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# Leggett & Platt, Inc. (LEG)

Q4 2021 Earnings Call

### **CORPORATE PARTICIPANTS**

### Susan R. McCoy

Senior Vice President-Investor Relations, Leggett & Platt, Inc.

#### J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

#### Jeffrey L. Tate

Executive Vice President & Chief Financial Officer, Leggett & Platt, Inc.

### Tyson Hagale

Senior Vice President, President-Bedding Products, Leggett & Platt, Inc.

#### Steven K. Henderson

Executive Vice President, President-Specialized Products and Fumiture, Flooring & Textile Products, Leggett & Platt, Inc.

### OTHER PARTICIPANTS

#### **Bobby Griffin**

Analyst, Raymond James & Associates, Inc.

#### Susan Maklari

Analyst, Goldman Sachs & Co. LLC

### Keith Hughes

Analyst, Truist Securities, Inc.

#### **Peter Jacob Keith**

Analyst, Piper Sandler & Co.

### MANAGEMENT DISCUSSION SECTION

**Operator**: Greetings and welcome to the Leggett & Platt 4Q 2021 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. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ms. Susan McCoy, Senior Vice President of Investor Relations. Thank you. Ms. McCoy, you may begin.

### Susan R. McCov

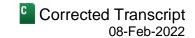
Senior Vice President-Investor Relations, Leggett & Platt, Inc.

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 Specialized Products and Furniture, Flooring & Textile Products segment; Tyson Hagale, Senior Vice President and President of the Bedding 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 2022 and the group will answer any questions that 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've posted to the IR 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

Q4 2021 Earnings Call



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

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

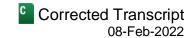
Good morning and thank you all for participating in our fourth quarter call. First, I'd like to welcome Tyson Hagale, President of our Bedding Products segment. Tyson is joining us today to participate in Q&A and will be a regular participant on these calls. Tyson's been with the company for over 20 years and previously served in various roles of increasing responsibility in our Bedding, Furniture and Corporate development areas. In 2021, Leggett & Platt achieved several milestones. We attained record sales and EPS. We increased our dividend for the 50th consecutive year. We issued our inaugural sustainability report. We promoted Tyson Hagale to lead our Bedding Products segment, and Sonia Smith, to lead our Automotive business; two outstanding long tenured employees and added newly created positions including our first Chief Human Resources Officer, our first Inclusion, Diversity & Equity Director and our first Sustainability Manager, all demonstrating our commitment to ESG. Those achievements would not be possible without our 20,000 employees who are dedicated to creating innovative, sustainable products for our customers, ensuring a safe and inclusive workplace and driving value for our shareholders. I want to thank our employees for their tremendous contributions in another challenging year. Your collaboration, agility, dedication and commitment to our values drive our success.

Yesterday, we reported record quarterly sales from continuing operations of \$1.33 billion, EBIT of \$152 million and earnings per share of \$0.77. Sales in the quarter were up 13% versus fourth quarter of 2020 and reflect the pass-through of significant inflation in 2021, partially offset by lower volume in several of our businesses. When comparing to the pre-pandemic results of fourth quarter 2019, trade sales grew 16%, adjusted EBITDA increased 15% and adjusted EPS increased 31%.

For the full year 2021, sales increased 19% to \$5.07 billion from a combination of raw material related price increases, volume gains and currency benefits. EBIT increased 46% and adjusted EBIT increased 25%, primarily from volume recovery from pandemic related sales declines in 2020, expanded metal margins in our rod mill and pricing discipline. Full year EPS was \$2.94 and adjusted EPS was \$2.78, a 29% increase versus 2020 adjusted EPS of \$2.16. When comparing to the pre-pandemic results of 2019, trade sales grew 7%, adjusted EBITDA increased 9% and adjusted EPS increased 16%. While we continue to navigate a number of macro market challenges, including supply chain constraints, inflation and a likely shift to tighter monetary policy, we expect to see improvements in 2022 as conditions stabilize and growth continues in our businesses most negatively impacted by the pandemic.

Moving on to the segments. Sales in our Bedding Products segment were up 18% versus the fourth quarter of 2020 and up 22% versus the fourth quarter of 2019, primarily from raw material related selling price increases from inflation in steel, chemicals and non-woven fabrics. Volume was down in both the one-year and two-year periods primarily due to challenges with chemical and labor availability in the US market early in the quarter and softness in the US and European market in demand which developed later in the quarter. Supply of chemicals used in our specialty foam operations negatively impacted our production levels in October and November, but improved in December. Despite softening in recent months, we still expect reasonable demand in 2022. EBITDA

Q4 2021 Earnings Call



margins in the segment were lower versus fourth quarter 2020 primarily from lower volume, investments to maintain labor and higher transportation cost. Adjusted EBITDA margins improved over fourth quarter 2019, primarily from expanded metal margins in our Steel Rod business and fixed cost actions taken in 2020.

Sales in our Specialized Products segment were down 3% from the fourth quarter 2020 due to lower volume in Automotive, partially offset by growth in Hydraulic Cylinders and Aerospace. Sales were down 2% from fourth quarter 2019 due to lower volume in Automotive and Aerospace partially offset by growth in Hydraulic Cylinders.

In our Automotive business, volume was down over the one-year and two-year periods. While industry production improved sequentially from the third quarter, semiconductor shortages negatively impacted vehicle production levels in the fourth quarter. Consumer demand remained strong and vehicle inventory remains at record low levels. As supply chains begin to stabilize, the industry should see improving production in the second half of 2022. Industry forecasts indicate recovery continuing through 2023.

In our Aerospace business, demand for fabricated duct assemblies continued to be at pre-pandemic levels and we began to see demand recovery for welded and seamless tube products in the fourth quarter. We expect to see continued recovery in 2022. However, with the lingering impact from pandemic-related disruption in the air travel and resulting build-up of aircraft and supply chain inventories, the industry is not anticipated to return to 2019 demand levels until 2024.

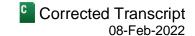
End-market demand in Hydraulic Cylinders is strong and order backlogs in the industry remain high. However, global supply chain constraints and labor availability has hampered the ability of our OEM customers to ramp up production. We expect our sales to increase as OEM production increases. EBITDA margins in the segment declined over the one-year and two-year periods, primarily from lower volume partially offset by fixed cost actions taken last year.

Sales in our Furniture, Flooring & Textiles Products segment were up 17% versus fourth quarter 2020, primarily from raw material-related selling price increases and volume recovery in Work Furniture, partially offset by lower volume in Flooring products and Fabric Converting. Sales were up 22% versus fourth quarter 2019, primarily from raw material related selling price increases and volume growth in Geo Components and Home Furniture partially offset by lower volume in Flooring products. We expect continued strength in our Home Furniture business in 2022 as customer backlogs remain elevated. So far this year, the Chinese market has slowed as most manufacturers are taking early and longer Chinese New Year holidays to avoid anticipated COVID-related quarantines.

Work Furniture sales recovered to pre-pandemic levels with steady demand for products sold for residential use and improving demand in the contract market. We expect modest growth in 2022 as residential and hybrid work products remain relatively strong and the contract market continues to gradually improve as employees return to the office. Volume in our Fabric Converting and Geo Components businesses have returned to more normalized level after experiencing pandemic-related sales opportunities in the back half of 2020. In Flooring products, residential demand remained strong while hospitality demand remained well below pre-pandemic levels. Volume was down in the quarter due to limited labor availability and transportation disruptions. EBITDA margins in the segment improved over the one-year and two-year periods primarily from pricing discipline.

For the company, overall, the fixed cost actions we took in 2020 reduced our fourth quarter cost by approximately \$20 million versus the fourth quarter of 2019. For the full year 2021, we maintained approximately \$80 million of the approximately \$90 million of fixed cost actions taken in 2020. We remain focused on controlling our costs by only adding fixed costs as necessary to support future growth opportunities. Leggett remains well-positioned both

Q4 2021 Earnings Call



competitively and financially to capitalize on long-term opportunities in our various end markets. Our enduring fundamentals give us confidence in our ability to continue creating long-term value for our shareholders.

Jeff will now discuss our 2021 financial details and full year guidance for 2022.

### Jeffrey L. Tate

Executive Vice President & Chief Financial Officer, Leggett & Platt, Inc.

Thank you, Mitch, and good morning, everyone. In 2021, we generated cash from operations of \$271 million versus a very strong \$603 million in 2020. This large one year decrease was primarily driven by inflationary impacts and planned working capital investments to rebuild inventory levels in our Rod, Wire, and US Spring businesses following severe depletion in 2020. With softening demand in the bedding market in the fourth quarter of 2021 along with our decision to postpone the reheat furnace replacement at our Steel Rod mill until first quarter of 2022, the inventory levels were higher at year-end than previously anticipated. These were the main factors leading to the lower than previously expected operating cash flow for the full year 2021.

We ended the year with adjusted working capital as a percentage of annualized sales of 13.4%. In addition, we brought back \$247 million of offshore cash in 2021. We expect cash from operations of approximately \$600 million in 2022 as this past year significant inflationary impacts are not anticipated to recur and we work to right size our inventory levels. Our long-term priorities for use of cash are unchanged. They include, in order of priority; funding organic growth, paying dividends, funding strategic acquisitions and share repurchases with available cash. Total capital expenditures in 2021 were \$107 million, reflecting a balance of investing for the future while controlling our spending.

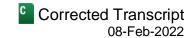
In November, our board of directors declared a \$0.42 fourth quarter dividend, \$0.02 higher than the last year's fourth quarter dividend. At an annual indicated dividend of \$1.68, the yield is 4.4% based upon Friday's closing price of \$37.88. We raised our annual dividend for the 50th consecutive year in 2021 honoring our ongoing commitment to return value to our shareholders. As a result of this commitment over many decades, we are now a member of a select group of companies referred to as Dividend Kings.

From a strategic acquisition perspective during 2021, we acquired three businesses; an Aerospace business located in the UK that specializes in metallic ducting systems, flexible joints and components for space, military and commercial applications. In second quarter, we acquired Kayfoam, a leading provider of specialty foam and finished mattresses primarily serving customers in the UK and Ireland. And finally, we acquired a small manufacturer of bent metal tubing used in office and residential furniture located in Poland that has been an important supplier to our local Work Furniture operation. We also divested a small specialty wire operation in our Drawn Wire business with annual sales of approximately \$12 million.

Consistent with our deleveraging plan, share repurchases were limited in 2021. In November, we issued \$500 million of 30-year, 3.5% notes and used some of the proceeds to repay outstanding commercial paper. We ended 2021 with net debt to trailing 12-month adjusted EBITDA of 2.29 times. Our strong financial base along with our deleveraging efforts over the last two years gives us flexibility when making capital and investment decisions. We remain focused on cash generation while reducing debt and deploying capital in a balanced and disciplined manner that positions us to capture near-term and long-term growth opportunities both organically and through acquisitions.

Now, moving to 2022 guidance. 2022 sales are expected to be \$5.3 billion to \$5.6 billion, or up 4% to 10% over 2021. This guidance reflects flat to mid-single digit volume growth and continued inflationary impact primarily from raw material related price increases implemented in 2021. Acquisitions in 2021 should add 1% to sales growth in

Q4 2021 Earnings Call



2022. Volume growth is expected from continued recovery in the businesses in the Specialized Products segments that were most negatively impacted by the effects of the pandemic. We also expect improved operating conditions and stabilized demand in Bedding.

2022 earnings per share are expected to be in the range of \$2.70 to \$3. The midpoint reflects higher volume, metal margins in our Steel Rod business to expand modestly partially offset by increased transportation and labor cost and reduced overhead absorption as we right size our inventory levels. Based upon this guidance framework, our 2022 full year adjusted EBIT margin range should be 10.5% to 11%. Earnings per share guidance assumes a full year effective tax rate of 23%, depreciation and amortization to approximate \$200 million, net interest expense of approximately \$80 million and fully diluted shares of 137 million. For the full year 2022, we expect capital expenditures of approximately \$150 million. Dividends should approximate \$230 million and share repurchases to offset share issuances.

In closing, I would also like to thank all of our employees around the world for your tremendous efforts this past year to safely deliver record 2021 results. With those comments, I'll turn the call back over to Susan.

### Susan R. McCoy

Senior Vice President-Investor Relations, Leggett & Platt, Inc.

That concludes our prepared remarks. We thank you for your attention and we'll be glad to answer your questions. Mitch will direct our Q&A session as the group answers your questions. Operator, we're ready to begin the Q&A.

### QUESTION AND ANSWER SECTION

**Operator**: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] The first question is from the line of Bobby Griffin with Raymond James. Please go ahead.

### **Bobby Griffin**

Analyst, Raymond James & Associates, Inc.

Good morning, everybody. Thank you for taking my questions. And Mitch, congrats on your first call as CEO, and I'm sure Karl is listening. Just want to, Karl, wish you the best of luck in the next chapter for you and your family in retirement.

### J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

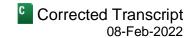
Good morning, Bobby, thank you very much.

#### **Bobby Griffin**

Analyst, Raymond James & Associates, Inc.

Absolutely. So, I guess my first question more about the quarter and then I have one high level question as well. Just on the quarter itself, can we maybe dive into a little bit of the innerspring and spring volumes for your businesses that were reported here in 4Q? I guess, maybe elaborate a little on the supply chain challenges and how much that costs from volume? And then what did you expect the market did in the fourth quarter? Understanding it's hard to kind of get a great sense of that, but we're getting a few questions today on your share versus the market's performance during 4Q?

Q4 2021 Earnings Call

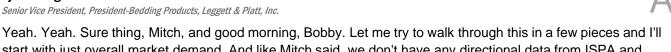


#### J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Yeah. Thanks, Bobby. We figured that would be an important topic for us this morning. When we talked on the call in the third quarter, we mentioned that we were really expecting the fourth quarter to be unseasonably strong on the Bedding side as there was backlog. And we were holding on to labor and our inventory to make sure that we can support our customers and that kind of didn't prove out to be how it happened. So, you're right. There's not a lot of information out there yet, certainly that if the data is not available, but we have a pretty good perspective we think and we're happy to share that with you. So Tyson, why don't you dig into that? I know that there's a lot there.

### Tyson Hagale



start with just overall market demand. And like Mitch said, we don't have any directional data from ISPA and probably won't even for another week or so, but our expectation is that that we'll see that fourth quarter will show some declines year-over-year and we started to see that trend in the third quarter of this year and some of that probably due to some supply chain issues. But when you look at it in total, units down in the third quarter yearover-year almost 9% and US produced between 4% and 5% and our expectation would be that we would see continued slowdown as we move through the fourth quarter and a number of reasons that contribute to that. Not surprisingly just lower consumer sentiment, inflation and lack of stimulus and another round of COVID surge; all those things combining to create some headwinds. So, it is hard to get a good read on where exactly it'll land, but I think we would say that we would expect overall probably high-single digit year-over-year decline in the fourth quarter. Not sure of the combination between US produced and imports, but I do feel that this slowdown probably did occur as we move through the fourth quarter.

The second part that I'll move through is, as it relates to our sales and our difference are probably greater decline than the overall market. The first part, just is our position within the supply chain and inventory positions. We believe we've probably slowed down before the rest of the market. Thinking about as we move through the quarter, we did have some constraints and our customers had some constraints related to chemicals and foam, but that improved as we moved through the quarter especially as we got towards the end of November and December, but our business, as we moved to the end of October and especially beginning in November is when we really started to see the slowdown and the slowdown continued pretty consistently through the end of the year.

The third part would be the share that you referenced and I'll go through this in a couple of parts, but first in innersprings. We would say that we've seen some share declines in the mid-single digit range and a couple of reasons for that. I think it's been talked about on a couple of the previous calls, but about a third of that decline coming from some lower margin business that we've voluntarily exited and then two-thirds being related to just supply disruptions that really began in the early part of 2020 both from labor but also our shortage of non-wovens that just forced our customers to make some sourcing decisions that we're still dealing with now.

And on that part, we do feel good about regaining that business over time. A big part of that impact came from imports and we've been watching that closely and saw the trend of imports increase at the end of 2020 at the beginning of 2021, but really over the last six months or so, we've seen that that trend start to decline as the cost and complexity of imports has started to add up. As it relates to specialty foam, it's a similar story to the innerspring business, but the timing is a little bit different. The constraints that we had with chemicals came at a later date than it did in innersprings and we had tougher comparisons at the end of 2020. Really some outsized

Q4 2021 Earnings Call



business that we had as demand was really pretty strong towards the end of 2020 we had chemicals and foam available, but as we moved through the year we had those constraints and again customers had to make some decisions as it related to sourcing just because of our allocations and things that we had to deal with. So overall, as it relates to the share, we do think that we can regain over time. It's going to take some work but we feel good about our position in being able to do that.

**Bobby Griffin** 

Analyst, Raymond James & Associates, Inc.

Okay. That's helpful. Maybe one quick follow-up and I'll jump back in queue and just save my high level question, but when you unpacked the guidance for 2022 and what's assumed in Bedding, is – did the guide assume that you gain back the share in innerspring as you're referencing or does it more assume that there's just no further share bleed?

Tyson Hagale

Senior Vice President, President-Bedding Products, Leggett & Platt, Inc.

At this point, no further share bleed. We, overall, for 2022 expect stabilizing demand; things have been strong for the last couple of years and we still feel good about the overall fundamentals of the business and the supply chain's improved. So we do feel as we move through the year, that things will just generally get better at a pretty reasonable level, probably up low-single digits from 2021.

**Bobby Griffin** 

Analyst, Raymond James & Associates, Inc.

Yeah.

J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Yeah Tyson, maybe just a couple of things to add there real quick on. On the foam side too remember that our bun production is down quite a bit as we shifted away from some of that business to try and service as much as we could in the Bedding side. So that's impactful to us. And then on the innersprings side, most of the volume reduction right is on the open coil side on the lower end where we're pretty flat on the higher end products, the comfort coil products. So that all flows into our expectations for next year as well, right.

Tyson Hagale

Senior Vice President, President-Bedding Products, Leggett & Platt, Inc.

Yeah. Sorry. Thanks, Mitch.

Bobby Griffin

Analyst, Raymond James & Associates, Inc.

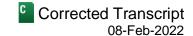
Okay. Very good. I'll jump back in queue and turn it over to somebody else. Thank you and best of luck here in 2022.

J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Thank you, Bobby.

Q4 2021 Earnings Call



**Operator:** Thank you. The next question is from the line of Susan Maklari with Goldman Sachs. Please go ahead.

#### Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Thank you. Good morning, everyone. And Mitch, let me add my congratulations to you and Karl as well. I'm sure he's listening, like Bobby said. My first question is kind of just continuing on the Bedding side of things. You've obviously talked to the fact that you expect to incrementally regain some of that share over time. Can you talk to some of the efforts that you're taking on and how we should be thinking about those coming together; anything specific that you would highlight there as you do look to regain that?

### J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Yeah. And Tyson I'll let you take this one, but remember too, a lot of the impact here has been just the volatility in the market overall. Certainly, there's some share contribution to us, but I don't think that's the biggest impact of it, but I think it's probably worth digging into a little bit of the dynamics with some of our contracts versus non-contract customers that you see there.

#### **Tyson Hagale**

Senior Vice President, President-Bedding Products, Leggett & Platt, Inc.

Yes sure. Thanks, Mitch. And part it's some of the things that have been talked about in some of the previous calls, I mean we've invested heavily, especially in our comfort coil production. Mitch mentioned that and we've rebuilt not only our capacity, but also our labor force and trained up to be more efficient to be able to produce it at a good level and suit the needs of our customers here domestically in the US. That was a big part of it and we continue to see demand for those products in US. It's a bigger and bigger part of our business. And so we feel like we're well-positioned for that part especially. So it's something that we'll take some time to work through. Like I mentioned, there's inventory in the system. Demand being slower, it's going to take some time to work through that part of it. And on top of it, we've also been dealing at a period of time when there's been a tremendous amount of inflation all the way through to retail. So, that's something we're going to have to work through but we feel like we're well-positioned to do that.

### J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

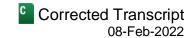
Yeah. I mean, we were to hit first, right, when we had the non-woven shortages in supply – and demand surged back and so we were struggling to keep up. We added capacity and nobody expected the chemical shortages and labor to affect that market overall. So, we've made, I think, very thoughtful decisions about maintaining our capacity and thus some of those decisions to secure supply elsewhere because frankly some of our customers had to as they were on allocation, took a while to come in place and that inventory is – it kind of hit primarily in early 2021, right? And so it's taken a little bit of time to work through that, but remember the cost and the difficulty of importing, especially right now, I think that helps our position as well.

### Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Okay. That's very helpful color. And then my next question is you obviously benefited this past year from the metal margins and those moves in the underlying commodity market. As you look forward to 2022, can you talk about how you're thinking of that dynamic for this year; anything that you know is changing as we come into 2022? And obviously there's been a lot of moving in the broader sort of steel industry, especially rolled products

Q4 2021 Earnings Call



as it relates to imports and some of those things. Anything that you're seeing that's impacting you for the year ahead.

#### J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Yeah. Thanks, Susan. So I think we're starting the year with this spread at a very high position and we don't really see any sort of rapid decline, but Tyson I'll let you talk to it a little bit more. I think the market dynamics there are probably pretty favorable for us.

Tyson Hagale

Senior Vice President, President-Bedding Products, Leggett & Platt, Inc.

Yeah. That's right, Mitch. I mean, really, we saw like a lot of things; is inflation moving through as we get through 2021. And a big part of it is just the overall conditions from supply and demand. Demand was extremely high both for just the use of the products, but also to rebuild inventory. And supply was constrained just with overall capacity and then also some outages that existed. And so really even as we got into the late part of the year and early part of this year, we've continued to see that holding. So it's really going to be difficult to predict to see how those things unwind. I mean, we do expect that at some point, supply and demand will become more balanced, but at this point like Mitch said we don't see any rapid changes in that and actually as we haven't for the full year because of the timing of the increases, we actually have 2022 slightly higher on average than 2021.

J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Yeah. So maybe just a little more color on that; so since it's in elevated position today we think it maintains – stays or I guess it stays pretty strong at least through the first half of the year, and just kind of estimating while maybe there's a little bit of a return down to normal in the second half of the year; hard to know. Really, that's just the estimate that it declines to some degree over time, but still on average, as you said, ahead of 2021.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

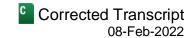
Got you. Okay. And then can I just sneak one more in here, a higher level question. There's been a lot of talk on the consumer and especially at lower price points, their ability to continue to spend as they just face a lot of inflation across a myriad of things energy, food; all those types of things. When you look across your business in your consumer related – areas that are exposed to the consumer, the Bedding, the Furniture those kinds of things. Can you talk in general to how you're thinking about overall levels of demand? Anything you're hearing from your various customers as we think about some of your more mid-priced Bedding products maybe or some of your higher priced products on the foam side and even within Furniture. Just any color, any sense of the consumer's health and how they're feeling today and the ability to continue to spend this year?

J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Yeah. That's a great question and I think it's kind of early on, right, we're starting to see it emerging but I think probably it's seen some impact on the Bedding side more than anywhere else and it kind of makes sense if you think about particularly at lower wage levels where all suddenly faced with this really high inflation, with some of the stimulus now evaporating and lower household savings rates I think that logically made sense to me that that would impact particularly those mid to lower range products. And I think that we're starting to see some of that emerging on the Bedding side.

Q4 2021 Earnings Call



On the Home Furniture, the Work Furniture side, we still really haven't seen that yet today or in our other markets. So, I think we'll continue to see what happens. Of course, there's likely to be a tighter monetary policy going forward and we'll see what that does to inflation. And so we're not anticipating that there's a big pullback from the consumer by any means, but I think there'll be a little bit of instability certainly as we go through the first quarter or maybe the first part of the year.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Yeah. Okay. Thanks for the color, Mitch. Appreciate it and good luck.

J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Thank you very much.

Operator: Thank you. The next question is from Keith Hughes with Truist. Please go ahead.

Keith Hughes

Analyst, Truist Securities, Inc.

Thank you. In your guidance, you talked about flat to mid-single digit volume growth. Just want to talk more on how the Specialized business? Is that – do you anticipate that to be the leader of all the segments in volume growth? And specifically and especially can you talk about how you're viewing the year shaping up? I think I heard something of the second half improving. Is it going to be the more second half way then?

J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

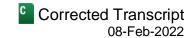
Yeah. Good morning, Keith. Thanks. That's a great question. Yeah. We definitely see continued recovery in Automotive, Aerospace and Hydraulic Cylinders; the businesses within Specialized Products. Let me talk a little bit about Automotive first. So, we think that there's really been constrained consumer demand. For a while, the consumer demand is really strong. Inventory is very low; down to something like 23 days in the US we think. And so it's just all a result of the semiconductor shortage of course. And so we saw the low point really in the third quarter of this year of production overall and the industry recovered a little bit in this fourth quarter; probably still pretty tough first quarter of next year but we do see it improving as we go through the rest of this year. And so that will have a really positive impact on our business. And the impact of that volume on margins in Automotive is very, very large. So we do expect that to help us over as we go into the back half of the year. And in Hydraulic Cylinders and Aerospace, Steve I'll let you comment on this, but I think Hydraulic Cylinders backlog is very strong in the lift truck market and we expect to see the Aerospace market improve a little bit. Steve I'll let you add any other color there that you'd like.

Steven K. Henderson

Executive Vice President, President-Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.

Yeah. So I would say the high demand from our customers in 2022 leads us to believe we'll certainly continue to see the sales growth recovery, but as Mitch said, the OEMs are still struggling to increase their output a little bit and we've seen a couple of them push on into the later years, butt the backlog is sitting and the US at a record 13 consecutive months of growth. So, the demand is definitely there once they're able to produce. In Aerospace basically, all of the new builds, if you will, Aerospace segments are improving. Obviously, It'll take a little bit longer. Assembly business has nearly recovered with market recovery plus our content wins and we are now finally

Q4 2021 Earnings Call



seeing the two supply recovery starts mainly in Europe at this point in time, so that's positive, but as we mentioned that's going to take through 2024 to fully play out.

**Keith Hughes** 

Analyst, Truist Securities, Inc.

So it sounds like Specialized is going to – particularly with Automotive is going to start out negative and then get better as the year goes along; is that right? And again, back to my question, is this going to be the best growth division in the units for 2022 from what you said today?

J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Yeah, Keith. I think that is probably right. I think, we see the volume ticking down a little bit in the first quarter, still fighting through some inflation and transportation issues and then we'll see it sequentially recover. It is our expectation through the rest of the year. And I think you're right that probably the biggest growth opportunity is in Specialized as it was the most negatively impacted and it's starting to recover now finally.

**Keith Hughes** 

Analyst, Truist Securities, Inc.

Okay. Thank you.

J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Thank you.

**Operator**: Thank you. [Operator Instructions] The next question is from the line of Peter Keith with Piper Sandler. Please go ahead.

**Peter Jacob Keith** 

Analyst, Piper Sandler & Co.

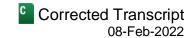
Hi. Thanks. Good morning. Mitch congratulations. And I'm not going to be as articulate as Bobby and Susan, but hope the team is doing very well there. Maybe Mitch, just with you moving into the CEO chair, big picture, could we expect any adjustments to strategy or company positioning?

J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Good morning, Peter, and thank you. You know I'm really grateful that over the last three years or so to have worked with Karl the way we did. We have been planning for this transition. And I think in the pretty rare opportunity that he gave me to start making the changes that I felt that we needed to do to position the company for the future, those are still underway but I'm very grateful to have them underway rather than day one say now what do I want to do? So, you've already seen it. It's really our continued investment in talent and infrastructure to be able to be prepared to drive growth and to manage it properly to really make sure that we're maintaining a global viewpoint and that really sort of market facing outlook and also really honing in our focus on innovation, around consumer and customer insights and driving that into our product development. So, I think it's the things, it's the activities that you've already seen taking place over the last several years, the changes in how we view some of our businesses that really expand our addressable market and give us more growth opportunities, so no big shift. Our commitment to our capital allocation remains the same, right focus on organic growth, on increasing

Q4 2021 Earnings Call



the dividend, on strategic acquisitions and with excess cash to share repurchases. So, I don't think we see any major shift, but hopefully continued and accelerated progress.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

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Okay. That's a good summary. The one thing you didn't mention would be the targeted total shareholder return. So you guys laid this out in late-2019 to be at 11% to 14%. So two-part question this is. Is that still the targeted TSR? And then secondarily just looking at the 2022 outlook, the EPS guidance calls for kind of low-single digit EPS growth, it seems like there's some nuance margin pressure. Maybe Jeff could unpack that a little bit with regard to the labor transportation and then this inventory absorption.

J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

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Yeah. I'll give some high level comments and Jeff then I'll turn it over to you but yeah that's still our target. I mean we thought that, when we set that goal out there, we thought 11% to 14% would put us in the top third of the S&P 500 and the dynamics have changed a little bit but we haven't moved away from that target. I mean, we've certainly had a lot of volatility around demand, around inflation, around supply chain constraints. All those things over the last couple of years have had an impact. I think the critical elements for us to do that is to drive – to continue to pass on raw material inflation. We've done that. We will have some wage inflation and continued investment in labor. As we expect markets to continue to be a little bit dynamic, but we've learned that we want to, most importantly, be able to service our customers and that labor is in short supply. And so where we need to make some investments to hold on to that we'll do it. Of course, transportation costs are up. And as we look at this year, in 2021 we were rebuilding short inventories after the issues that we went through in the Bedding market primarily as well as the inflationary impact on that inventory. As we look forward into this year, we'll be taking some of that down. So we'll certainly have some impact from overhead recovery as we switch from building inventory to taking it down a little bit. I think those are probably the main drivers in my mind, but Jeff let me turn it over to you; anything that you would add or clean me up on?

Jeffrey L. Tate

Executive Vice President & Chief Financial Officer, Leggett & Platt, Inc.

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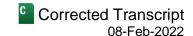
Thanks, Mitch. I think you covered it well. Good morning, Peter. I would say, as we look at the labor and transportation cost that we're assuming in our guidance, Peter, I mean that's obviously going to be pretty volatile and tough to predict throughout the year, but we do expect those to be sizable as we look at year-over-year from a labor and transportation perspective. And as Mitch mentioned, we were very intentional in 2021 around knowing we needed to replenish our inventory levels. We will be therefore very intentional as we work to lower our inventory levels throughout the year, which will have some level of reduced recovery on the overhead absorption because we're going to obviously ship out of that existing inventory versus increasing our production at certain points for certain products and so that will have an impact on what you're seeing in our guidance for 2022, as you mentioned earlier.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Okay. That's helpful. And maybe if you don't mind I have to just ask one other question on the volume outlook, but certainly I think the improvement in Automotive makes a lot of sense. I guess on the Bedding side, I think the phrasing that you used was a stabilized Bedding environment yet we're going into the year where you also said units are down negative high-single digit and weakness at the low end. So maybe frame up the year for us with

Q4 2021 Earnings Call



your Bedding outlook? Do you expect that units are going to be down in the first half and then there's improvement in the second half to get to kind of a normalized backdrop?

#### J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Yeah. Tyson, I'll let you take that one, but I mean I think what we see during the first quarter we would expect the first part of the year to be a little bit softer, but go ahead.

Tyson Hagale

Senior Vice President, President-Bedding Products, Leggett & Platt, Inc.

Yeah. That's right, Mitch. I mean we see some of the carryover already in the early part of the year just from the softness that existed in the fourth quarter. And we do – right now just our expectations are that if things stabilize that we'll improve through the year and the third quarter is seasonally the high point. And we feel like we're getting back a little bit more on track, kind of with the normal cycle of business, and so we do expect the first half a little weaker. Then the second is things kind of rebuild but then getting back to a little bit more normal.

J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Yeah. And through the underlying big picture factors remain still healthy at this point, right?

Tyson Hagale

Senior Vice President, President-Bedding Products, Leggett & Platt, Inc.

Yeah. That's right. I mean with some of the housing trends are still good. Younger homebuyers; there's has been a big focus on health and wellness and people using mattresses to sleep and Bedding is part of that, too. So we do feel like some of the fundamental drivers are still in a good place even despite some of the short-term uncertainty around consumers and spending.

**Peter Jacob Keith** 

Analyst, Piper Sandler & Co.

Okay. Very good. Thanks so much.

J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Thank you, Peter.

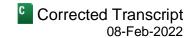
**Operator**: Thank you. The next question is from the line of Bobby Griffin with Raymond James. Please go ahead.

**Bobby Griffin** 

Analyst, Raymond James & Associates, Inc.

Hey Mitch. Maybe just come at Peter's first question a little bit different but on a high level, when you look at the business today and the mix of revenue with about 50% in Bedding or so and then Specialized and Furniture making up the rest. When you think about two, three, four years for Leggett & Platt, do you see a changing mix of revenue to further diversify the revenue base or do you see something roughly about the same today?

Q4 2021 Earnings Call



#### J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Yeah Bobby that's a really interesting and great question. And I think as we look at those markets particularly if I think about Bedding and the sort of shift that we've had with ECS to really be able to have a larger addressable market, and then similarly with Kayfoam in Europe, we think that we do have significant opportunities to grow that business whether it's in components or private label finished goods. And that's a great thing for us, but we also have really strong growth opportunities in Automotive and certainly that industry has been really disrupted through the pandemic, and of course the semiconductor as you said. But in the long-term, there's a lot of tailwind there. And so you can think that we'll be able to continue to have those as our primary growth drivers, but we also have some other businesses that have really come back and turned around. Home Furniture, if you think about it after we went through the restructuring, came from a very difficult place to today performing very well and growing probably not the same kind of growth opportunities that we have in Bedding and Automotive, but still very strong. And then some of our smaller newer businesses around Hydraulic Cylinders and Aerospace, we see Hydraulic Cylinders; the market growth coming back. We still have room to invest in those businesses and get them up to some scale. You've seen our Textiles business growing as well. So I don't see any major shift in the mix but I do think that we have opportunities across multiple businesses to continue to grow and I think they'll see it in this year, Bobby. That diversification is helpful and important for us as we see maybe a more normalized Bedding growth for the market overall, but we should have the tailwinds from the Specialized Products businesses. So we look to maintain that.

**Bobby Griffin** 

Analyst, Raymond James & Associates, Inc.

Okay. And then with leverage starting to come down as you and the team have worked on, would you look at adding another adjacent business unit or is it more just tuck-in, as we've seen with Kayfoam and some of the other acquisitions?

J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Yeah that's a great question. I think that – for now, I think we would see more add-on acquisitions that filled out our footprint or our capabilities, but in the long-term, we're dedicated to growth. And so that means that we need to be thoughtful about our portfolio management and also about new opportunities that are good fits with us. I feel lucky and grateful that I don't feel pressured that we have to go run out and do anything right away, and I don't think that we will. We're recovering our leverage position, as you said, but over the long run we'll continue to look at opportunities that are good fit for us knowing that the world doesn't stay the same and that ongoing portfolio management is critical for us.

**Bobby Griffin** 

Analyst, Raymond James & Associates, Inc.

All right. That's very helpful. I appreciate Mitch you taking the high level ones first call as CEO; so thanks for answering them.

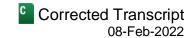
J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Yeah. Thank you, Bobby.

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Q4 2021 Earnings Call



**Operator**: Thank you. There are no further questions at this time. I would like to turn the floor back over to Ms. McCoy for closing comments.

#### J. Mitchell Dolloff

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Susan, are you there?

### Susan R. McCoy

Senior Vice President-Investor Relations, Leggett & Platt, Inc.

I'm sorry, my phone was on mute. Thank you for joining us today. We appreciate your time. We will talk to you again on May 3rd after we report our first quarter results.

**Operator**: Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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