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Leggett & Platt, Incorporated NYSE:LEG
FQ3 2023 Earnings Call Transcripts

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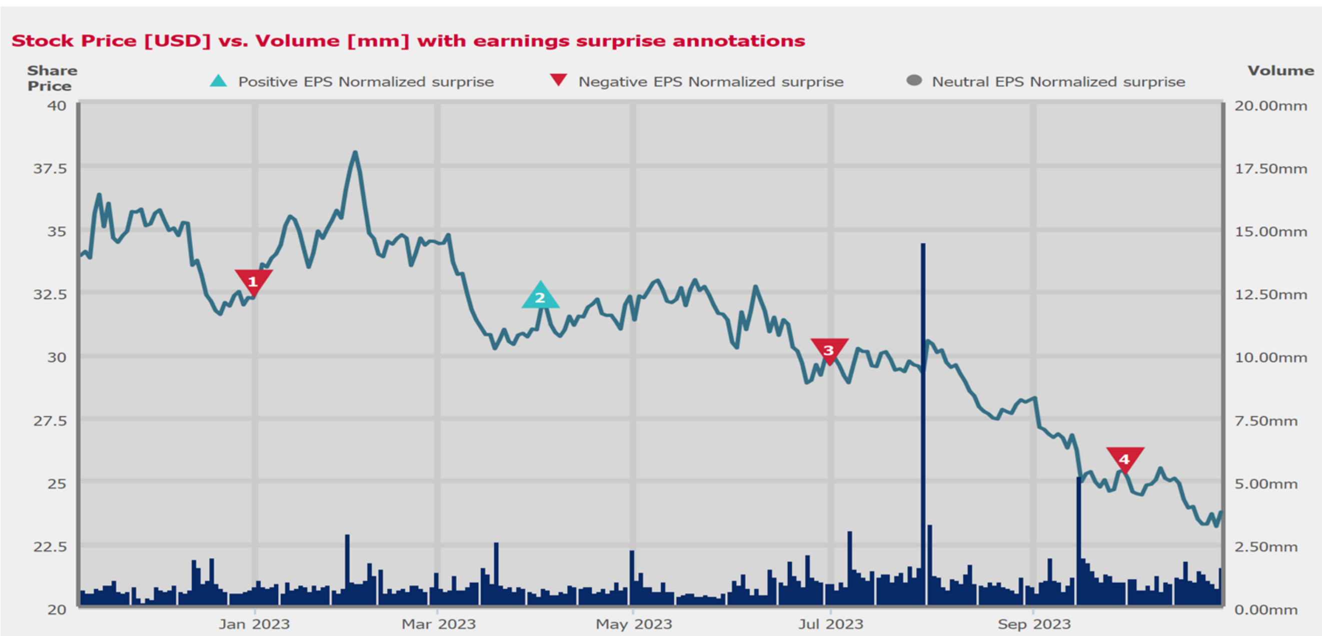
S&P Global Market Intelligence Estimates

	-FQ3 2023-			-FQ4 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.40	0.36	(10.00 %)	0.35	1.53	NA
Revenue (mm)	1240.21	1175.40	(5.23 %)	1165.68	4832.49	NA

Currency: USD
Consensus as of Oct-31-2023 10:25 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2022	0.48	0.39	1 (18.75 %)
FQ1 2023	0.26	0.39	2 50.00 %
FQ2 2023	0.39	0.38	3 (2.56 %)
FQ3 2023	0.40	0.36	4 (10.00 %)

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J. Tyson Hagale
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Piper Sandler & Co., Research Division

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

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

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Presentation

Operator

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

It is now my pleasure to introduce your host, Cassie Branscum, Senior Director of Investor Relations. Thank you. Ms. Branscum, you may begin.

Cassie Branscum
Senior Director, Investor Relations

Good morning, and welcome to Leggett & Platt's Third Quarter Earnings Call. With me on the call today are Mitch Dolloff, President and CEO; Ben Burns, Executive Vice President and CFO; Steve Henderson, Executive Vice President and President of the Specialized Products and Furniture, Flooring & Textile Products segments; Tyson Hagale, Executive Vice President and President of the Bedding Products segment; Susan McCoy, Senior Vice President of Investor Relations; and Kolina Talbert, Manager of Investor Relations.

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. Ben will cover financial details and address our outlook for the remainder of 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 express permission. A replay will be available on the Investor Relations section of our website. We posted to the IR section of our website, yesterday's press release and a set of slides that contain summary financial information along with segment details. Those documents supplement the information we discuss on this call, including non-GAAP reconciliations.

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 third quarter call. I would like to start the call by thanking our employees for their tremendous efforts in what was another challenging quarter. Ongoing weak demand impacted our Bedding products and Furniture, Flooring & Textile Products segments, but it was partially offset by continued demand strength in our Specialized Products segment.

Sales in the quarter were down 9% versus third quarter 2022 from lower volume and raw material-related price decreases. Acquisitions added 2% to sales. Third quarter earnings per share were $0.39. This includes $5 million or $0.03 per share of gain from the sale of real estate. Excluding this item, adjusted earnings per share were $0.36. Earnings decreased year-over-year, primarily from lower metal margin in our Steel Rod business and lower volume in our residential end markets. These decreases were partially offset by lower incentive compensation and bad debt expense.

Cash flow from operations was $144 million, up $78 million versus third quarter of 2022. We are lowering our full year guidance to reflect continued volatility in the macroeconomic environment, continued low consumer demand in residential end markets and the modest impact we've experienced so far from the UAW strike on our Automotive business.

We are focused on anticipating and adapting to market changes, improving operating efficiency, driving strong cash management and engaging with our customers on new product opportunities. We are evaluating opportunities across our businesses, including further integration of our specialty foam and innerspring operations that are expected to support improved profitability, a strong balance sheet and continued shareholder returns.

Now moving on to segment results and demand trends. Sales in our Bedding Products segment were down 17% versus third quarter of 2022. Demand in the U.S. Bedding market remains soft, but relatively stable sequentially. We continue to anticipate full year mattress

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consumption to be down high single digits. In the quarter, we saw a modest sequential improvement in innerspring and mattress units, but we expect a deceleration in units sequentially in the fourth quarter due to normal seasonality.

Metal margin expanded to its highest point in mid-2022 and narrowed as expected. We still anticipate metal margin to be down mid-teens versus 2022. While our commercial teams continue to evaluate customer opportunities and commercialize new products, soft demand remains the largest headwind to profits. In the near term, we continue to drive operational efficiencies, especially in our Specialty Foam business to help offset soft volume.

Additionally, we believe meaningful opportunities to increase profitability exists and are evaluating a number of possibilities, including the further integration of our Specialty Foam and Innerspring Operations I mentioned a moment ago, which should drive manufacturing savings and product development gains, optimizing our production and distribution capacity to service our customers effectively and efficiently, and enhancing our value proposition to our customers through expanded product capabilities and growing content at attractive price points.

Sales in our Specialized Products segment increased 10% versus third quarter of 2022, driven by the Hydraulic Cylinders acquisition completed in August of last year and volume growth in Aerospace and Automotive. The UAW strike had minimal impact to our Automotive business in the third quarter. So far in the fourth quarter, the sales impact has been approximately $5 million. As the strike continues and potentially broadens to additional OEM facilities, the impact to the industry remains uncertain and unpredictable. As the situation evolves, we are maintaining communications with our customers and positioning ourselves to quickly react and support their needs.

Sales in our Furniture, Flooring & Textile Products segment were down 11% versus third quarter 2022, driven by soft demand across the segment. Sales in Home Furniture, Fabric Converting and Flooring were down year-over-year, but roughly in line with second quarter levels. Work furniture demand has softened modestly with slower activity in European markets. In geo components, demand continued to soften in home improvement retail and civil construction end markets. We expect demand across the segment to decelerate sequentially in the fourth quarter due to normal seasonality.

With that, I'll now turn the call over to Ben.

Benjamin M. Burns
Executive VP & CFO

Thank you, Mitch, and good morning, everyone. In the third quarter, we generated cash from operations of $144 million, a $78 million increase versus third quarter of 2022. This increase reflects our sharp focus on working capital management. We ended the quarter with adjusted working capital as a percentage of annualized sales of 14.2%, which improved from both last year's third quarter and sequentially from second quarter. Cash from operations is still expected to be $450 million to $500 million in 2023.

We ended third quarter with total debt of $2 billion, including $171 million of commercial paper outstanding and no significant maturities until November 2024. Net debt to trailing 12-month adjusted EBITDA was 3.15x at quarter end. As anticipated, the ratio increased modestly from last quarter, but we expect to continue to comfortably meet our debt covenant requirements and maintain sufficient liquidity. We are focused on maintaining investment-grade debt ratings and expect this ratio to improve as earnings increase over time, and we use excess cash to pay down debt.

Total liquidity was $595 million at September 30, comprised of $274 million cash on hand and $321 million in capacity remaining under our revolving credit facility. In August, our Board of Directors declared a third quarter dividend of $0.46 per share, $0.02 or 4.5% higher than last year's third quarter dividend. We continue to deploy our cash in a balanced and disciplined manner. For the full year 2023, we expect capital expenditures of approximately $110 million to $130 million, dividends of approximately $240 million and minimal spending for acquisitions and share repurchases as we prioritize debt reduction in the near term. Our long-term priorities for use of cash remain unchanged. They include in order of priority funding organic growth, paying dividends funding strategic acquisitions and repurchasing shares with available cash.

As announced yesterday, we are lowering our full year sales and earnings guidance due to lower-than-expected volume primarily in our Furniture, Flooring & Textile and Bedding Products segments. We are not seeing the fourth quarter improvement in upholstered furniture end markets that was previously anticipated. As we move through the third quarter, demand continued to soften in home improvement retail, civil construction and trade rod and wire applications. This guidance does not include impacts from the UAW strike on our Automotive business beyond what we have experienced so far due to uncertainties around the duration and severity of the strike.

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2023 sales are now expected to be $4.7 billion to $4.75 billion or down 8% to 9% versus 2022. This guidance reflects volume at the midpoint down mid-single digits with Bedding products down high single digits, Specialized Products up high single digits and Furniture, Flooring & Textile Products down low double digits. The guidance also assumes the impact of deflation and currency combined is expected to reduce sales mid-single digits and acquisitions completed in 2022 should add approximately 2% to sales in 2023.

2023 earnings per share are now expected to be in the range of $1.45 to $1.55, including approximately $0.07 per share of gain from net insurance proceeds we expect to recognize for the year and $0.03 per share of gain from the sale of real estate being recognized in the third quarter. Full year adjusted earnings per share are now expected to be $1.35 to $1.45. EPS guidance assumes a full year effective tax rate of 24%, depreciation and amortization of approximately $185 million, net interest expense of approximately $85 million and fully diluted shares of $137 million.

Based upon this guidance framework, our full year adjusted EBIT margin range is expected to be 7.0% to 7.3%. Important drivers of margin improvement going forward will be stronger volume, continued efficiency and cost improvements, pricing discipline as raw material costs fluctuate and innovative products. We are committed to maintaining our long-held financial strength and creating long-term value for our shareholders. As is always the case, we achieve our success because of our employees' hard work and dedication at all levels of the company.

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

Cassie Branscum
Thank you, Ben. Operator, we're ready to begin Q&A.

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Question and Answer

Operator

[Operator Instructions] Our first question is from Susan Maklari with Goldman Sachs.

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

Thank you. Good morning, everyone. I want to start on the Specialized segment. Perhaps a couple of things in there as we think about Auto, especially. I guess, first, can you talk about your ability to return to volumes as the strike eventually hits full resolution and there was OEMs start getting back to work in there? How should we think about that potentially coming through the business?

And then I also noticed in the release you mentioned that you had consolidated some facilities in there. Any thoughts on one, the impact to the margin perhaps this quarter, but two, just how we should think about the cost structure of that business and any further improvements or things that you can do there?

J. Mitchell Dolloff
CEO, President & Director

Yes. Sure, Susan. I'll try and get to all those. Remind me if I miss any.

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

I know it's a lot.

J. Mitchell Dolloff
CEO, President & Director

That's good. On the UAW impact, let's start there. I mean, of course, things appear to be moving in a better direction now with tentative agreements reached among the big 3 U.S. auto producers still have to be approved by the union members themselves. So still some uncertainty out there, but definitely appear to be moving towards a better spot than could have been possible. And so a little tricky there for us on the guidance because of the way the strike progressed against all three OEMs and a different facility. So really, each of those steps had a different impact.

You saw for us that the impact was pretty minimal in the third quarter. And so far, as we've gone through the fourth quarter through October, basically, not too significant as well. I think that's due mainly for three reasons. One, as I said, it's very facility-specific at OEMs, and so it's a different impact to everybody. I also would say that I think that as you go through the tiers in the supply chain, I think people -- all of us, including us, have tried to learn from the difficulties that we had during the pandemic. And so while the orders decreased some and sales decrease some, people were trying to be very cautious through the supply chain and not put ourselves in a position where we couldn't respond with the strike ended.

And so that gets to your question. So I think as now the labor is coming back and those facilities are getting back up and running, I don't think it will just happen -- go back to normal overnight, as we know. But I think if we continue to move forward as we are, there'll be a little bit of a slowdown, but shouldn't be too significant. Hard to tell. We've baked in, of course, in our outlook, what we've seen through our order book so far. So maybe it gets a little bit worse, but if things return in a decent way, I think that will continue to move forward pretty much as we are. So we'll keep -- we'll stay posted there. I don't think that it is likely to be a significant change to us. But if it is, then we'll think about whether we need to report on that or not.

Then in the consolidation there, yes, I think that's a good example of us continuing to look for ways to improve our operating efficiency and cost structure and really optimizing our footprint there in the Automotive business. Facilities in Asia that we had a relatively small one and a large one that made the same type of products and after doing some work realized that we can pull those together. So it did have some cost impact for us in the third quarter. It should drive some good gains for us going forward. It wasn't a huge consolidation, but I think it's a good example of taking advantage of the opportunities that we have, and we'll continue to look for more of those across the full business.

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I think the outlook for Automotive continues to be strong. We still have low inventories. We have an aging vehicle fleet. There's certainly some dynamics that have been showing up in the market and the forecast, I would say, especially with the UAW strike, but kind of ups and downs in China as well. But I think the long-term outlook is encouraging there for us.

Finally, I think we're making -- the team is doing a good job of making progress in solving some of the production issues that we had here in the U.S. that we talked about in one of our facilities earlier in the year. So we still have some work to do, but have made significant progress there, and we'll continue to drive margin improvement across the business, continuing to make progress in our inflation recovery there, probably up to about 85% recovery and with some of the commodity costs deflating now probably about the end of us talking about that online. But feel good about our outlook there, and we'll continue to drive margin improvements.

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

Okay. That was very helpful color. I think you hit it all. So well done. My second question is maybe thinking a bit more about the guidance. Can you talk to, what has and what has not changed within that as we think about the fourth quarter and where you are today versus your expectations?

J. Mitchell Dolloff
CEO, President & Director

Yes, sure, happy to do that. I know it can be a little bit confusing. But Ben, do you mind walking us through that.

Benjamn M. Burns
Executive VP & CFO

Yes, sure. Susan, thanks for the question. Yes. So maybe let's talk about first, what has not changed. So innerspring and mattress volumes mostly are unchanged, and we've seen stable demand there. Also, we've got continued strong demand in our businesses within the Specialized segment.

Switching to really what has changed. Fourth quarter improvement in upholstered furniture end markets has not materialized as that market expected. So that impacts not only our Home Furniture business, but also our Fabric Converting business and also Specialty Foam where we supply foam buns to upholstered furniture manufacturers.

In the Geo Components business, civil construction continues to be softer than anticipated as project funding releases keep getting pushed out. We think that's a timing thing, but still haven't seen the momentum there we expected. Also continued softening in our home -- in Home Improvement Retail, which also impacted our Geo-components business, but also impacts our Flooring business as well. And then lastly, I would say related to Bedding, we've seen lower Trade Rod and Wire demand as well as continued declines in our wire grid volumes. So a lot of different things moving there, but those are the key highlights.

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

Okay. That's helpful. And then I'm going to sneak one more in for you. The improvement in working capital continues to be very impressive. And you did not change your outlook for cash generation despite having taken the earnings down again for this year. Can you talk to the ability to continue to drive that cash generation and other levers that perhaps you can pull if the demand doesn't come back as we're hoping for?

Benjamn M. Burns
Executive VP & CFO

Sure, Susan. Yes, that's another great question. So we definitely had some really good cash generation in the third quarter. As we've talked about, our portfolio is -- has really gone through some dynamic times over the last couple of years with working capital as a result of supply chain challenges and inflated costs, but our teams have really done a good job of managing inventory where that was built up and in 2022 and then the demand started to weaken. And so we've continued to bring that inventory down and driven cash as a result of that.

We also have done a good job of focusing on our receivables. I think our receivables are in about a good a shape as they've been in a long time, in payables as well. So really looking at all levers there from a working capital perspective and saw a really good performance in the third quarter. With that said, we do think there's a little bit more improvements that we can look at going forward. So as you think about cash generation for the fourth quarter, we -- through earnings and then a little bit more improvement in working

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capital, we feel good about getting to that $450 million to $500 million in operating cash. So those are really the things that we're focused on and the teams have done a great job.

Operator

Our next question is from Bobby Griffin with Raymond James.

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

I guess first I want to talk about -- first, I wanted to hit on the Bedding Products segment. It's more just a longer-term question. A lot has changed in that segment over the last, call it, 18 months, especially with the spread coming down. So if we're in a world where the spread on Rod is kind of stays where it is today or is under a little bit further pressure, would volumes come back in a recovery scenario, what is the margin profile of that business and that type of setup? We used to be -- we used to think of that business as a 10-ish, 9-ish, probably 11-ish EBIT margin business. What could it be if the spread doesn't ever go back to those all-time high levels?

J. Tyson Hagale
Executive VP & President of Bedding Products

Bobby, this is Tyson. I'll jump in and try to answer it for you. I think we -- obviously, there have been a lot of changes over the last 18 months, a lot of craziness, supply chain and demand related. I think over the longer term, we still think the fundamental margin profile exists. We have some work to do. The top drag, of course, we've said it quite a few times, but is volume. And so a big part of this will be what the recovery looks like and exactly where it comes from and what type of products that we've mentioned our work that we need to do to not only integrate, but improve the operating efficiencies in our Specialty Foam business. That's a big driver for us as well.

On top of that, just continuing to try to think how we can most effectively serve our customer base from our manufacturing operations and distribution and then also continuing to work in our product development and commercializing our new products and especially with content gains. So I think although the market is changing a lot and continues to, we have a lot of different things that we push on that we think gets us kind of to that same type of level in terms of margin.

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

Okay. And then I think this is the second time you guys have called out about the potential of sort of facilities, rationalizations or just some work you're doing inside the ECS business and looking at some different options. Is there a time frame to kind of complete that initial dive through where we could think about maybe the potential impact from some of these changes? Or are we still in the early innings of looking at all the different options?

J. Mitchell Dolloff
CEO, President & Director

Bobby, I think we're still in the early innings. It's a great question and also about the changes in the Bedding market, I think that's really -- go back and say, "Hey, how do we need to adjust our outlook and take actions to make sure we're driving profitability and strong cash flow and shareholder returns?" And so that's what we're doing. We still have work to do. I think the consolidation that we mentioned in Automotive is a good small example of that. So we'll look across other businesses, but certainly a lot in Bedding that we've mentioned before.

But Tyson, anything you'd add there? I know there's not a lot more that we can say at this point.

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure. No. I mean, we're working on a couple in Specialty Foam. I can't remember if we mentioned them in the past, but just trying to optimize our footprint. We have some on the West Coast, where we're just trying to reduce some of the complexity and also in the southeast part of the United States. We're already working on some there as well.

But I think it probably also goes, Bobby, to what we've talked about where we had to pause the integration of Specialty Foam into L&P. And even beyond that, when Leggett acquired ECS business, it was four companies that were also being brought together. So on top of that, like Mitch said, it's early innings because we still have a lot of that work that needs to be completed.

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

Okay. That's helpful. And I guess, lastly for me. Ben, we've talked a couple of times about maintaining, I guess, investment grade. And I know you guys don't have a leverage target out there, but maybe I'll come back to the question a little bit differently. What would be the net leverage ratio that you feel would give Leggett a great opportunity to stay well within kind of the investment-grade aspect? When you talk -- and I know you guys were just recently visiting some of the credit rating agencies and stuff.

Benjamn M. Burns
Executive VP & CFO

Yes, Bobby. Thanks for the question. Yes, like we've said we don't have a formal target out there right now, but we really think about net debt-to-EBITDA, 2.5x or under as really that strong investment grade. So that's how we think about it.

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

All right. That's helpful. I appreciate the details and best of luck here in the fourth quarter.

J. Mitchell Dolloff
CEO, President & Director

Thank you, Bobby.

Operator

Our next question is from Keith Hughes with Truist Securities.

Keith Brian Hughes
Truist Securities, Inc., Research Division

I know it's kind of murky in the Automotive. But just directionally, if there was a settlement to this strike, given how far back in the supply chain you are, would you still feel some after effects of the events of the last couple of months in early 2024 before it got better. Is that kind of how it's going to work?

J. Mitchell Dolloff
CEO, President & Director

It's a great question. I wish I precisely know the answer to that.

Keith Brian Hughes
Truist Securities, Inc., Research Division

I'm not looking for a number or anything. I'm just directional...

J. Mitchell Dolloff
CEO, President & Director

Yes. No, it's a good question. I think that if it gets approved in the state that it is today, there's been some disruption for sure at the OEMs. But you're right, as we go back through the supply chain, we've been less impacted by that. So I think there might be a little bit of a pushout that may go into the early part of next year for that recovery, but I don't feel like it will be too significant for us or the industry.

I think the fear that everyone had is if that the extent and the time frame expanded, then I think as you went back through the supply chain, you'd have no choice but to start really slowing down production and dealing with labor issues. And then as we know from recent experiences, ramping that back up would be hard. So hopefully, I think we've gotten to a spot, again, if the contracts get approved that there won't be too much disruption. I think right now that forecast, IHS forecast and other outlooks for the market are probably a little sketchy given these dynamics, but I think the outlook is still positive. The demand is still there.

Keith Brian Hughes
Truist Securities, Inc., Research Division

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Okay. And the Bedding, your Specialty Foam business compared to U.S. spring has done better really for every quarter this year. Could you talk about -- do you think that share winds? Is that just the market as a whole? What's going on with the dynamic between those two? And I'm speaking to unit performance.

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure. Sure, Keith. This is Tyson. We talked about this, I think, going back to last year where we had a pretty heavy emphasis in our Specialty Foam business with our digitally native customers and even more so than the broad bedding market in the U.S., that segment of the market was really disrupted. And so we talked about the need that we had even in the early part of the recovery -- the market recovers that we needed to diversify our customer base.

And so our commercial team has been working really hard, even in a tough market, trying to uncover those opportunities, and they've been making some progress there. And so I think it's more that the nature of the improvement there. It's just as we've been able to pick up some winds even in the slow market, diversifying the customer base, and that's helping us even if the market is recovering.

Keith Brian Hughes
Truist Securities, Inc., Research Division

And that's in Foam, you're referring to, correct?

J. Tyson Hagale
Executive VP & President of Bedding Products

I'm referring to Foam, yes.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Yes. Okay. And I guess final thing on this. If you look at the customer list and Specialty Foam, our -- at one time, I think ECS was very concentrated with a couple. Can you give us an idea of the largest customers, how much that represented Foam sales?

J. Tyson Hagale
Executive VP & President of Bedding Products

It's kind of a tough question to answer, Keith, but going back into history, it was more concentrated like with the digitally native customer list. Don't want to get into how many that represented. But we still have some key customers, but we are growing that as we try to diversify the customer base.

J. Mitchell Dolloff
CEO, President & Director

Yes. So Tyson, is it right to say, I mean, at the time of acquisition, as you said, focused in the D&B is still a decent list of them. I mean it wasn't just one or two. And as that part -- that segment of the market has struggled a little bit, the team has done a good job of diversifying our customer base.

J. Tyson Hagale
Executive VP & President of Bedding Products

That's right. Yes. That's fair to say.

Operator

[Operator Instructions] Our next question is from Peter Keith with Piper Sandler.

Peter Jacob Keith
Piper Sandler & Co., Research Division

I wanted to ask about the metal margin. You did call that out as an impact to EPS. Is there any way to quantify that impact on EPS year-on-year? And then on a related note, you've talked about some weakening demand with rod and wire. What's been the direction of the metal margin just in the last couple of weeks to months?

J. Tyson Hagale

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Executive VP & President of Bedding Products

Peter, this is Tyson. I'll jump in. So it was expected, but year-over-year metal margin decline was a major driver of the decline in the Bedding EBIT. But that was expected, like I said, because we're really comparing against last year when it was at highest after the run up in scrap and Rod through the second and the third quarter last year.

We did call out the softness that we're seeing and that is a combination of both volume just being lower, what we're selling to the trade, but also the mix of what we're selling, more trending towards lower carbon applications, which is at a lower price side than high carbon rod. So we're seeing, I think, we'd say still stability in overall Metal Margin. It's really kind of where we expected it. But our mix of product that we're selling to the trade is on the lower end, and so that does have an impact on us.

J. Mitchell Dolloff
CEO, President & Director

Tyson, maybe just a couple of points I'll add on there and just you called it out, but in the middle of last year was sort of the historical highs for that spread. And so we expected it to come down, what we say teens, which is where it is, but that still remains at very, very high levels and has been relatively stable, I think, as we go through there.

And then the other thing. Our focus really is on consumption of our rod internally, right? It just depends on the spring volume and some of the other things that we do. So the trade is almost an ancillary market for us. And sometimes, it's stronger. And sometimes it's weaker, it's trending a little bit weaker, but it's not really a part of our strategy. It's more a part of capacity utilization. Is that right way to think about it? That's right.

Peter Jacob Keith
Piper Sandler & Co., Research Division

Okay. And so if I can put that together, I guess you're still looking for mid-teens decline in margin, but does that shift to lower price presumably lower margin Rod change that outlook at all?

J. Tyson Hagale
Executive VP & President of Bedding Products

No, I don't think so. We still expect that. And that is what Ben covered. That is part of our updated guidance for the Bedding having just that lower carbon part of the mix for the fourth quarter.

Peter Jacob Keith
Piper Sandler & Co., Research Division

Okay. All right. Good enough. And then pivoting over just to the pricing environment because demand in Bedding and Furniture and the like has remained weak. Obviously, there's some commodity deflation. But what's the competitive pricing environment like? Has that intensified as companies are perhaps looking to drive production to keep the factories running?

J. Tyson Hagale
Executive VP & President of Bedding Products

Well, Peter, it's always a competitive market, especially when times are soft like this, it's something that we're always having to be on top of. So we have to watch that very closely along with just our ability to serve our customers and drive the value that they need. Like we just said that overall commodities are -- although they're down from last year, they are relatively stable at this point. What we just talked about, I think we'd probably see some modest deflation into the fourth quarter, but at this point, that's kind of where we see it.

J. Mitchell Dolloff
CEO, President & Director

Yes. And I think you said this before, I mean we have to be competitive, but we also need to deliver value to our customers in different ways, whether it's through our ability to service them throughout the country or through innovation. And I think that holds up true in our home furniture business as well.

Peter Jacob Keith
Piper Sandler & Co., Research Division

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Okay. Great. One last question just on the leverage ratio. I guess as a follow-up to Bobby's question. So you had talked about kind of an ideal leverage ratio of 2.5x. Is there a threshold that you would like to avoid in order to maintain that investment grade rating, I guess, 3.5x kind of comes to mind, but I want to make sure my thinking is level set.

Benjamn M. Burns
Executive VP & CFO

Yes. I think that's a good way to think about it. Obviously, our leverage is a little bit higher than we'd like. We're at 3.15x at the end of the third quarter, which is up modestly from last quarter at 3.10x. But we believe we're at or near the peak. We think fourth quarter will look a lot like third quarter. So that metric should be about in that range.

And really, the thing that we look at too is our debt covenant in that calculation. So that's a little bit more favorable to us. So there's a little bit more headroom there than the 3.15x indicates. So that's really a few of the key points that we take a look at from a leverage perspective.

Operator

And our final question is a follow-up from Susan Maklari with Goldman Sachs.

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

There's just a couple of things that I wanted to follow up on. One is when you think about the weakness that you highlighted within furniture, the residential furniture and flooring in those segments, how do you think about that relative to health of the consumer and what we're seeing within the consumer overall? I would say one of the things we're hearing this earnings season is that some of those higher-end consumers are actually relatively stronger, would you say that you're seeing some of that? And if you are, what could that imply for a pickup in some of those businesses in the coming quarters?

J. Mitchell Dolloff
CEO, President & Director

Yes, great question, Susan. I'll kick it off, Tyson, and then you can come in and help clean me up. But I think you're right that consumers continue spending. We've seen the economy holding up better than certainly we would have thought at the beginning of the year, I think, prospects were soft landing or feeling more likely these days. But those consumers are spending on travel and services in other areas outside of consumer durables. So after that shift to the home during the pandemic and now there's a strong shift away from it and that's impacting -- remodeling is impacting some of the housing markets.

So I think it's sort of mix signals. People are continuing to spend. Sentiment is improving, but it's still relatively weak. Job market remains strong. I think that provides some confidence. But we're starting to see sort of credit balances be up a little bit and savings starting to decline a little bit. Of course, inflation is elevated and interest rates are up. That creates some concerns, I think, around the economy.

And I would say a little bit concerned around the resumption of the student loan payments could be a little bit of a drag ahead as well. So -- but with the strong job market and the spending that we're seeing today, I remain relatively optimistic that the consumer strength will hang in there. I think for us, it's just do we get a bit of a more normal shift to their focus and more balance between the services and travel and the durables.

But Tyson, any different view or things you would add there?

J. Tyson Hagale
Executive VP & President of Bedding Products

No, not really, Mitch. I mean I think you hit it. The consumer focus away from the home and then just also the general housing trends kind of suggests more of the same of what we've seen. So we're continuing to plan for slow but stable levels of demand.

And I guess back to your question, Susan. The high end, I think, is more consistent. That's what we hear from our customers and the way we feel about it as well, but it's still slow. And I think overall, we probably think that part of the market would also start to recover first. But yes, generally, I think Mitch it's kind of more of the same.

J. Mitchell Dolloff
CEO, President & Director

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Yes. I feel like that there is some optimism as we went into the year that residential end markets would start to recover in the middle of the year, and they really didn't. And then there was some optimism that we'd see stronger home furniture sales in the fourth quarter, and we really didn't. And so I think that there's a little bit of -- I don't -- I'd just say concern about being to optimistic until we start to really see some changes in demand. So that's why we're trying to manage the current environment, we know volume will come back, hopefully sooner rather than later, but it's hard to predict.

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

Yes. Okay. I appreciate the color. And one last thing. When you think about the business overall and the potential for some continued deflation on the commodity side, do you think that you can continue to hold price cost positive across most of those businesses. Any thoughts there?

J. Mitchell Dolloff
CEO, President & Director

Yes, I do. I think that our folks have done a terrific job like managing that so far as you've gone through inflation and deflation. Many of our businesses are contract-based and movements go on indexes maybe with a little bit of a lag, but some of them aren't. And so I think overall, we have done a good job managing that, and we'll continue to see -- if we continue to see some modest deflation, I think that helps with our margin percentage as well a little bit. That's been a drag on it, too. So I feel confident in our ability to maintain that.

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

Okay. All right. Well, thanks for answering all the question, and good luck with everything.

J. Mitchell Dolloff
CEO, President & Director

Thank you very much, Susan.

Operator

This concludes the question-and-answer session. I would like to turn the floor back over to Cassie for closing comments.

Cassie Branscum
Senior Director, Investor Relations

Thank you for joining us and your interest in Leggett & Platt. Have a great day.

Operator
Thank you. This will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

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