or so '23 to '25. But I would just remind to the folks that if we look at the forecast for major market production in '23 is about 70 million vehicles just below that, improving back in 2019, which is actually a down year, it's still 75 million. So we're still below where we were pre-pandemic. But I think what it does provide is a long-term tailwind for the recovery in the automotive market.

I think we've seen the really strong backlogs in Hydraulic Cylinders, and that's -- I think, a strong benefit for our business there. We also see strong demand in Aerospace, although it's hard to start anything up really fast, especially with the long time -- lead times that we see there. But I think those tailwinds and the outlook for all 3 of those businesses is very positive for us. Steve, let me pause my rambling there and let you chime in as well.

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

I think, Mitch, you hit most of it. In Hydraulics, we have seen orders continue to increase as the OEMs recover their production challenges, and we expect that to continue through the year. And as Mitch said, we're hopeful that, that will carry on into the second half of the year. We did have a few operational challenges that the team has done a really good job of dealing with. So looking for continued growth there in Aerospace, air travel continues to recover. We don't see business travel recovering until 2025.

So there's still some tailwinds there. Kind of as Mitch has alluded to, the operation performance across the supply chain, it's kind of similar to automotive as they look to ramp back up and we're seeing the same types of order changes and cancellations, short lead times and other things that are making it really challenging to respond, but the long-term fundamentals are definitely there for continued growth in Aerospace.

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

I appreciate the detail. And Mitch, maybe on CapEx, just thinking out a little further, is there a catch-up period that's going to have to come on capital spending? And I guess I'm just asking in the context that I think pre-COVID, this was $140 million to $150 million a year CapEx business, at least in 2019. And we're not going up on 2 years of just $100 million, and it's running well below D&A. So as the business has changed, where the capital requirements are just not as much? Or is there going to be kind of a catch-up period here if the economy improves, that we have to kind of spend a little bit more on the capital side?

J. Mitchell Dolloff

CEO, President & Director

Yes, that's a great question, Bobby. Thanks for asking that. I don't see that there's a big catch-up. We haven't been constraining any kind of critical investment. In fact, we've had some things like, for example, IT that we've had to increase our investment and we think that those are critical to do. We continue to do so.

I think historically, the biggest use of CapEx comes in Bedding, U.S. Spring historically as well. I think we've done a good job of managing that a little bit differently. Not that we don't invest in capacity or in innovation, we'll continue to do so, but we think we can do that a little bit more efficiently. And then the second one would be in automotive. And I think part of the impact there has been with all the volatility, there's been just less new programs starting.

And so some of that has been pushed out as well. So -- but it's not like it's going to get pushed out. It's just going to change the whole time frame. So you don't get double the investment in 1 year. It's just going to change the time frame a little bit. So I think we probably will -- as we get back to a stronger growth environment, increase our CapEx, but I don't see any big catch-up or big surge that will negatively impact us.

Operator

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

Matt Egger

Piper Sandler & Co., Research Division

This is Matt Egger on for Peter. First off for me, we're just curious what happens to gross profit dollars if we see commodity-led-price decreases? And maybe you can compare to what you would expect to see now versus what historically happened with the LIFO accounting change? That's my first one.

J. Mitchell Dolloff
CEO, President & Director

Okay. Thanks. Good question. And I'll take the easy part of it and then turn it over to Susan or Cassie for the LIFO piece. But I think in general, we've talked about as inflation has occurred throughout the last couple of years that we can be successful in passing it on, but largely passing on the dollar amounts, right, for the most part. And so that's had a drag on our margin.

So I think as we see deflation, and we pass that along to our customers, we see that same dollar change, but we shouldn't see a big impact in our margin profile. There's some pluses and minuses. Some of that is timing around what kind of inventory we have. And for the most part, we're in very good shape there. Don't have a lot of high-cost inventory and sometimes timing around how it moves through our supply chain or how contractual agreements work.

But overall, I think it should stand up to reflect what we've been commenting on is we've passed on the inflation that we've done that largely on a dollar basis, and we expect to see the same thing as we see a little bit of deflation as well. Susan, Cassie, anything you would add to that?

Susan R. McCoy
Senior Vice President of Investor Relations

Yes. LIFO is our favorite topic. It's actually directionally very predictable in an inflationary environment. LIFO will, without fail, generate expense in the deflationary environment as predictably, it would generate a benefit. So that's just high level, what to expect. And thankfully, we don't have to deal with that anymore.

Matt Egger
Piper Sandler & Co., Research Division
Great. And then secondly, can you walk us through the Furniture segment and maybe explain why the year-over-year volumes in Furniture are starting to kind of drop off?

J. Mitchell Dolloff
CEO, President & Director

Yes, sure. Steve, I'll ask you to jump in there. But it's really a couple of dynamics. I mean we have to -- after a big surge in Home Furniture that we saw over last year and in the beginning of this year, we really saw that soften across the industry. That's not -- shouldn't really be new news. And then if we look at Work Furniture, that is probably the change where after being so soft, we saw a strong recovery in the first 3 quarters of 2022 and then really started to see the contract business, which had been recovering slow down in the fourth quarter. So that's been the biggest change there. But Steve, I'll let you chime in as well.

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

Yes. Yes, from a Home Furniture perspective, the answer is much, much lower retail demand. So we had seen the low end drop, but then we saw the mid- and high price points drop even further than what we expected. And that's led to some fairly significant inventory levels, which we couldn't see earlier in 2022, and we expect those to be worked off here hopefully in the first half of 2023 and start to return to a more normalized demand level and from a Work Furniture perspective, as Mitch said, our customers are reporting volume declines and incoming contract orders.

And that's really driven by the surge of back-to-office that they saw and that's worked its way through, and now they're seeing a little bit more lower level of return-to-office trends, particularly in the Americas, which is lowering that demand. And then you can add on top of that the retail residential slowdown that we spoke to from a Home Furniture perspective. So those are the 2 big issues that are impacting Work Furniture at this point in time.

J. Mitchell Dolloff
CEO, President & Director

Yes. Steve, if I remember right, that this is a forecast, which would be for North America was down about 8% or so for this year?

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

Yes, 8% or 9%.

J. Mitchell Dolloff
CEO, President & Director

Yes, yes. So in line with industry dynamics there, unfortunately. And as we've mentioned before, so the Fabric Converting side of our textiles business also moves along largely with Bedding and Home Furniture. So we see that down. But what does not is the Geo Textiles component side of that, and we see that driven by construction industry to be -- continue to be strong as we go into 2023.

Operator

Our next questions come from the line of Susan Maklari with Goldman Sachs.

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

My first question is on input costs. And we've touched a bit on this across the questions. But can you give us a sense of what you're actually seeing in the various inputs, maybe upside, especially of the metal margins? And how you're thinking about the puts and takes there for 2023?

J. Mitchell Dolloff
CEO, President & Director

Yes, I'll make a general comment and then Tyson or Steve, will ask you to join it. But Susan, I think that we see inflation moderating, maybe in some things, we see a little bit of deflation kicking in but we don't see any really significant declines across the board, in fact, really anywhere that I can think of. And so I think it remains -- I think for the large part, commodity costs are -- remain at elevated levels are generally neutralizing or starting to come down a little bit, but we just don't see huge, huge declines, but Tyson, anything different you'd see in chemicals or anything?

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

Mostly the same as what you just said, Mitch, we even talked quite a little bit about metal margins. But part of the reason why that's been difficult to predict is because our conversion costs, not just the scrap input cost, but the cost of everything else that goes to converting that into rod, energy costs, the consumables in refractories and electrodes and everything else.

Those have increased significantly as well. So when all of those input items even go into our overall costs are increasing as well, it becomes difficult to predict. But overall, I agree with what you said, Mitch, the some general moderation in some of those costs.

On chemicals, we've seen some of that as well, some moderation but not dropping off a cliff because of a lot of the same issues, energy costs being high, there's still global constraints around certain types of chemicals and just overall capacity in the market to produce still makes it difficult to see exactly where those will land, but it's been relatively stable.

J. Mitchell Dolloff
CEO, President & Director

Yes. Okay. Thanks. And Steve, I think that holds up pretty much across Specialized that we don't see a lot of change there, maybe in Flooring and Textiles can be a little bit more dynamic. But anything that you would add?

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

No. I would just say most of the inputs are stabilizing, but we have seen relatively few signs of deflation outside of certain types of steel, but like Tyson said, resins, chemicals or other things remain at an elevated level. There's a lot of talk of them coming down, but we haven't seen that turn into reality at this point.

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

Okay. And then I have one more, which is on the cash flow side of things. Can you talk about the ability to generate cash this year even when we think about the EPS guide that you have put out there? And maybe just any commentary on some of the uses of that cash? You did several small acquisitions in 2022, how is that pipeline coming together? And perhaps how you think about the opportunities there or other uses of the money?

J. Mitchell Dolloff
CEO, President & Director

Yes, sure. That's a great question, Susan. And Jeff, I'll chime in the first and then ask you to come in on the uses. But Susan, I feel really confident about our cash flow generation. You saw us this year, and I think even though we see a lot of our businesses' volume levels low, I think we feel a little bit more stability as we talked about with inflation and things like that.

So we've done -- the team has done an incredible job managing our working capital, in particular, as we -- even as the pandemic hit in the first part of the crisis, it just improving our receivables management, and we continue to maintain that in a really, really good spot. We talked about how we work through the second half of the year, particularly in the fourth quarter to bring down inventory levels, to align with the slower demand and taking they can -- a lot of time out of the rod mill was painful from a margin standpoint, but it certainly got us to the right place in our cash flow and from an inventory standpoint for. So we're starting in a really good position there.

And then I think hopefully a little bit less volatile arena, it will be a little bit easier to manage that working capital. So I suspect in inventory, especially, so I expect to see less volatility there. And then the other thing you probably noticed is that our payables were down significantly as we ended the year and not surprising, right, as we're taking down inventory, we're buying less.

So I think from a working capital standpoint, we're in a very good position to manage that. While we wish we had more volume, they'll continue to drive cash through the company. And Jeff mentioned our CapEx, we expect it to be pretty consistent with where we were in 2022. So I don't think we have any big plans for acquisitions at this time or share repurchases, continue to focus on funding the dividend. And Jeff, let me turn it over to you anything that I missed.

Jeffrey L. Tate
Executive VP & CFO

Thanks, Mitch. Just a couple of other comments I would make. Susan, as you look at the company's history of operating cash flow and the ability to have that operating cash flow exceed our CapEx spend as well as our dividend support, we have been able to exceed that 33 out of the past 34 years with the 1 year that we did not was when we needed to replenish the inventory, which we talked about earlier in 2021. So we've got a strong trend of being able to demonstrate that ability to do so.

And as Mitch mentioned earlier, on the CapEx side, we feel reasonably comfortable there with the $100 million that we're guiding towards. In terms of our acquisitions, we spent $83 million in 2022 on acquisitions. You can expect that number to be lower in 2023, and we spent $60 million in 2022 on share repurchases. And you can definitely expect that number to be lower in 2023 as well. So as we discussed in the prepared remarks, definitely minimal participation in activity around share repurchases as well as M&A activity for the upcoming year.

Operator

Thank you. There are no further questions at this time. I would now like to turn the floor back over to Susan McCoy for any closing comments.

Susan R. McCoy
Senior Vice President of Investor Relations

Thank you for joining us today. We'll speak to you again on May 2 as we report first quarter results. If you have questions, please contact us using the information in yesterday's press release. Thank you.

Operator
Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and enjoy the rest of your day.