18-Nov-2019

Leggett & Platt, Inc. (LEG)

Investor Day

CORPORATE PARTICIPANTS

Wendy Watson
Director-Investor Relations, Leggett & Platt, Inc.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

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

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

Steve Henderson
Executive Vice President & President–Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.

OTHER PARTICIPANTS

Dan Moore
Analyst, CJS Securities, Inc.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

John Allen Baugh
Analyst, Stifel, Nicolaus & Co., Inc.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Justin Bergner
Analyst, G.research

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Curtis Nagle
Analyst, BofA Securities, Inc.

Budd Bugatch
Analyst, Raymond James & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Wendy Watson
Director-Investor Relations, Leggett & Platt, Inc.

Good morning, everybody. I'm Wendy Watson Director of Investor Relations for Leggett & Platt. Welcome to everybody in the room and to those participating via webcast to our 2019 Investor Day. Thank you for taking the time to be here or to listen. I want to introduce my colleague, Cassie Branscum, who's outside those doors. If you all need anything today, please find one of us. The slide deck for today's presentation has been posted to the IR portion of our website and the webcast will be archived on our website.

Our agenda for today is as follows. Our CEO, Karl Glassman is going to review our recently announced organizational changes, our TSR framework and performance and then do a comparison of the 2019 financial targets we announced at our Investor Day in 2016 with where we are today. Our CFO, Jeff Tate, will follow Karl with a review of our capital structure and cash flow. Then Steve Henderson will discuss our Automotive business.

After a short break at 10:15, our COO, Mitch Dolloff, will discuss our Bedding business and our strategy around new growth platforms. We will have a short Q&A session following each presentation. If we don't get to your questions, we'll end the day with a longer Q&A session. If you're asking a question please wait for either Cassie or I to come and bring you a microphone, then please announce your name and your firm, so people on the webcast can hear.

This slide serves as a reminder 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 we undertake no obligation to update or revise these statements. For a summary of these risk factors and additional information, please refer to the sections in our 10-K and 10-Q entitled Forward-Looking Statements and Risk Factors.

And this is just a reminder, if you all have any questions after the event or anytime you want to follow up, please feel free to reach out to any of us in Leggett IR team. And with that I'll introduce our CEO, Karl Glassman.

Karl G. Glassman

Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

Thank you, Wendy. I also want to welcome all of you. Appreciate this robust crowd investing a good part of the morning with us and certainly all of you that are listening to the webcast. I also want to take just a second and thank Wendy and Cassie for all the hard work they've done preparing for today. And also Susan McCoy who's our Senior Vice President of Investor Relations, Susan is unable to travel, but I guarantee you, she's done a lot of the heavy lifting on this as well. Many of you know Susan. And then also Janna Fields who is IR Specialist. And I promised Janna I would tell her happy birthday. So I've checked that box.

The six of us represent Legget & Platt today, but there is 22,000 people around the world that we're really proud to represent. And it's they that do that hard work, the heavy lifting every day. We just talk about it. So I want to acknowledge all our global employee partners for their dedication, the hard work, the focus that they impart every day on behalf of you, our investors. And also want to call out the board of directors. They're perfectly aligned with management. So we're looking forward to sharing a lot of this information with you. Think of our employees as co-investors. They think like owners because in most cases they are. So we all take this very, very seriously.

So, Wendy, let's get started. That quick slide really just said Karl is old. He has been around a long time. So, we're going to move pass that. What's our strategy? Portfolio management, which is both additive and deletive over time, disciplined growth, we have a target that we'll speak to many times later today of 6% to 9% over the long-term. And we have a really strong focus on returning cash to the shareholders. We're really proud of our cash generation. And we'll have Jeff Tate, our new CFO take the dividend pledge very publicly here in a few minutes. So, we think like investors because we are investors.

This slide is new to many of you. We're really proud of this slide. We stood back a little bit and said how do we assess ourselves? Who are we? What do we stand for? And it's our real commitment through our products, through our processes, through our people of a commitment that enhancing people's lives. We really do make people's life more comfortable, which I think is pretty darn noble. So, we are proud of our history of providing comfort across many products in several industries and even more excited about what we can do from a comfort perspective going forward.

Comfort also informs our culture. Many of you know us really well. It's great to see a lot of faces in this room that we've known for decades. So you know us – you know what we're all about. You recognize our longstanding commitment to comfort in enhancing the lives of those around us. The words that you see on this slide represent who we are and what we are committed to be into the future? These aren't just words. They're really our core principles. They're very important to us. This is what we used to ground our people, to recruit new employees. We are focused on building businesses and culture that is sustainable for generations to come and help all of us live more comfortable lives. We are absolutely today and everyday building for the future.

What messages that we want to leave with you when you leave this room in a few hours? TSR in the top third of the S&P 500 continues to be our primary financial goal. You would have seen that for the first time in the fall of 2007. So, we're pretty darn consistent, and we'll speak to you as to our scorecard here in a little bit.

Revenue growth target remains 6% to 9% on an annualized basis. We are absolutely maintaining capital discipline. Dividend growth remains a top priority. It is absolutely sacrosanct. Dividend is what we stand for. 48 years of continuous growth of our dividend is important to us. The yield folks absolutely can trust us. We have numerous opportunities to achieve long-term profitable growth. We are consistent with our messaging. No flavor of the month from us. We might – some might call us boring. I call it consistently predictable. We also believe that we're transparent, and you can hold us accountable.

We put out a series of press releases about two weeks ago that announced some organizational changes. We recently, in September of this year, added a really capable professional to our team in Jeff Tate. Jeff has joined us after a long career at Dow Chemical Company. Wonderful guy fits our culture. And I'll tell you a little story about Jeff in a little bit when I introduce him later. But Jeff absolutely stands for financial discipline. He understands strategy. He's an operational-focused CFO. Jeff has the luxury of inheriting a wonderful team of leaders back in the corporate office around the world.

So, when Mitch and I were trying to settle Jeff on this wonderful opportunity, we said, you know, this isn't a fix-it job. We really need you to join this senior management team and help us grow from a future perspective. We have people that are listening to this call that head accounting, finance and treasury, internal audit, tax, credit, business intelligence, and an IR team that I believe is the best that you'll ever interact with. So, that's what Jeff inherited. And a lot of that's a tribute to Matt Flanigan and his hard work. So, I certainly want to thank Matt, and Jeff, it's so wonderful to have you as part of the team.

For some unknown reason, the board of directors has decided to make me the chairman of the board in January of next year. I'm excited about that. Mitch Dolloff hasn't had enough to do. So, he decided that he wanted to be the president of the company. So, I willingly gave up that role. You will hear a lot from Mitch here in a few minutes. He'll retain his position of COO, as I'll retain my role as CEO. Mitch will join the board of directors. That's fantastic, having him as a part of that team that helps just kind of chart waters for the company is wonderful. Mitch will also be the Interim Bedding Segment Head, and we'll talk about the newly-formed Bedding segment in a little while and the fact that we're on a search for a leader. Mitch is an incredibly capable leader. And it's really an honor for me to work with him and think of Leggett into the future. It's really exciting to see this team.

Steve Henderson, who's been with us since 2017, he's been the President of the Automotive Group. Steve, we really appreciate you stepping up and taking on Executive Vice President role; President of Specialized Products and the newly formed Furniture, Flooring & Textile Products segments. Steve will continue to be the President of the Automotive Business unit for a period of time. He's working through development plans with an internal successor. We would expect to make that promotion sometime next year. But Steve is a wonderful operating professional. He's very strategic. Fortunately for me, he thinks a lot like Mitch and Jeff. So, it's a wonderful team. Those three individuals going forward, I guarantee you, they are investable. So, Steve, thank you for taking this additional role.

Steve also has an attribute that the other two guys share and that they are mentors for people going forward. So, they really do. They're leaders of people. So, it's exciting to be around them. We're also actively searching for Leggett's first Chief Human Resource Officer where no one's ever had that title officially. So, we're going through that search.

We're also searching internally and externally for our Bedding Products segment leader. Mitch will talk in detail about the formation of that segment and the efficiency that comes from that. The six people that I spoke to those positions augmented by our General Counsel, Scott Douglas, really are the executive team that will lead the company going forward. So, clearly, we're building for the future.

We also have refreshed the board. Srikanth Padmanabhan is a Vice President of Cummins. He runs their largest business, which is their Engine Business. He understands automotive and transportation, PhD in mechanical engineering, a wonderful guy. He is also a zealot for diversity and inclusion. And it's wonderful to have someone of Srikanth's caliber to join our board last year.

Jai Shah, who was the Group Vice President of Masco, joined the board earlier this year. Jai has a really interesting diverse background. He's a CPA by education and then ran Masco's HR Business. CPA, HR, then Compliance, now runs their consumer-focused business as their largest business, which is plumbing and then, more recently, lighting. And what I see in both Srikanth and Jai are people that will make outstanding CEOs in the future. So it's great for us to recruit people of that caliber.

Mark Blinn who joined the board at the same time as Jai, ex-CFO and CEO of Flowserve. He's an attorney by training, CFO of two public companies, CEO of one, broad board experience. He's the Audit Chair of Texas Instruments. He also just two weeks ago joined Emerson's Board. And most recently, just two weeks ago, we added Mary Campbell to the board. Mary is the Chief Merchandising Officer of Qurate. Qurate owns QVC, HSN, Frontgate, and a number of other branded companies. She's also the Chief Commerce Officer of QVC. She's consumer-focused, about 60% of Qurate's business is e-commerce. So she really understands consumer-focused product development.

Diversity of gender, diversity of age, ethnicity and skill sets are what this board is all about. With the addition of these new folks to the long tenure board members that have their own wonderful attributes we're really proud of this group. We are clearly building for the future.

Now, let's talk about segment realignment. This is how we are going to manage the business going forward. It takes effect January 1. We will, obviously, issue an 8-K sometime in the first quarter and restate all this historic data. So, you'll see that after the first of the year. This is very purposeful. So, you have – see this newly formed Bedding Products segment. What we're doing is taking industrial materials, adding it to our global Bedding businesses, which include Machinery, taking adjustable bed and adding to it as well.

So, it is singularly bedding focused, then newly formed Furniture, Flooring and Textiles, so taking the fabric, which is the non-fashion fabric company that you hear us talk of as Hanes and our Geo Components business; and our Flooring Products or carpet cushioning businesses, adding that all together with our legacy Furniture business in this new segment. And then the Specialized Products segment is unchanged. So, why are we doing this? It's all for efficiency optimization. We're going to manage a bedding value chain of spring, wire rod, specialized machinery and now Specialty Foam altogether holistically. To have greater transparency, you will no longer see LIFO, FIFO offsets across two segments. We're going to not eliminate, but mitigate a lot of the intersegment sales.

It will be a lot easier to understand raw material moves and the holistic impact on the business. So, we're excited to get this behind us. Most importantly, it's consistent with how we're going to manage the business going forward. So, what do our markets look like? The first little pie chart on your left is a depiction of – if you take 2018 actual sales add our extrapolated full year of ECS, pile it together. And that is our geographic split based on production. So a little different than what you would've seen previously, because ECS is 100% US manufacturing based. That slide previously would have shown the US business at 62% to 63%.

It's important that we can have a lot of conversation and one of the questions that probably will come up in Q&A is discuss the impact of tariffs on the company. We generally produce in the geography of consumption. Tariffs have almost no impact on us. Though that they're a little disruptive uncertainty are the biggest issue of tariffs. When we think about tariff impact, it's more from an impact potentially on a consumer than it would be on our own businesses.

The larger pie is a depiction of our expectation, our forecast of 2019 sales with the new segment structure. So, you see Bedding in the blue shade of 47%, the Specialized Products segment aggregates to 22%. Those are kind of the green greenish color pieces of that pie and then a newly formed Furniture, Flooring, and Textile Products segment will be about 31% of the total.

Okay. We told you the TSR in the top third of the S&P 500 is our long-term goal. It's made up by revenue growth target of 6% to 9%. Margin improvement, which is growth in attractive markets, augmented by portfolio management, product development, cost savings and efficiency improvements. The dividend yield, we have a target pay out of 50%. Jeff will speak to this. It's a little higher than that today.

And then over a long-term perspective the default has been stock buybacks. Admittedly over the next couple of years, we'll continue to slow the acquisition activity post ECS and increase our debt pay down. So, but longer term, those are long-term sustainable goals.

Now, here's the scorecard of our TSR performance. I will admit it looks a little bit better today than it did 30 days ago when you look at that last three-year tranche. But we measure ourselves in three-year segments. Our long-term targets are the blue bars on the right. Top line is 6% to 9%. And you'll see in the last three years, once we adjust, well even without an adjustment for the divestitures, raw materials, and currency, which is the sub-second line, you can see that over each one of those measurable periods. But over the last three years, we've been easily within the target.

Where we've lacked is in the EBIT margin change. We're getting better, but we're below our target. You can see that negative 6%, negatively impacted by increased interest as a byproduct of the ECS acquisition. Change in multiples, a little bit difficult for us to directly control. We're keeping our commitment to you on dividend yield at 3% across and stock buyback, you'll see that slow, as I said earlier. We believe to be in the top third, we need to be in the 11% to 14% range. Admittedly, even if we were in that range over the last three years with the S&P performing at greater than 20% that we're swimming fast, but we're not swimming as fast as a very robust market that's been stronger than certainly it has been historically. And you can see that bottom metric is what our rank is 1% obviously best. So, we're working on it.

Our growth framework. How are we going to grow 6% to 9%? Combination of organic and acquisition, increasing content and new programs. We'll speak to this in great detail when Steve speaks the Automotive business and Mitch on Bedding, expanding our addressable markets inherent both in Auto and Bedding and then identifying new growth platforms, Aerospace and Hydraulic Cylinders are recent examples. We are very, very comfortable with our target of 6% to 9% from a long-term perspective. What are our sources of margin improvement? The near-term opportunities, a lot of heavy lifting has been done on portfolio management. The restructuring of the Fashion Bed business, that is behind us. We are now out of that business. Home furnishings is slightly smaller but significantly healthier. We balance the domestic versus the offshore manufacturing. We've walked away from some non-value added commodity businesses. We've really right-sized the business from a cost-structure standpoint. Our footprint is appropriate and we've reinvested in product development.

Cost reductions in businesses where market demand has slowed. Automotive is a good example of this. Steve and his team were dealing with greater than 10% growth year after year after year. So doing so, they had a cost structure that would support that growth and they did it flawlessly. Well, that business has slowed a little bit. So it's given us some time to catch our breath and rightsize.

Improving efficiency in rapidly growing operations. This is kind of broad-based. ECS is, and there's a slide on this in a little bit, has been a wonderful acquisition for us. But we've been trying to digest the incredible growth of hybrid mattresses. Manufacturing the hybrid mattresses is much more complex than a foam mattress. So there are some inherent inefficiencies that we're working our way through. U.S. Spring, the tremendous growth of comfort core, there's some inherent inefficiencies as we get our arms around that growth. Great opportunities but we're working through that. Automotive is the same thing. We're trying to be more efficient with every program, being more nimble.

Ongoing activities, portfolio management. You'll continue. I told you the examples of Fashion Bed and Home Furniture, but there's always other activities. They're both additive and deletive as I said. I'll stand in front of you, try to get ahead of a question. There is no single business unit that we know of today that we're going through, all of them are working on tactical activities of reducing costs – increasing efficiency. But there's none of them that we're in the process of trying to divest. But there are always small business units or businesses or single plants within the business units that we're always attacking. Product innovation and continuous improvement are part of our DNA.

This next series of slides is kind of a retrospective view. Many of you may say, why in the heck are they going through this? Not because I wanted to, by the way. It has everything to do with being transparent and being held accountable to what we've told you in the past. So in September of 2016, we put a series of targets for 2020 in front of you. So what this is is that scorecard of 2016 actual end results versus the 2019 targets, which are made up of the midpoint of our current guidance, which has not been updated since we issued it at the end of October.

And if you go line-by-line, I will go line-by-line, sales, we made it. So we told you to expect $1 billion growth in sales, $4.75 billion, we're there. An 8.2% annual CAGR in that three-year timeframe. But, boy, did we get there in a different way than we expected. We expected about three quarters of that growth to be organic and the remaining acquisition, and it flopped on us. So it had an impact on the EBIT line. So we, admittedly, underperformed from an EBIT perspective. Some of that is acquisition related. Some of it is just poor performance, and we'll talk about those in detail in a minute. So 8.2% annual CAGR on sales, only 2.5% on EBIT margin. Well, I'll get a little granular for just a second. That 13.1% in 2016 was a record since 1999. So we kind of bought this, okay, we have fixed the business 13.1%, well if you're at 13.1% you should be able to improve. So we put a target out there at 13.3%.

Well, in retrospect, that 13.1% was outsized. It was not sustainable. We didn't know it at the time. But what had happened in previous, really 2015-2016, the industry was going through a significant amount of steel deflation. Well, we were the beneficiaries of that deflation and then the raw materials were deflating at a rate that we didn't have to give that savings back to our customers. Home Furniture and Fashion Bed had outsized unsustainable margins. As soon as inflation flipped or reappeared in 2017 and 2018, we suddenly couldn't pass through that inflation in those two businesses. That's why Fashion Bed is no longer a part of the company and Home Furniture has been restructured. So those are the two largest areas of miss. There were a couple others.

So we certainly underperformed. From a long-term sustainable perspective, we'll hit a 11.2% EBIT margins or adjusted EBIT margins, I should say for this year. I think, in terms from a long-term, a 11.5% to 12.5% going forward. Adjusted EBITDA, we're close, but fell slightly short, but certainly better than EBIT. EPS, obviously, fell short. The operating cash line is, because it's better, I want to bring your attention to it. We told you on the October conference call, to expect operating cash to exceed $550 million for this year. We had a target or have a target of 2019 of $575 million. I think that we have every confidence that we'll meet or exceed that number. So operating cash is really important. Mitch and the operating team have done a great job of focusing our people on cash generation. So it's not all dismal. I promise you. In the dividends, we didn't quite meet our goal but we certainly increased the dividend every year.

What went different than expected? I went through some of this, more acquisition, less organic growth. That mix was a little bit of the issue from an EBIT margin perspective. We're certainly closer on EBITDA margin. I talked about Fashion Bed – International Spring – Fashion Bed and Home Furniture. International Spring, I don't want you to read that slide and get too nervous about that business. In that, our European International Spring business runs extremely well. It's really well managed. It's very close to the forecast that we established three years ago, but we have some other geographies: South Africa, Mexico, China that have underperformed. And we are dealing with each one of those businesses tactically, as I speak.

Interestingly enough, higher-than-expected performance in the U.S. Spring/Wire/Rod supply chain. So a lot of you are focused. Some would say, fixated on that business. We exceeded every one of the forecasts that we had in that big part of Leggett & Platt and then added ECS. So this is not a U.S. Spring underperformance story. Matter of fact, we're really proud of exceeding every one of those expectations.

ECS, the acquisition of ECS, has certainly been accretive to EBITDA. So, in summary, core bedding is performing better than expected. Automotive, slightly underperforming what we expected because of macro issues. Our Auto business is extremely strong and our people have done a wonderful job of executing in a tough environment.

You'll notice that we're not giving you 2022 targets. What we've learned is, my goodness, three years is a long time from any point in time in today's world. We don't know what's going to happen. If I was to model us, for those of you that think of us from a long-term perspective, think of dividend, think of the drivers of the TSR elements, the top third of the S&P 500 TSR elements and model if going forward.

Next two pages, I'm not going to go through them in any detail. They're just waterfall charts of what I said. You can see the impact on the sales side. We ended up getting there, but not in the way that we expected. On the EPS side, you can see lower EBITDA, certainly higher depreciation and amortization and interest expense because of the ECS acquisition. So we're making our way through it. Acquisitions, certainly, contributed significantly to EBITDA and will into the future.

Now ECS' 2019 performance. I stand here in front of you and tell you that ECS is performing extremely well in different ways than we expected. Finished mattress growth of 18%. I guarantee you that US mattress industry isn't growing 18% in the units. So it's kind of checking the box. A place that we missed that we forecasted that the demand in hybrids would grow, I don't think that we thought that the growth would be at the rate that it is today or as early as it is today. There is not a digitally native bed-in-the-box manufacturer that I know of, there's probably – there's 100 and some-odd names, so I don't know them all, but any name that you know of that does not have a hybrid in their line. That is a significant change. It's back of year weighted. Some of the large guys have just launched in the last 60 to 90 days. So we're really proud of how ECS is performing.

From a top line perspective, it's slightly underperformed purely because of deflation. TDI, MDI, polyols, all of the chemical components of polyurethane foam have deflated significantly since we closed on this acquisition in January of this year. So sales are flat because volume's up 10% to 12%. So it's been a little surprise because those chemical inputs have certainly deflated to a greater degree than we thought. But EBITDA margin and EBITDA dollars are really at our target and certainly accretive to Leggett. And the cash flow generation of that business has been wonderful. It is a contributor as to how we're meeting that target.

So going forward, what to expect from us? The organizational changes and segment realignment are consistent with how we'll run the business and absolutely facilitates optimization. The framework is in place to support long-term profitable growth. You'll hear a lot about that from Mitch and Steve going forward. We're investing in strong businesses with compelling market advantages. And I think we better understand each one of those businesses today.

Leggett has a wonderful 136-year history. Little town in Southwest Missouri, this company was founded 136 years ago. And we're really, really respectful of that history. But I promise you, the future is really exciting. It – the future has more long-term sustainable profitable growth than the aggregation of the past. We're really excited to go forward. We're absolutely building for the future.

I'm happy to answer any questions on that set of slides. Anybody has one? I know a lot of that was just a repetition of what you've seen before. It wasn't the most exciting part of today, I promise you.

QUESTION AND ANSWER SECTION

Dan Moore
Analyst, CJS Securities, Inc. Q

Thanks. Thank you for the presentation, Karl.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc. A

Sure.

Dan Moore
Analyst, CJS Securities, Inc. Q

Dan Moore, CJS Securities. There you go. Obviously, over the last few years, raw materials swings, inflation, deflation have had a material impact on the P&L. In the past, Leggett has talked about gradually rising raw material, specifically steel prices being net positive to margins overall. Do you still feel like that's the case, given the fact that what we've seen is given the volatility kind of the opposite? Thanks.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc. A

Dan, that's a great question. Absolutely. We want inflation. We're coming off a timeframe where steel has been deflating. It looks like it's starting to reinflate slightly in November with scrap up. I've always told you that we want to be in an inflationary environment because of our pricing power. Where we didn't have an ability to exhibit that pricing power truly was in the subset of Home Furniture and all of Fashion Bed. That's why Fashion Bed's gone, Home Furniture is more focused.

In our U.S. Spring business, the ability to pass on, and I should say our global spring business, the ability to pass on that inflation is inherent in our outperformance of those businesses. So there's a 90-day lag in inflationary cycle. But we want inflation because of the increase in dollars and the absolute nature of more margin dollars. This is all about cash generation. So ECS, certainly, has pricing power, long-term contracts in their business that really kind of mirrors the US frame structure. So inflation would be a good thing.

Thank you for the question.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks. Keith Hughes, SunTrust. Back to ECS, you talked about dollars, but their revenue would be flat in 2019. What would EBITDA dollars be for 2019?

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

They would be very similar...

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

To?

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

...to – yes.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

They're meeting our forecast.

John?

John Allen Baugh
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Good morning, and thanks for the presentations. John Baugh of Stifel. Could you talk about how we should think about the organic growth of this – piece of the 6% to 9%, and maybe the two or three key levers, whichever number you're going to give me? Thank you.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

Okay. Thank you, John. Actually, if you don't mind, I'm going to hold that because I think that the answer will become somewhat apparent after Mitch and Steve's presentation. But the way you step back from it, in that 6% to

9%, you'll hear the details of this. But we think in terms of GDP is 2% become the foundational part of that growth. Acquisitions, over time, are going to add 2% on an annualized basis. The opportunity to grow the bedding value chain and Automotive at a much greater rate and significantly exceed global auto build gets us, certainly, well into the 6% to 9%. And then, there is imputed higher growth rates than GDP in some of the businesses that we serve: Aerospace, Hydraulic Cylinders, once that there is kind of a washout of some recent softness in that business; certainly bedding because of the change in the value chain is accretive to all of that, I'm absolutely and totally comfortable with 6% to 9%.

I will admit from the acquisition piece of it, we kind of pre-bought some of that with ECS. So there won't be – you won't get the 2% benefit from acquisitions in the next year-or-so because we got so much of it through ECS. So we'll continue to make acquisitions going forward but they'll be small in size. They'll be bolt-on, at least through calendar 2020.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

Thank you, Karl. Bobby Griffin with Raymond James. Just quickly to follow up on the 6% to 9%. Understanding we're not giving three-year targets, but given some of the changes in the portfolio of the businesses, what's a normalized contribution margin look like on organic growth now ex-deflation, ex-currency, if we were just to grow at the midpoint of that 6% to 9% rate?

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

Yeah. It's different. But the quick answer is 25% to 35%. But it depends on the business. That growth in the Industrial business is very, very different than the growth in Automotive, as an example, or depending on where that growth comes in the supply chain of wire. Like I said, wire/rod, low; spring mattress, high, so – but kind of benchmark it 25% to 35%, that also is somewhat dependent on to what degree there has to be a capital investment that goes with that. There's not a lot of underutilized capacity in our businesses.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

Okay. Let's move to the next segment. This is going to get better, I promise you, and there's a little bit of pressure there, Jeff. That – it really is pleasure. I've pretty much introduced Jeff but the quick story that I wanted to tell you that, Mitch and I, had read a lot of resumes for CFO candidates. Resumes are just pieces of paper. Wonderfully talented group of people. Jeff Tate came into the room, started to answer some questions, talked about his vision for CFO and how a CFO interacts with operations and truly understands strategy. Mitch and I looked at each other. We're 10 minutes into this interview and we both flipped. We were no longer interviewing Jeff Tate. We were selling Jeff Tate. So, Jeff, it's a wonderful pleasure to have you join the company in this leadership team. And my goodness, congratulations on an outstanding first quarter.

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

Thank you, Karl. And good morning, everyone, and again, thank you so much for joining us here in the room as well as for those that are joining via the webcast. It is an absolute honor and privilege for me to join the Leggett & Platt team. And as Karl had mentioned, this is an outstanding team, one that I feel truly honored to be a part of.

First and foremost, I do want to thank and recognize Matt Flanigan for his tremendous and outstanding leadership over the years. I mean, he has really laid a solid and strong foundation that myself and the rest of the leadership team really hopes to expound upon and enhance as we move forward here. So, thanks to Matt for an outstanding career.

So, to level-set our discussions. There are a few things that I really want to highlight in terms of what's changed in the past year. As you think about it, our company's debt level has expanded and increased over the past year, as expected. But our commercial paper capacity has also increased both to fund the ECS acquisition. We do expect to retain the extended borrowing capacity that we have as we continue to prioritize paying down our debt, while funding organic growth as well as our dividend. But there are several things that have not changed, that are very consistent, that you kind of heard Karl mentioned earlier.

Our long-term financial priorities are very consistent. They're intentional, they're very purposeful, and they're very well aligned with our company's long-term strategic plans. What are some of those consistencies? We're intently focused on the balance sheet strength, while at the same time, remaining committed to our dividend growth. So I'm taking the pledge at the beginning. You're going to be taking the pledge in the middle and take the pledge towards the end here to show that consistency. And how we're going to support that? We're going to support that through consistent strong cash flow generation as well as disciplined uses of our cash. And I'll talk about these components more in detail as we move forward.

So, as we think about our debt structure at the end of third quarter, we had $2.25 billion of outstanding debt at the end of September, with an average interest rate of 3.7%. Our commercial paper capacity was slightly over $1 billion, and we've currently got $1.25 billion debt in finance for our ECS acquisition. It's important to recognize that we paid for that ECS transaction with $750 million of commercial paper as well as $500 million related to our five-year variable rate term loan. We refinanced $500 million of that commercial paper back in March through the public issuance of 4.4% 10-year notes.

But to be clear, we are maintaining our long-held priority on financial strength because this discipline allows us the ability to withstand economic cycles which we know will come, but it also allows us to capture attractive investment opportunities when they present themselves in the future. Now as this chart indicates, we had an increase in our debt-to-adjusted EBITDA earlier in the year, but in 2019 as well as 2020, we're focused on reducing our debt levels and are still prioritizing debt repayments after finding organic growth as well as our dividends.

At the end of September, at the end of third quarter, our debt-to-adjusted-EBITDA was down to 3.15 times, and we remain on target to meet our 2.5 times debt-to-adjusted-EBITDA by the end of 2020. Our financial discipline supports our strong liquidity profile. We're committed to maintaining strong investment grade ratings, but also preserving our access to the investment grade markets.

Our long-term debt ratings by Moody's and S&P are currently Baa1 and BBB respectively. And this chart reflects our scheduled maturities but not our planned repayments. I want to repeat that. This chart reflects our scheduled maturities but not our planned repayments. For example, we would expect to repay the term loan more quickly because we're focused on our deleveraging plans. We also have no significant maturities due until the year 2022 when $300 million of our term senior notes come due at that time. We currently have $1.2 billion available through our revolving credit, as well as our commercial paper program. And as you may have heard on our third quarter earnings call, the team continues to do an outstanding job of returning offshore cash.

Through the third quarter, we returned $180 million and we expect that number to be closer to $230 million by the end of 2019. Our long-term priorities for uses of cash are unchanged. Funding organic growth and increasing the dividend remain our leading uses of cash priorities. Again, I'll repeat that once more because I think it's important. Funding organic growth and increasing our dividend remain our leading uses of cash.

And as we focus on deleveraging in 2019 as well as 2020, we're prioritizing our debt reduction while controlling the pace of acquisitions and temporarily suspending open market share repurchases. And once we reach our target debt level which again will be 2.5 times debt-to-adjusted EBITDA by the end of 2020, then we'll plan to increase acquisition spending. And in years where we have available cash, after funding organic growth, the dividend, and acquisitions then we'll use that available cash for open market share repurchases.

Now, this next chart does a really good job of illustrating how our historical uses of cash are very well aligned with our strategic priorities. Spending on CapEx, which you can see there in the green, has been fairly consistent especially over the past three years and our dividends have steadily increased, which is the blue shade of color there.

In 2019, we expect our CapEx spending to be approximately $160 million and our dividends to be $205 million. And until 2018, as you can see in the graph here, our acquisition spending was relatively small. And then in 2018 as the acquisition spending started to increase, our share repurchases declined. And in 2019, we've had no open market share repurchases.

And as Karl mentioned earlier and as you probably heard on the earnings call, we expect our 2019 operating cash flow to exceed $550 million. The dividend growth remains a top priority for our company. Our 48-year history of dividend increase is very important to us as a company, but it's also important to many of our shareholders. And we plan to extend that growth track record moving forward. Our long-term dividend payout target again is approximately 50% of earnings. And the chart on the left shows that our actual payout percentages and what they've been over the past few years and you'll notice that we're slightly above that 50% payout target currently. But we expect – with our earnings growth to bring us back in line with the target even as we continue to increase that dividend.

And finally, in today's low interest rate environment; it's notable that our dividend yield is approximately 3% which is still one of the highest in the S&P 500 dividend aristocrats, something we continue to be very, very proud of.

So as I wrap up this section and open it up for questions. There's a couple of comments here. There's very strong consistency of message, there's very strong alignment of purpose and very clear consistency around our messaging and strategy.

Our prioritization of debt repayment after funding organic growth and dividends remains very consistent. We intently focus on balance sheet strength. While our commitment to the dividend growth is unwavering. Strong cash flow generation will continue especially with the ongoing operations we're seeing from the impact of ECS. And we remain on target in terms of meeting our commitment for deleveraging by the end of 2020 which again is a 2.5 times debt-to-adjusted EBITDA by the end of next year.

So, with that, I'll open it up for any questions you may have.

QUESTION AND ANSWER SECTION

Brian DiRubbio
Robert W. Baird & Co.

Q

Thank you. Thank you. Brian DiRubbio from R.W. Baird. As we think about earnings volatility going forward especially with the ECS acquisition, MDI and TDI, do you have any plans at your level to help mitigate some of the potential volatility with raws and how that will impact the business? Or is that something that you're just leaving to the existing contracts at hand and having the operations team more manage that aspect?

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

A

Well, I would say it's going to be a combination of both. Thank you for the question, first of all. And I think that's one of the beauties of the diversification of our portfolio, right. As you're having volatility in some areas that are heavily dependent on TDI, MDI, polyol prices, you have other components of our portfolio that are somewhat immune to that level of dynamics that will take place. So, we have well – a really well-managed teams that will be very focused on the ECS portion of it, that are fairly consistent with understanding what those dynamics are and the contracts that we have in place that in some cases maybe 90-day lag, 60-day lag and be able to manage through those as the prices go up as well as when they're coming down.

Justin Bergner
Analyst, G.research

Q

Oh. Hi. Justin Bergner, G.research. Question on organic growth, I mean most companies talk about a cash flow priority is funding organic growth. And I noticed that it appear at least a couple times so far today. Might you talk about exactly what that means? Are you anticipating higher than normal CapEx or areas where you may, if the opportunity presents itself, do more to invest in organic growth than perhaps historically?

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

A

Sure. Well, thank you for the question. I would say if you look over those past few years, as you saw on the earlier slide, our CapEx spending has been relatively consistent, right? Right around $160 million. And if you look at 2019, we're actually spending less in CapEx versus depreciation and amortization. So, we feel like we've got several levers that we can pull in terms of being able to not only fund the organic growth, but also we have to continue to maintain our existing asset base and we'll typically have a certain percentage of our spend that we would like to do to ensure the safety and reliability of the existing asset base we have in place.

Unverified Participant

Okay. There are no other questions, and I'll bring to the stage, Mitch Dolloff. Thank you.

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

Good morning. I'm Mitch Dolloff, and it's my pleasure to introduce Steve Henderson this morning. As Karl mentioned, Steve joined the company in the fall of 2017 to lead our Automotive Group as I took on a broader role in the Specialized and Furniture Products segment. Steve has over 30 years of experience from Dow including leading the overall Automotive business for nearly a decade. In a very short period, Steve has had a tremendously positive influence at Leggett & Platt. He has continued to build an incredible team in our Automotive Group, has become a key leader in the company overall. He's a great resource for many including me.

Starting in January, Steve will take over the Specialized Products segment and the newly formed Furniture, Flooring & Textiles segment mainly because it's a lot to say and I don't want to have to keep repeating it. As I temporarily take on the new Bedding segment until we settle on a permanent replacement. Steve clearly has the knowledge, experience, and bandwidth to seamlessly to assume these additional responsibilities. In addition, we have strong management teams in each of the business units and strong support at the segment level to help carry the weight of his new role. I couldn't be more pleased or grateful to have Steve on our team.

I welcome Steve to provide more insight on our growing Automotive business.

Steve Henderson

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

Good morning, Mitch, and thank you for that very gracious welcome. I will do my best to live up to those accolades, but I want to say, hello and welcome to everybody in the room, as well as, everybody online. And I would be remiss not to mention my amazing Automotive team that's listening in all around the world, I get to represent you today, as well as the folks in the corporate office that help us do what we do in this business every day as well as we do it.

These are certainly exciting times for the automotive industry and for Leggett. It seems that you can barely pick up a newspaper or read anything on the Internet without hearing something about automotive or automotive technology or at least I can't. Last night, I watched a reveal in the Los Angeles Auto Show of an all-electric Mustang SUV. Now imagine that, a Mustang, the pony car of Ford as an SUV all-electric coming. No key. It opens up with your cell phone. That's where the industry is headed. And if you think about excitement, that's what's propelling us here in the Automotive business. And there's a lot of technology that you'll hear about, autonomous driving technology, when is that going to hit? Is it going to hit? What's it going to look like? What does it mean for the infrastructure? Electric vehicles, are they a thing? We've been hearing about them for quite a long time, but every auto show that we see most of the new introductions are some sort of an electric vehicle introduction. So, it is coming.

M&A deals, the industry itself is continuing to restructure. Peugeot, who recently bought Opel, is now going to be merging with Fiat Chrysler to become the fourth largest automotive OEM in the world. So, we see a lot of change going on there. And then there are startups like Tesla and Rivian that are changing the industry just a little bit. So there's a lot going on there.

But coming back to Leggett & Platt, I'm really excited to share a view of what we see going on in the Automotive industry. And up here, right now, you'll see what we consider our key success drivers. And there's quite a few of them actually. First, critical components, in alignment with Leggett's styles of competition approach – these components give us incumbency or really a seat at the table to talk to our customers, enabling something to happen in their vehicle that they couldn't have without a Leggett product makes it critical. And being at the table gives us access to the people making the decisions. We feel their pain, we hear their dreams, and we're able to work with them on developments for the future. Our integrated supply chain allows us to take full advantage of the global business – the global Automotive business, which in turn leads us to an optimized cost structure.

Solid projects means we target projects with – that our customers value. Something that they'll pay more for and will share in that value with Leggett which gives us in turn preferential access to capital to bring those to market. A differentiation approach, we want to be the only one that does what we do. Not being different for the sake of being different, but being different in ways again that our customers value and will pay for. And purpose. It means we know what we're doing. Our people know what we're doing, our customers know what we're doing. And it's an attractive place to be, an attractive company to do business with and it's helping us bring new talent into the business like we've never seen before.

So let's lift up the hood a little bit, so to speak, and take a look at our sales mix. First, I have to tell you we work every single day with the world's largest automotive OEMs and tiers around the world. We talk to them every single day. And over 50% of our revenues come from outside of North America. 52% to be exact. And that puts us right where our customers want us and where they need us.

Asia is our second largest area and we've seen significant growth across the region and across every major product line. We continue to see share of wallet increases in all of our major product lines, but our seat comfort areas have historically and continue to be a major driver of our growth as you can see here on the chart. But that said, we have excellent diversification. You can see it regionally, as I said here, across OEMs and across platforms where no single platform has more than 7% of our revenues. And more importantly, across vehicle types. CUVs and SUVs make up 51% of our sales and those are rapidly growing. Passenger cars are over 32%, and trucks are at 15% and growing. And the diversification is very important for us because it gives us the ability to leverage our technologies across customers, across regions, and it reduces our costs.

So, let's take a closer look at our target market segments. So, this was the global market overview. We now see a roughly $20 billion addressable market for our cabin Comfort and Convenience field of play in the industry as it's changing. And these segments are projected to grow at relatively high rates as new features continue to be adopted as the industry matures. You'll notice the adjacent electronics and software space right around the end. It's been included for the very first time. And we're really, really excited about that space. As the electrification of the vehicle occurs, many new technologies will evolve. You'll see a lot of prototypes that do a lot of really cool things in a PowerPoint presentation. That has to be made real. Leggett & Platt will help make that real. And growth for Leggett & Platt Automotive is going to come from both Comfort and Convenience segments. And to be clear, many of our products span both of those segments.

In Comfort, we supply traditional products like our seating suspensions, and our mechanical and pneumatic lumbar systems. That being said, there's still only a 35% penetration rate of advanced comfort features on a driver seat, 15% on a passenger seat and that doesn't even talk about second and third row when you think of CUVs and SUVs, so you can understand the proliferation of content as it will work, as it goes forward.

For those of you that aren't as old as me, power door locks weren't on every car, power windows were not on every car. They are on all of them now. Anti-lock brakes were not on every car. This will proliferate and will grow above the industry.

Cables is a venerable business for us with some very good runway left and one that we're very very proud to say won the GM Supplier of the Year Award earlier this year in 2018. And it serves both our comfort and our convenience applications.

Motors, there's a lot of motors in vehicles, a lot of them. You might not think about it, but a lot of the things that happened in your vehicle are driven by motors and not the one that makes the car go down the road, smaller motors. It's a growing business unit for us. It's built off of our seating comfort business and comfort applications, and it spans both comfort and convenience now, and is very, very, closely related to actuators which are electrically controlled motor-driven units that make things happen. They open and close doors and lift gates, they move seats, they present door handles, they articulate headrest rests, both comfort and convenience with a lot more to come.

And then, electronics and software, we already design some ECUs and software already. But there are significantly more opportunities coming in the vehicles of the future. And if you think about those autonomous vehicles, the technology you see, like I said, is not here yet. It has to be developed. And in conversations with our customers, we're finding spaces that have needs that we know that we can satisfy.

And that means, we have a lot of interesting design concepts under consideration, as well as in development. And ultimately, we see a 6% growth rate in these areas, which is significant.

But what really would be driving that 6% growth rate? Market trends. There are a lot of trends in the industry, depending on what your business participation is and what you're doing and you'll see a slide on that a little bit later. But demand for comfort and convenience features, this is huge. It's huge. The interior offers the largest opportunity for passenger individualization and therefore, the ability to impact the user experience, which is the key to the automotive industry going forward. And we expect to see significantly more power features in other parts of the vehicle relating to convenience as well, and we'll look at a few of those a little bit later.

Global programs, same components used in multiple countries, reducing manufacturing costs, not just by us, but also by our customers. And that allows us to put our energy into these other developments. Platform sharing that reduces R&D cost for the OEMs and allows for further economies of scale and sourcing in manufacturing.

And then a big one for us is directed sourcing. And this allows development work to be done by suppliers or OEMs and Tiers, hand-off technology development of key elements to those that are more expert in an area like Leggett & Platt. So, they can go and focus on something else and know they have a capable supplier that can deliver on their strategy.

CO2 and fuel efficiency standards, you might hear a lot in the newspaper, they're only going to get more and more stringent around the world. And the products we develop that work on electric vehicles have the same value proposition for an internal combustion engine product as well. Lighter weight, less fuel consumption, less noise, all translates, but if you shoot for an EV, you have a product that's probably going to have applicability in other areas as well.

But the hype that you read is mostly related to what is known as the shift to C.A.S.E. The shift is taking two roads. As you can imagine, there's an evolutionary approach and then there's the revolutionary big step approaches that are happening in the marketplace. And those are the things that you read and you hear about.

You heard about electrical vehicles about 10 years ago. That was the hype cycle. Now, 10 years later, they're becoming a reality for us. From the bottom line, out of all these market trends, is that technology is going to change faster than ever in the next decade, and that's going to create a lot of opportunities for our Automotive business.

So, let's take a look at the C.A.S.E. example in a little bit more detail. C.A.S.E. is one of several acronyms that you hear in the automotive industry, standing for connected, autonomous, shared and electrified. These trends play to Leggett's strength. Connected vehicles, right, connected between car to car, car to infrastructure, car to signs, to buildings, to satellites, radio towers, and even probably, the road surface itself, and one thing for certain, your mobile phone. I talked to you about the Ford example, where you won't have a key anymore, it's going to be in your mobile phone. Imagine where the technology is headed.

Shared fleets of vehicles will replace – reduce the cost of mobility through better utilization of expensive assets, supporting the massive migration to cities, but also expanding the reach to people now that don't have access to transportation. You can think younger people, you can think older people, you can think people that live in parts of the world that don't have access to transportation like this.

Electrified, the evolution to zero emissions will eventually become a global standard and that electricity is going to increasingly be coming from renewable sources. So we're now starting to hear about a 'Y'. So, I don't know, if we'll call it C.A.S.E.Y. or if they'll rewrite it in some way, but that stands for yearly updated. You think about how you update your cell phone or your tablet, well, when these technologies are in your car, you're going to have to be able to do the same thing, upgrade your software and probably even some of the hardware that's involved with it.

And these features will have the opportunity for different business models, where you may even be able to turn certain features on and off via your phone, pay for them, as you use them. You could think of comfort features, that maybe I want to pay for a massage on this ride and I can punch it into my phone and I get a massage while I'm on the drive. Those are the kinds of things that we're engaging with our OEM customers to develop.

So, when you think about that, there's a lot. So, why would Leggett & Platt Automotive be successful in this changing environment, you might be thinking about. I'm not. I know why. First, our brand, the Leggett brand is known in the market as the leader in technology, for seating comfort, and we're extending that brand into other product lines, as you're seeing. Our vertical integration which supports our Automotive business, but also supports Leggett's. Intellectual property. We know our areas of expertise and we intend to protect and defend them vigorously.

And finally, our footprint. We engineer and we manufacture products where our customers make vehicles, which means we deliver cost effectively around the world.

Our incumbency gives us a "front row seat" for the fast-changing industry, harnessing growth and providing a learning of what electronics and software can do to enhance the user experience. What the OEM is focused on now is the user experience. How do you, how do they gain the user experience? And we're combining that with our deep knowledge of mechatronics, which you know from our previous discussions. These advantages have driven our growth, they've provided market and share leadership for our business, as well as created a basis for continued success.

But now I thought, we might take a second and take a look at one element of C.A.S.E. that's driving the change that we're hearing about now. And I was having breakfast and someone was asking me about electrification and how fast is this going to happen and when and where. And if you look at the graph here, you can see it's not going to happen all at one time and it's not going to happen all with one technology. And what that equates to, is a lot of volatility. And if you look at it from any perspective, if you look from an OEM perspective, if you look at it from a supplier perspective, even a customer perspective, you have to be able to understand quite a bit. And from the

OEMs, you have to be able to place a lot of bets in order to make sure that you're able to deliver in a global environment what any country, any region needs.

So, we believe that electrification is going to be one of the largest and most impactful changes in the industry history. And as you'll see, it has the ability to accelerate change in vehicle design and manufacturing as value migrates.

But we're not worried about value going away. What we're interested in is where is the value going and how do we get Leggett & Platt in front of that value so that we can continue to engage in it and to get a lion's share of it actually. And you'll see China is going to grow faster than what you would see in the United States. There's a couple of reasons for that. You can imagine the emissions problems there are fairly significant, as well as the government's desire to be a leader in this space. So, they actually have mandates of the number of electric vehicles that will be on the road and mandates drive technology development, so this technology will develop.

And on the other end, you can see North America, primarily driven by the United States, is going to move slower, primarily because fuel prices here are pretty cheap and potentially, we'll even see some lowering of emissions standards that you probably are reading about in the newspaper.

But regardless of the rates, make absolutely no mistake about it, this change is going to drive some of the most substantial value migration that our industry has ever seen. And I talked a little bit earlier about the Los Angeles Auto Show which started last night. I wrote down a list of some of the things that were announced there.

The Ford Mustang Mach-E SUV which we talked about, Audi e-tron Sportback, Toyota, a RAV4 Plug-in, Volkswagen, two more electric concept vehicles. Tesla is going to introduce a Cybertruck, a Pickup Truck with a 400 mile to 500 mile range with 110-volt and 220-volt outlets that you can plug your power tools into, into the side to use. So, you think about the utility of that for the building and construction industry. It's immense. And several automotive OEMs have gone out and made commitments of having certain portions of their fleet being all electric by the mid-2020s. So, electrification is coming.

And this, of course, will cause disruption and the electrification is a major disruption that's going to impact the existing value chain.

And if you look at this chart here, if you see on the left, you can see growth potential, and on the X-axis, the ability to differentiate. And then you see the little color, oval in the center there with some arrows. It's also one of the main reasons I choose to come to Leggett. I could see that the cabin space was going to become the place to be in the automotive industry. I could promise you when we were doing our strategy development 18 months ago, there were companies that were in that lower left corner, they were doing their strategy development, I was much happier being in our room than I would have been sitting in that room, because they had some very, very large challenges. We have large challenges, but those challenges are huge opportunities for our business.

So, if you look at the arrows, those indicate our areas of participation. You can see interiors, seating. You see body and when you see body, you think of closures, think of doors that open hoods, trunks that close, sunroof, things on vehicles that open and close, and a small slice of the $235 billion and growing electronic space.

Our areas of focus and leading competitive position are some of the healthier and most essential market segments in the business going forward. Our intense focus on comfort and convenience in the passenger cabin, offers the ability to differentiate our offering and grow above the market in sizeable segments. And those growth rates times*(x)* margin expansion via differentiation is our target.

Sounds good, so how are we going to do it? We spent a significant amount of time and thought on this over the last 18 months. On the right, you see our strategic summary, being relevant matters. As you saw on the previous slide, our intent is to grow our relevance. And we've developed four strategic themes that are going to guide us to that vision.

First, building the organizational foundation. We're truly globalizing the business while looking to accelerate our new product developments, such as electronics and software. This takes new skillsets, standard operating disciplines that we've chosen to enhance. We're significantly enhancing our marketing, our operations, our supply chain, finance, and for sure, electronics and software development organizations and capabilities.

We're also going to enhance our already very good customer connections. We've added teams that are working further upstream with our customers than ever. The idea there is to co-develop products starting at the very, very beginning, having the longest runway possible. And when you get your product built into a prototype, you're very difficult to displace when it comes time to go into manufacturing.

We've enhanced our marketing with state-of-the-art tools to ensure that we are really hearing our customers and understanding their opportunities. And I can promise you, when we come out of some of our engagement surveys with our customers, they call us and ask us for the output, because we, at sometimes, are getting to know them better than they're knowing themselves. And that, I believe, is a significant competitive advantage.

Product leadership, we're not targeting to be the lowest cost supplier. You're probably never going to hear us be accused of that and I have no problem saying that. Instead, as I said before, we want to be the only ones that do what we do and get paid for it, obviously. We intend to innovate to create value for our customers and then share in that value. It's pretty simple. And to do that, we need to bring new technologies to market faster than we've ever done that before.

And finally, we can always work on operational excellence and we're certainly doing that, but now on a global level. We're doing many great things in pockets around the world and we feel we can leverage those to improve our efficiencies, reduce our costs and most importantly free up cash. We're implementing the most effective manufacturing technologies globally to reduce variation and speed up product launches. As an example, we're taking our supply chain management to the next level process and organization.

So, let's unpack a little bit of how we plan to do innovation. You can see a summary of our vision on the right-hand side. Be the leading innovator in comfort and convenience for the mobility industry, not just automotive but the mobility industry. So how are we doing it? We spent a lot of time here recently as well to understand innovation as it's the most challenging aspect in this volatile environment that we face. Our customers can't work on everything and neither can we. So, we have to make very, very wise choices.

So, we're targeting the best opportunities from understanding the user experience perspective, ensuring we have a pipeline of opportunities that's evergreen and significant in terms of its value. We've implemented the enhanced marketing functions that I mentioned earlier, to work hand-in-hand with our engineering and what we call a two-in-a-box approach to ensure that what we bring to market is, it works and it is what the customer wants. We've stood up separate R&D innovation group to work on new-to-the-world technologies like never before, opening our field of vision to consider new forms of partnership as well.

And, second, we are really keeping our technology focus on the application areas that we know well, while expanding our external reach to make sure that we're aware of and bring the very best technologies to market. We're accessing and assessing start-ups at a very early stage. We've added dedicated technology scouting capability to ensure we know about every cutting-edge development that's out there and whether it's applicable to Leggett.

And, finally, working faster – working at getting faster in terms of our innovation. Recognizing speed as a powerful and impactful competitive advantage. We've developed a new two-phase development program, which allows us to accelerate new product line extension separate from the new product developments to bring those to market with separate groups of people. So, we're not having the challenge of fighting today and tomorrow, we've got separate groups doing both of those. We're implementing global technology centers of excellence that are going to intensify our development focus and scale our R&D spending like never before. And all of this is intended to deliver an innovation portfolio of value that will support our long-term growth objectives.

So now, I thought it might be an interesting time to take a look at the innovation going on in the automotive industry. I don't know how many of you get a chance to look at stuff like this, but it's pretty cool and it's where we're headed. Until recently, the interior was a relatively stable area of the vehicle in terms of design and value. But now, that space is the most valuable real estate in the car and it favors Leggett & Platt.

We've talked about platform sharing maybe a little bit but you can see an example of it here in the center. You see that thing that looks like a skateboard in the middle. That's what it's called; they refer to it as a skateboard. It has motors and it's an electric skateboard. It has motors, a suspension steering, a battery and battery management system inside of it. And an OEM can engineer different passenger cabins or top hats, as they call them, on top of that skateboard based on the utility. Using the same skateboard, they can make a number of different vehicles.

So, if you look at the vehicles on the top, if you look at the one on the top left, you see kind of the skateboard is the one on the right and you can see a bit of a sports car, and then you can see a people hauler all off of the same thing. What is similar is the skateboard all the way underneath that. And you can see that the differentiation opportunities are clearly in the passenger cabin.

If you look at the bottom two pictures, both are from a Volvo 360c prototype. It's one of a lot of similar type of takes on travel in the future. If you look at this and you think of the implications on seating alone, light weighting is certainly the price of admission. So everything we do has to be lighter weight. There's no doubt about that. And that goes across to every vehicle to a certain extent. But smart individualized controls that impact the electrical architecture, both controls and software, positioning and repositioning of the seats that require articulation, think actuators, significant actuation, multi-purpose actuation, drive, work or relax or sleep in the same cabin.

But if you look at it, it looks much more or actually I think it looks even better than the first-class airline seat, as you can think of that kind of an experience for a car. And the lower left shows how that car -- how that might work in a work environment. And if you think of Leggett, we have a pretty significant Work Furniture division and we can bring that expertise to bear on these kinds of applications when we engage with our customers.

When you look at the lower right, you see that same vehicle now with a sleep module and you could think it's not too far of a stretch to bring Leggett's home comfort expertise in to play to help here. These are concepts that are under consideration now at this point, but I think you can see that much of the technology that's needed to do this is yet to be developed. But Leggett is in a very prime place to be a part of that development. So, Automotive, work, personal comfort, we feel that Leggett & Platt has a very unique set of capabilities to bear on these challenges.

And I know as much as all of that's interesting to you, you want to know, how we're going to do this over the long term.

And I'm sure you know that the industry has been under recession for a period, which is expected to last through 2020. IHS is expecting a recovery in 2021, and of course, we're watching that very, very closely. That said, many of the same risks that have caused what's happened now are still out there. Brexit still out there, tariffs are still out there, and there's a number of other external shocks that could happen and drive volatility across the industry.

But growth will return. And regardless of the unit demand, comfort and convenience content is growing above the market rate, in general, as the shift to SUVs and CUVs continues. And we already mentioned the low penetration rate in terms of seating. We see even larger enclosures and content to be developed. And those are clear opportunities.

Our market growth will be driven by new sales regionally through Southeast Asia, South America and Eastern Europe where we have more limited participation. And those models are now growing in content. So, a region starts out with base cars and everybody wants something nicer, just like we do, and those, we're seeing that model growth happening in those regions as well.

We will broaden our market participation through the integration of technologies and complex applications, integrating various components into systems and modules. And recent examples of that are our WOW seat, which is a 30-way adjustable power seat and the Tesla Model X seat fold systems. These are really cool technologies and they're all powered by Leggett.

And C.A.S.E. development, as we talked, over time, is going to create more opportunities and bring new technology and integration to the comfort and convenience segments. And just as a proof point, as a relevance to our customers, it's still evidenced through our new business awards which are growing at significant rates.

So, we've talked a lot about customer conversations. Customer conversations bring us inspiration like nothing else can. And why the customers want to converse with us? Because we have an amazing automotive team, I promise you that. This team doesn't have blood in their veins; they have oil in their veins.

They're a team from our industry and for our industry, they're passionate professionals that live to perform for our customers. I've never seen a group of more dedicated people in my career. But our customers know that and they see that, but they also know that they can't do everything themselves. They can't design, conceive, manufacture, develop, everything that they need to be successful in the future.

They've realized the need to choose capable partners that can help them bring technology to market faster and we are positioning ourselves to have even more of those conversations.

And because customers know we can deliver these kinds of solutions and provide ideas for implementation and integration, they want to talk with us more and more, so much that they are approaching us. I'm being asked to come and talk with them, about how we can help them with their strategies. And if you listen through the presentation, I used the word called relevant, we want to be relevant, and I believe we are relevant. And we will continue to be relevant.

So, in closing, what would I like for you to consider is the following. We have a $20-billion addressable market with significant headroom to grow. We're bringing technology to market that takes on the most value creating opportunities and challenges. The trends show above industry growth, which we expect to continue. The industry will come back to growth. Eventually, we know that. The growth of comfort and convenience applications are going to grow as content naturally proliferates. And ultimately, autonomous electric vehicles will drive new product applications, and we'll be the beneficiaries of that as well.

So, times of change as trying as they been on our business that's then dealing with a slowdown while doing all of this change. We call it changing the engine on the aircraft, while you're in the air. It's been pretty amazing. And then for all of you, the final line, we're well positioned to continue to generate cash for Leggett & Platt.

Thank you for your attention, and I'm open to any questions or comments that you might have.

QUESTION AND ANSWER SECTION

Robert Griffin
Analyst, Raymond James & Associates, Inc.
Q

Bobby Griffin for Raymond James. A little bit of a multipart question here for me, but since the last time we spoke and dug deep into the segment, it looks like the TAM of the auto segment has doubled with the addition of electronics and software. So maybe, first, can you talk about what Leggett's current capabilities are in that area, how big it is, maybe if you can put some color and size it for us.

And then, two, the pathway to grow that, what does that require? Does that require – are the current capabilities good enough to grow, is it going to require an acquisition. If an acquisition, is it ECS-size acquisition or is it more of a bolt-on acquisition? Anything that help us understand the opportunity within adjacent in electronics/software area of the industry.

Steve Henderson
Executive Vice President & President–Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.
A

Okay. Great question. So we do already have an electronics capability. So we have electronics engineering capabilities, where I mentioned earlier, we are doing some of our own electronic control unit design and also software development. We don't yet manufacture. But as we are looking at the vehicle of the future we can see that the electrification is going to go far beyond just the powertrain. It's going to go throughout the entire vehicle. And we have been for the last 18 months planning for and preparing for a significant investments in our electronics and software capability both in terms of the organization, the people, the types of individuals that we'll need, as well as the facilities that we need to bring those technologies to market.

And if your other question was around, I think, maybe revenues or sales around that, right now, we use it -- it's kind of ancillary to our existing products. We look for that kind of approach to be how we grow over the next couple of years. But you can look for us out five years from now having some purely electronics products. Now, we're not going after the big infotainment kind of applications. We're looking at comfort and convenience applications in our core space. And there's nobody there doing it right now. Nobody knows comfort better than us. Nobody knows our products better than us. I believe that makes us very well-positioned.

Dan Moore
Analyst, CJS Securities, Inc.
Q

Thank you. Dan Moore, CJS, and building off that question more specifically organically. What are the implications for R&D as a percentage of revenue over the next couple of years? And, number two, from an M&A

perspective; it's probably a little bit of a different pond you'd be fishing in. So, what are your view in terms of acquisition multiples and your willingness to take on some initial dilution to grow later? Thank you.

Steve Henderson
Executive Vice President & President–Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.
A

I think M&A is still above my pay grade, but with ECS sort of we're looking at some things for sure. But if – sorry. What was the first part?

Steve Henderson
Executive Vice President & President–Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.
A

R&D.

What [indiscernible] (01:34:12)?

Steve Henderson
Executive Vice President & President–Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.
A

R&D. So, as a percentage of our sales right now when we look at it from the electronic side, we see it as being a little bit low. But what we've done is spent the last 18 months looking at our growth what are the components of growth that we need to reach our projected growth rate, and then what portion of that needs to come from new products, we're driving that back using what we call risk-adjusted NPV of the portfolio of products that will go through the development process. We're using that to right-size our engineering efforts. And I can tell you we will be making some significant increases in our engineering capabilities and, as I mentioned before, using our operations and our supply chain to free up some of the cash that we'll need to fund those investments.

A

A

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

Maybe if I could add...

Steve Henderson
Executive Vice President & President–Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.
A

Yeah.

J. Mitchell Dolloff
A
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

...just a little bit. I think we'd see this more in terms of funding organic growth. This has always been an R&D intensive business, very engineering critical, and that's a great thing for us. I think we would see incremental extensions of our normal rates. We certainly don't see any large acquisitions on the immediate horizon. This would be an incremental build of our capabilities is really the way to think about it.

A

Steve Henderson
Executive Vice President & President–Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.
A

We're looking at startups. And if there's something out there that we might be able to get just a very small bolt-on or do something that's faster than us doing it ourselves, we're definitely interested in.

J. Mitchell Dolloff

President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

Yes. So it's how do we build the capability efficiently rather than – nothing on the radar right now that say, hey, let's go play some really big bet on a new partner technology, for us.

John Allen Baugh

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you. There's been – all I understand about auto is what I read. So not necessarily well-versed but there is this peak auto theory. I guess on the heels of peak – its peak oil which, of course, doesn't happen. But the idea that Europe and the US may not see growth in auto production over time. Could you give us your perspective over the next three to four years what you think will happen in those two markets specifically? Thank you.

Steve Henderson

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

A

I would say they will be relatively flat. I think we'll see some growth – some small growth in North America next year, probably a little bit coming off of the GM strike, which probably depressed the 2019 but I'd say for the next several years probably flat to slightly growing with a little bit more of the uptick coming in the 2022 type of timeframe. But again, the major growth areas going forward would still be in China, Southeast Asia. We'll see some in South America, those areas that we talked about expanding our participation in the presentation.

John Allen Baugh

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Europe?

Steve Henderson

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

A

Europe relatively flattish as well. But again, content gains will go up. So, vehicle builds are one thing but the content gain as the technologies proliferate, will give us growth above the industry.

Keith Hughes

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks. Keith Hughes, SunTrust. On slide 41, you talk about 6% growth on some of the topics you've been talking about here today. I assume that's on the flat global build rate. Is there a possibility for Leggett to do better than that given some of your concentrations or is 6% the number you're going to be shooting for?

Steve Henderson

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

A

Those are the growth rates of those technologies in those spaces. So, that's the growth rate of spaces will be above and below those depending on the specific area and the dependence on programs When programs hit or not, so there's a lot of volatility. But on average, we see the 6% growth rate driving in those areas.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thanks.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Q

Hi. It's Peter Keith with Piper Jaffray. To follow up on John Baugh's question, our knowledge on auto is about as much as we read as well. Why do you believe that the industry is experiencing this period of very sluggish, this zero – potentially zero growth, we're not in any type of recessionary environment? Globally, we certainly read that autos are lasting longer and so there's less replacement, and that should be more of a secular trend. But hopefully, you can fill us in on what's putting a cap on some of the industry growth today.

Steve Henderson
Executive Vice President & President–Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.

A

I think a lot of it is just what's happening in the current environment. A car purchase is a consumer confidence item. And when you are concerned about your future, right? You hear tariffs, you hear Brexit, you turn on the news anywhere, you're not hearing a lot of good news. And quite frankly, I don't know, for the last three or four years, you hear everybody talking about things are going to go down, down, down. Yet somehow they go up or stay up.

I think in the consumer's mind, they're definitely are concerned around making large commitments until they feel that there's some stability that's there. I really believe that is probably one of the largest things that's holding us back. Interest rates have done it in the past. Oil prices have done it in the past and we don't have either of those. So, I think, right now, it's the consumer sentiment. But you continue to see in North America had quite a few months this year at 17 million SAAR, which is the seasonally adjusted selling rate which is still pretty high. It's not a – it's not a bad place to be, if you will, if you want to talk about where the industry is sitting right now and when the growth takes off it will be in the – again in other emerging economies.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Q

Okay. Thank you. And one follow-up. In the past, I think you've trained us analysts to think about the auto growth to outperform by 1,000 basis points above global production. So, that language is not included here today. Could you frame up maybe if there are a newer way we should think about that level of outperformance going forward?

Steve Henderson
Executive Vice President & President–Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.

A

Yeah. I'd like to use the word significantly outperform the industry. The number was put out before I got here and that's not an excuse. I will tell you that that's an imperfect number for the way that the business runs on a quarterly basis. There's a number of reasons for that. First and foremost, there's a lot of volatility in the industry. So, when things are on a steady trajectory, it's a lot easier for that kind of thing to be seen.

Also, there is a lot of timing issues. So, we are back in the value chain a little bit. So, things are happening here. It takes time to get to us. So, we see timing impacts. We also are tied to customer programs. Some of our customer programs haven't launched the way they said that they would. And probably the biggest element and this was a question I got a lot in my other role in other company is, a car isn't a car.

So, a low-end A Class vehicle in China doesn't have the same content as a Lincoln Navigator in North America. But when you look at the numbers, one and one, right? So, the content doesn't drive the same kind of sales. But we will continue to significantly outgrow the industry. And we spent a lot of time trying to explain something on a very, very healthy business.

Justin Bergner
Analyst, G.research

Q

Oh. Thank you. Justin Bergner, G.research. You mentioned intellectual property and I was just curious if you could elaborate on the risks there and thinking more in terms of additional risks associated with that. Clearly, electrification, automation is an opportunity and a risk. What would a scenario look like where someone sort of uses an electronics footprint to try and go from that strength to expanding into comfort where obviously you have an excellent competitive moat? I'm sure you discuss that internally and maybe you could share sort of your thoughts on what are the risks or why are the risks less than one might think?

Steve Henderson
Executive Vice President & President–Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.

A

Yeah. So, I think the first thing that I would say is we're taking a differentiation approach. So, first, we went back and we looked at our patent landscape. So, we now have a view now of the patent landscape of the automotive industry and that gives us an idea. We can see it's actually a topography, looks like mountains. And we can see what technologies are being developed by different companies and what they are. And it gives us an idea of what the fields of play are that are open. And since we are so deep in the comfort space, there isn't as much in that particular area. And we have a number of ideas on how we can integrate various technologies that are done and different components into singular components, and also how better to control those potentially even through Bluetooth and other technologies. And we understand the needs of our products. We understand, as we said, the customer needs, and we're able to put that altogether into what I believe is a package that others won't have the visibility to see. So, we're using our unique seat at the table with the customers bringing back ideas that they're giving us and coming up with products that we believe that others are not thinking of or certainly not thinking of in ways that we are thinking of. And then, we intend to put the intellectual property around that to defend it.

Wendy Watson
Director-Investor Relations, Leggett & Platt, Inc.

Okay. Great. I think it's now time for a short break, and we'll reconvene at 10:30. Thank you all for your good questions. I'd remind you, at the end of the event, we have a Q&A session. And then after the Q&A session, we'll have a light lunch if anybody has questions and like to join us for lunch afterwards.

With that, I'd like to turn it over to Mitch Dolloff.

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

Okay. Good morning again and welcome back from the break. Again, I'm Mitch Dolloff. I joined the company in 2000 and have held a wide variety of roles over the years. For the past few years, I've led our Specialized Products and Furniture Products segments. As Karl mentioned, I became COO at the beginning of this year. And at the beginning of January, as those segments transition over to Steve, I'll lead our newly-formed Bedding segment on an interim basis.

So let's go ahead and dig right into the bedding market. Karl mentioned that our rod, wire and spring business exceeded the targets that we set in 2016. It's really pretty remarkable and exciting to think about that, that our legacy business, literally the foundation of the company, continues to evolve, grow and create value. We're determined to keep our market leadership and the ECS acquisition added strategic elements that strengthen our competitive advantage as the bedding market continues to evolve. Our combined capabilities positioned us to serve both traditional OEM customers and new market entrants and to capture a larger portion of the value chain.

Our addressable market, as you see on the slide, is about $10 billion with $8 billion from mattresses, $1 billion from static foundations or box springs and $1 billion from adjustable bases. In 2016 at our last Investor Day we would have seen our addressable market as something less than $3 billion. So a great example of expanding our addressable market to create the opportunities for long-term growth.

And in terms of competition, of course, we have competitors at most steps in the supply chain, but there's no pure play competitor that can match our broad capabilities. The online bed-in-the-box brands created a wave of change that has revolutionized the industry. Consumers have accepted online purchasing and compressed mattresses. Online brands have proliferated. And most of these new entrants are focused on building their brand and acquiring customers rather than manufacturing which is our core competency.

The space efficiency of compressed mattresses has fueled growth in new channels, both online and at big box retailers such as Walmart, Costco and Lowe's. And the increase in the number of brands has created new private label opportunities for large mattress retailers.

This next slide really illustrates well the shift and the magnitude of the change. Over the next five years, we expect the direct-to-consumer channel to grow to roughly 40% of the market, and we expect that private label retail will grow to roughly 25%. We researched these trends in 2017 and the pace of change has accelerated even faster than we expected.

So, what does this mean for players in the market? We think it's important to develop products that are easily shippable via UPS and FedEx, and that could be efficiently stored on big box floors and easily carried home by consumers. We think that consumer insights become the key to driving meaningful product differentiation and we believe that the shorter supply chain will help Leggett & Platt introduce product innovations more quickly.

And finally, speed overall becomes a competitive advantage. We think that the winners in this new market will shorten the product development cycle, respond quickly to fluctuations in demand and be able to get products in the hands of consumers quickly. In short, it's become a broader and more technical playing field.

With our long heritage in the bedding industry, you might think that we'd find these changing market dynamics somewhat threatening. In fact, it's quite the opposite. These market changes create opportunities for Leggett & Platt and we're well positioned to capitalize on them. Our rod, wire and spring supply chain creates value through lowest cost production and innovation with products like our ComfortCore pocketed innersprings and Quantum Edge perimeter support.

ECS brings innovation in specialty chemicals additives and foams that provide attributes such as improved resilience and heat dissipation. We could build on ECS' scale in mattress production, adding our spring expertise to accelerate hybrid mattress design and production and we could add our machine automation skills to reduce cost. In addition, we can provide adjustable bases and ready-to-assemble static foundations either as standalone products or paired with mattresses for a sleep system. We do a fair amount of B2B2C fulfillment today in ECS. We can continue to build out our capabilities as the market evolves.

This next slide really illustrates well why we changed our structure to create a standalone Bedding segment. You can see that we could support our customers anywhere along the value chain from raw materials to components to finished mattresses and foundations to distribution and fulfillment. It's important to note that we're not a brand or a retailer nor do we aspire to be one. Our goal is to serve a wide array of customers in multiple channels with innovation and cost-effective production.

I think this graphic really also illustrates well how expanding our addressable market allows us to capture more revenue and more of the profit pool. In very rough terms, starting from the left of the chart, think about it that we sell wire at roughly $0.40 a pound, we sell mattress cores at roughly $40 and we sell a finished mattress at roughly $400. We believe this is a very powerful value-added strategy. So, what does this mean for our Bedding business going forward? If you recall the value chain graphic on the previous slide, there are lot of benefits from bringing our bedding-related assets closer together. Taking a more holistic view of our Bedding value chain allows us to accelerate and expand innovation across technologies and to improve production and capital efficiency.

We expect revenue growth to exceed the market as we gain content in both components and finished goods, and we expect continued healthy margins that are above the company average. So, here are key takeaways. The online bed-in-the-box brands started a wave of change that has disrupted the industry. Over the next five years, we expect the direct-to-consumer channel to grow to roughly 40% of the market and private label retail to grow to roughly 25%. These changing market dynamics along with our ECS acquisition have allowed us to expand our addressable market to $10 billion from something less than $3 billion just a few years ago providing room for continued profitable growth.

We believe that Leggett & Platt is uniquely positioned to win in this new marketplace. Our spring, foam and finished goods product development and production capabilities allow us to serve our customers anywhere along the value chain from components to finished goods. And most importantly, it allows us to capture a broader share of the profit pool.

And with that, I'll open it up to any questions.

QUESTION AND ANSWER SECTION

Latif Alam
Standard Partners Management

Q

Thanks. Latif from Standard Partners. So, currently, the market for viscoelastic grid mattresses is about $500 million in North America and there are only two players, Intellibed and Purple. So I think they themselves these two companies have said that it just costs a few million dollars to set up a machine to do the injection molding of that grid and just a couple of months to get up to speed in terms of manufacturing efficiency. And also it seems like these technologies, the patents have expired. So, since ECS competitors like Innocor, FXI, Carpenter, since they're planning on making grid mattresses, should we expect a similar product from ECS?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

Well, I don't know that I'll comment about specific product development, but I will think about it in terms of the broad innovation capabilities that we have. So, clearly, we have specialty chemical additives capability from ECS. We have specialty foams. We can add our spring technology. So we think that there's a broad array of differentiation possibilities out there that really are what we bring to bear in the market.

Latif Alam
Standard Partners Management

Q

And then just a follow-up on Serta Simmons, it seems like in 2018 you guys were asked about mattress firm and the potential bankruptcy there. And you did a very good job of kind of insulating yourself from that situation. In the event of an SSB bankruptcy, what steps are you taking or have you already taken to insulate yourself there?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

Well, I'll say we won't comment specifically on specific customers. I think, in general, we really do a good job of monitoring our credit situations and that's a core part of our business every day.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

Bobby here from Raymond James. Mitch, the growth of direct-to-consumer and the growth of private label has also increased the likelihood that imports participate in the industry too because of the shipping dynamics of box bedding. Can you maybe talk a little bit about how the industry's handling that? I know the anti-dumping case against China has been through, but we've seen a pretty rapid increase in production from other countries throughout this year, expectations for that going into 2020 and any future plans to maybe add a few more countries onto that anti-dumping list against low-cost foam imports?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

Great. I won't comment on any country specifically, but I would just say that we think that we need to defend our trade laws. And I think we'll stand by that as long as we need to. To your broader question, we think about – our – where we win really as being on a differentiation basis. So there's maybe low-cost imports or low-cost mattresses from other areas that are in the market. I think that's always going to be the case, but we really focused our efforts at higher price points where we think we have greater margin and greater dollars opportunities.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Q

Hi. Peter Keith for Piper Jaffray. So, Mitch, welcome to the world of bedding.

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

Thank you. Thank you. I have a lot to learn.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Q

You look young – you still look young. So, we'll see how you look in three years. The 40% DTC is – by 2024 is a pretty big number. I was wondering where you could provide your thinking behind that type of growth and if you're looking at other industries that have that type of online penetration because that is abnormally high? Secondly, I think with DTC, there's going to be increased focus on speed of shipment. And so, is there the need for more supply chain infrastructure investment with Leggett?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

Great. Two great questions. So, we did a fair amount of work in 2017 ahead of the ECS acquisition really just to understand the market. ECS was not on our radar yet. And so we looked at the data that was out there ourselves, we had help of some external consultants and so it's a number that we've come up with. But we think that the trends are moving even faster than we expected at the time. So, is it going to be exactly 40%? I don't know but I think it's going to be a significant number. The main point to us is that the market's changing and we're prepared to evolve and address it.

I think you're right that that fulfillment that last step to the consumer becomes really important, increasingly important in this environment. And we have some capabilities today. We're making some investment at a sort of not at high level but to continue to be able to more efficiently ship directly to consumers out of some of the ECS plants.

As this continues to grow, we'll evolve our strategy, right? Whether we make some investments to be able to support that internally or we look to external third-party suppliers, we'll work through that as we see the scale that we need in our business. But no doubt – no doubt, it is an important capability. We're working our way through that now. But there's some signs that say, maybe we'll build some of it and maybe we'll buy some of it might be a very practical outcome. But I don't see anything at this point that says, hey, think about a big deviation from our normal CapEx requirements that we talked about.

Curtis Nagle
Analyst, BofA Securities, Inc.

Q

Good morning. Curtis Nagle, Bank of America. So just looking at those penetration rates you guys have for DTC and private label. I guess how do you think about market size if those assumptions were to come true. Do you think they get smaller just given that those channels tend to have lower price points? And what do you think happens to overall ASPs again if you get to those penetration rates?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.
A

That's a great question. I think that there's probably a mix, right. I mean we've seen a fair amount of really low price imports that have come into the market over the last few years. But as Karl mentioned, I think almost every major online brand now has a hybrid mattress. So I think that we would see the opportunity there to help the market step up into higher value added, higher price points. So I don't see it being overall a dilution to the market size.

John Allen Baugh
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Thank you. John Baugh with Stifel. You mentioned earlier I think that the EBITDA from ECS was sort of flat dollars last year. And you've also mentioned some disruption from the growth of hybrids. And then another figure you threw out was the finished mattress growth. I would assume the latter has some pretty good margins in it. But what I'm getting after is, what exactly are the disruptions? What's the path timing-wise to fix them? And how do we think about that business growing in profits in like 2020?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc. .
A

Okay. I can't talk about 2020 obviously, but what I can talk about is the current environment at ECS. And so you're right, we have had significant growth in finished mattress production there, and I think strong scale in mattress foam production. When you introduce the spring hybrid into the mix, it's a little bit of a different production environment. And it takes some different skillsets, some different technology to really compress those efficiently.

And so, it's really just a bit of a learning curve. And we think with our knowledge both around machine automation and machine building and springs, we can bring our expertise to bear to work that out. So, it's more of a relative, gee, a little bit harder than they thought compared to pure foam, than this is a negative disruption that we can't get product through the plant.

John Allen Baugh
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Timing?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.
A

I think we're working on it now.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

So to build on that last question, given how strong the units were we would have expected EBITDA to be up, is that the reason we didn't see EBITDA up and dollars up in 2019 this disruption from hybrids?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.
A

So, I think you have a few factors, you have deflation impact, you have some of this increase from hybrid. But yeah, I mean – I think those are probably the major elements.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

So, with the deflation, that just passes through.

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.
A

It passes through, yeah, for the most part.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

So, you expect profit, units were up a lot. So, you expect them to be up?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.
A

Yeah, but you have other parts of the business, you have some of the furniture production, some of the other bun production. So, there's other factors at play beside just the mattress.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Okay.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.
A

Keith and John, I may have misspoke, ECS' margins are not flat year-on-year. What I meant to say is that they're beating our expectations, so that was kind of a forecast analysis. They have expanded. And you're right, the pass – the chemical changes are just pure pass-through. So, the greater units with a richer mix has been accretive to that business. So, if I misspoke earlier, that's not what I meant.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

No, that's why I was asking dollars versus units, because with pass-through...

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.
A

[indiscernible] (02:04:07).

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

...because percentages are all over the place and they become meaningless to a certain extent. The other question on slide 57, where you showed the shift to omni-channel, someone asked earlier about the shift to direct-to-consumer, but I want to ask about private label, that number surprised me, 15% going to 25%. Do you think that private-label, is that going to be direct-to-consumer where it's coming out of a Leggett factory directly to the consumer but it had been bought in the retail store? What does that look like in your mix?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

That's a good question. I think it's a mix, right? I think you may have compressed mattresses, some of which are in a store environment themselves and consumers can take it home, maybe able to – maybe a consumer orders it from retailer's online channel, and it comes out of retailer's fulfillment, or it may come out of our fulfillment, I think all of those things will be in play.

Okay?

Wendy Watson
Director-Investor Relations, Leggett & Platt, Inc.

Okay.

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

Thank you. Those were great questions. Let's go ahead and change gears, and we'll move into new growth platforms. So, as Karl mentioned, we're targeting revenue growth of 6% to 9% to support our TSR goal in the long run. ECS added about 15% of additional revenue in a single transaction which is a really big bite for us. In the longer run, we'll need to add new growth platforms and manage our portfolio to meet our long-term revenue targets.

In general, we're looking for markets that are large, growing faster than GDP, and boost our margin profile. We use a framework that we call, Styles of Competition to assess where and how we compete most effectively. And our primary style, we define as critical components. We'll build that out a bit on the next slide – a bit more on the next slide.

The top of the chart describes where we best compete. We do well when we convert raw materials into critical components that are essential to the functionality of the end product and are a relatively small part of the overall product cost. We also tend to do well, where the market is driven by a few large customers who are served by a fragmented supply base.

The bottom of the chart describes how we best compete. One of the most important elements is deep customer engagement. We've build long-term relationship with our customers, based on a deep understanding of their needs and pain points. We also work closely with our customers to co-design products for better functionality and lower total cost.

These characteristics are the key to driving our competitive advantage and are evident in our most successful businesses such as bedding and automotive. This critical components framework gives us a good lens to evaluate where we're most likely to be successful when entering new markets.

We view our Aerospace and Hydraulic Cylinders businesses as new growth platforms, although they emerged in quite different ways. Both are small, but have actionable M&A opportunities. Although we slowed acquisitions as we focus on deleveraging, we expect to eventually complete some small to medium-size deals to build our capabilities and our scale.

We completed our first two Aerospace acquisitions, actually our first Aerospace acquisition, before we completed our Styles of Competition framework. As we subsequently built out the growth strategy, we found that it is a good fit.

In Aerospace, we focus on fluid conveyance systems, moving air and liquid in both high- and low-pressure applications. The addressable market is large at roughly $2.5 billion, growing at about 5% a year and has attractive margins. Growth is supported by a strong industry backlog and a shift to new commercial airframe and engine platforms.

Our first two Aerospace acquisitions focus on welded and seamless tube production, basically straight tubes made from exotic metals. Our last two acquisitions added the capability to produce fabricated tube assemblies.

There are two important trends in the industry that shape our strategy going forward. The first is that the industry is shifting to titanium and nickel alloy components to reduce weight and withstand the high pressure and temperature requirements of new engine designs. And the second is that the large OEMs and higher level tiers are looking for improved supply chain efficiency.

We believe that our Aerospace group is well-suited for these trends. We have expertise in working with exotic metals and demanding applications, we're vertically integrated, and we can leverage our US and European footprint.

Our growth strategy in Aerospace is focused on three primary areas, the first is reducing the cost of welded and seamless tube production and converting maker-users.

Second is expanding our fabricated tube assembly business. We have experienced strong organic growth in this segment. For example, we won new leap engine business in the US which led to additional new business in Europe. The industry is comprised of many small players and the large OEMs and higher-level tiers who prefer to work with suppliers of more scale and a stronger corporate infrastructure. By combining our businesses, we've been able to realize some revenue synergies. We'll continue to look at M&A opportunities to build out our capabilities in this area as well.

And finally, we'll look at other components in the – other components used in fluid conveyance systems such as flexible hoses, bellows and fittings. This requires building new capabilities that's probably most efficiently gained through acquisitions.

We also view our hydraulic cylinders business as a new growth platform. We evaluated the market in 2017, and found it to be a good fit with our styles – our critical components framework. The addressable market is large at roughly $5 billion, growing at a 5% CAGR and has attractive margin profile. The cylinders are critical to the functionality of the end product, a relatively low portion of the overall cost, a developed base on deep engagement with a relatively small universe of large OEM customers.

We acquired PHC in early 2018. It produced hydraulic cylinders mainly for material handling equipment serving most major OEMs. Still small at roughly $90 million, has operations in the US, UK and India. As Karl mentioned, we've recently faced some headwinds in this business. After a really strong demand in 2018, we've seen some declines in more recent quarters and we've also faced some pressure from production inefficiencies in the UK.

We're confident that we'll be able to make improvements and still feel good about the business and the overall market.

So, PHC was a relatively small platform to enter into the market. But we see multiple ways that we can grow the business. First, we think we can expand our share in material handling, mainly by converting maker-users organically. And we expect to pursue bolt-on acquisitions to expand geographically to better serve our global customers in China and Europe, and to expand deeper into adjacent market segments such as construction and agriculture.

So, here's the key takeaways, we'll need to add new growth platforms and manage our portfolio to meet our 6% to 9% growth target in the long run. Our Styles of Competition and critical components framework gives us a reliable tool to assess opportunities in attractive new markets. We launched small and relatively low-risk new growth platforms in Aerospace and Hydraulic Cylinders. We expect to continue to build them out, but have slowed our M&A activity as we focus on deleveraging.

But both of these businesses serve as good examples of the type of market activity that we expect to pursue into the future.

With that, I'll answer any questions that you may have.

QUESTION AND ANSWER SECTION

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc. Q

Thanks. These are fairly small businesses as part of Leggett's portfolio right now.

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc. A

That's right.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc. Q

You talked earlier about not really wanting to do a lot of acquisitions, just kind of bolt-on stuff here in the near term. It seems like these are going to take a while to germinate before they become big parts of the business, so you'd want to do big acquisitions. Am I looking at that the right way or is there another plan here?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc. A

No, I think you are – I think that – a few things. As I've said, we had Aerospace the longest. And it was a very active M&A market there. We've been very selective in what we've done, been careful to acquire businesses where we felt like we can create value. And also not chase market multiples. So, we've been very patient. I think we'll continue to do that.

I think we have a really clear strategy though that helps build from the straight tube production to the fabricated assemblies to the other components that go with those fabricated assemblies. So, I think it's a very sound strategy for us, and similar on the hydraulic cylinders.

So, these are pretty new activities for us to find these new growth platforms. So, we're intentionally cautious in how we enter them. So, I don't think that I see us making really, really big spends on transactions in the near future in those, but I think we can continue to add bolt-on acquisitions to build scale.

Justin Bergner
Analyst, G.research

Q

Thank you. I guess you framed the limit on M&A spending over the next year-and-a-half or so on the balance sheet. But from an organizational point of view, it seems like with there being disruptive elements that will hopefully over time work to your favor in bedding and automotive, that there would also be a question of sort of management mind share and where you need to focus given that the puck is moving pretty fast in those respective businesses. So, beyond the balance sheet constraint, is there sort of an organizational mind share element to how you're thinking about sort of reduced focus on M&A in the next year-and-a-half?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

Yeah, I think it's really interesting and good question. I think that we more and more over time become better at building scale in our businesses. For a long time, we had a lot of very small acquisitions that ran on a standalone basis. And I think we've done some of that consolidation activity, and I think we continue to do it. So, I think we are focused on spending our management time on the most meaningful areas that we can impact. But we do also keep an eye on the long term, right. And over time we will have to develop our skill set at adding some new growth platforms to keep up our – to support our long-term TSR goal.

So we think these are sort of an appropriate scale to allow us to do that without betting the farm on any one technology and be mindful about how we build them out. So it's a great question, but I think we do have an appropriate balance. So, we also have good management teams in those businesses and they understand the strategy, they understand those industries, and they are really chief drivers of the strategy.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Q

Hi. It's Peter Keith with Piper. So in talking to your wonderful IR team in recent quarters, I know the Specialized segment as a whole, the margins have been down quite meaningfully in the last couple of quarters, on a year-on-year basis. It sounds like automotive has held steady. So it's really these two segments that you're focusing on, where there has been margin pressure. Could you walk us through those dynamics? And then just looking at the 2020, are we in a situation where the margins of Aerospace and Hydraulics could flip to be positive year-on-year?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

So I can't really talk about 2020. But yeah, I think you're right that there has been some pressure in the segment from Hydraulic Cylinders and Aerospace from a margin perspective. In 2018, Hydraulic Cylinders market, and we're focused mainly on the mobility market, was experiencing really strong demand. In fact, we struggled to keep up with it, but also had some inflationary pressure. So we caught up with that and had pretty strong margins. And as we've seen some demand declines and really just some basic production inefficiency in the UK, that's adversely impacted margins there.

Aerospace has had a little bit of headwind as we've ramped up production on some new formed assembly business both in the US and the UK, still very positive in the long run, but sometimes it takes a little bit of time to work out the kinks there. So we think we're seeing – we'll see in the long run margins in both of those businesses improve back to normal levels.

I would also say, Steve mentioned from an automotive standpoint, as we move into more complex assemblies, like Steve mentioned the WOW seat that's becoming a pretty significant portion of the business and they may have a little bit lower margins, because there's a fair amount of pass-through components that are on there. They're not dilutive in dollars, not dilutive in a meaningful way, but it does add a little bit of a drag to the margin profile.

Great. I'll turn it back to Karl to wrap it up.

Karl G. Glassman

Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

In closing, TSR in the top third of the S&P 500 remains our primary financial goal. We're comfortable that that's a measuring stick that we should continue to use. The framework is in place to support long-term profitable growth. So, I hope you've heard that and felt that from some optimism that we have in continuing to capture and expand our opportunities in the global bedding space and certainly in automotive, and some other high-growth businesses that we haven't spent a lot of time speaking to today. We will absolutely maintain our capital discipline. And the dividend remains a top priority. Said differently, cash flow is king. We are building – absolutely building and focused on the future.

Before we move into Q&A, I want to deal with two things. One is, at the break, one of you asked me about the search for the Bedding segment head and where we're going with that and kind of the risk. It's, as you saw, a big percentage of Leggett's total sales. Many of you know Perry Davis. Perry's moving toward retirement. Perry's done a wonderful job running not only Bedding but Residential Furnishings. But to Mitch's earlier point, one of the wonderful things of Leggett & Platt is these activities, these relationships, the blocking and tackling, is not done in a few hands or a few offices. Heck I've been around the Bedding business for in excess of 40 years. So, Peter, to your point to Mitch, 40 years of bedding, unfortunately, buddy, this is what you look like.

But really what we're doing is moving from a factory-led focus, which Leggett has done a wonderful job of optimizing the value chain, the transformation of materials into end products with innovation and design. But the industry is changing so quickly that there's a commercial focus that we need to better understand all these trends that are moving.

So, that's what that search is all about, is to optimize on the commercial side. Fortunately for us is the people that built our Bedding business, absent Perry's retirement, are in place. The ECS team that we acquired, they're all in place. So, they understand those customer relationships and the good – very focused questions that we have on customer relationships, that we have a wonderful relationship with Purple, we have a wonderful relationship with SSB. We're moving through these changes in the business and we just need another set of eyes, another skillset that we'll capitalize on. So, we're really excited about the future.

The last statement before we move into open Q&A, and everything is on the table, ask us anything about anything that you heard today or any of our business units, there's wonderful opportunity in a number of them. We'll stay as long as you want, we'll answer any question.

But before we go there, I want to take a second to recognize an individual that not only is a very close personal friend, but is a friend to Leggett & Platt. Budd Bugatch of Raymond James is nearing retirement. He's covered Leggett for 33 years. He's done it with the highest integrity. And to the younger folks in the room, Budd is the prototype. He cares for the investor, he fights for the investor, he asks tough questions, he always does it with credibility. So, Budd, on behalf of all of us, thank you.

He's been a good mentor to some young guys, some guys that are...

Budd Bugatch

Analyst, Raymond James & Associates, Inc.

Okay. Now you're embarrassing me.

Karl G. Glassman

Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

Hey. Okay. We're – fair game. Any questions that you have? We'd love to take a good-level swing at them.

QUESTION AND ANSWER SECTION

John Allen Baugh

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks, Wendy. John Baugh, Stifel again. Congrats, Budd as well. Do you have any kind of a vitality index? You talked a lot about new growth. Mitch touched on a little bit with the platform, Steve did. Is there some kind of metric? And what I'm driving at is, is there an R&D spend increase, do you measure product vitality? What's the pace of change within Leggett? And I don't know if you want to go segment by segment but curious as to how we get to that organic growth to hit the target going forward versus last three years? Thanks.

Karl G. Glassman

Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

Good question, John. Thank you. We almost – we don't do the analysis by segment. It has to be business unit. So there's an R&D investment that takes place in Automotive that is very different than the R&D investment that takes in Bedding. In Bedding, there's an R&D investment in wire – formation of Wire. And then there's another investment at Peterson Chemical which is really the IP. And Bruce Peterson and his team are really what makes ECS work. If it wasn't for Bruce and his capability and his differentiation, those pouring heads would just be pouring commodity foam.

So, in terms of a measurable vitality index, I can't give you a macro level but its driving innovation and our culture and history of innovation that really wins the day. I wouldn't want to compete against us to be real honest with you. The competitive moat that exists in our businesses, I wouldn't want to be a maker of springs globally. I certainly wouldn't want to be any of the commodity foam suppliers that were mentioned earlier without Peterson's capability. Or to be an automotive supplier without those consumer insights and the OEM interface, that's the competitive advantage. That drives growth. The growth to us is meaningless if it's not profitable. Long gone are the days of there's a growth target. So the correlation to 6% to 9% to profitability is what's most important. But Mitch, do you have anything that you want to add to that?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc. .

A

No, I would have answered it the same way Karl did. It very much is BU specific. There's some of our businesses like Aerospace, right, that is more of a build to print business actually. But there's a lot technical capability and art in designing those parts to work time after time. And so there's still the characteristics of our critical components framework still come into play but it's about how do we work with our customers to get something that works for that application but not a large R&D investment.

And so I think we have to us our – again, clearly, high level of R&D investment in Automotive. I think in the Bedding business as well, and then they get a few, sort of medium levels of investment around some of our other furniture products businesses, and then other businesses, think about running the wire mill or the rod mill, right, that's about the cost effective in the production.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

Wendy, I think Allen had a question.

Allen Zwickler
First Manhattan Co.

Q

There hasn't been a lot of talk just spotty, about international growth in general, so maybe you guys could you know go through the segments and talk about how that figures into the equation?

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

Right. Okay. Let's – I'll do the Bedding side. I guess I've been around it a long time. The International Spring business gets – and let's call it Europe because it's the only International Spring business that really has size and scope. The Brazilian business is performing really well but Europe is a large business. It gets knock-on benefit from the innovation that takes place in the US. It's actually kind of a co-shared teams between the European group and the US group working which fuel the machinery company, that we fully own - that makes our formed wire products.

So, the opportunity to grow in Europe, I think is greater than GDP but only slightly, because there's a continued mix up from a ComfortCore or proliferation of pocketed coils even though it's more mature. The real opportunity in Europe Bedding is a growth profile and we're maybe a year away from this, but we're doing a tremendous amount of work today on trying to understand those same drivers that we have in place in the US Bedding industry. Take specialty foam materials to Europe, again using the Peterson capability and optimizing that value chain, the $0.40 a pound to $40 a component to $400 a mattress that Mitch made reference to.

From an Automotive perspective, I think we covered it but go ahead.

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

Clearly I think we're heavy weighted towards North America today because that's where we started. And if we look at our growth over gosh, the last 5 or 10 years, it's really driven by serving our customers in the local markets. And I think we'll only see that continue. There's other developing markets that – well, I think that you'll see us have a footprint in over time whether that's in South America or other parts of Asia, and Southeast Asia.

So, that's – Automotive I think is the best example of a truly integrated global business that we have, and so you will see that drive again. Not to be in international markets just for the sake of being there but because that's what really helps us serve our customers. I think beyond that, I think Aerospace will have continued opportunity to grow in Europe as well as in the US. We talked a little bit about Hydraulic Cylinders where I think hopefully we'll be able to establish a footprint in China to service our customers there and expand probably in Europe.

Work Furniture. We do a bit in Europe and a bit in Asia. And I think over time, we'll continue to expand there as well. Our Home Furniture business today is mainly about US sales, so we've had international production that comes back to the US. But again, I think that we'll see growth naturally but it will be driven by our BU specific strategy to service our customers.

Allen Zwickler
First Manhattan Co.
Q

[indiscernible] (02:30:23) the residential furniture business which at one point was a pretty significant business for you. There was no – unless I missed it, there was very little mention of it. So, I'm just wondering to what extent that is being mixed into Bedding or are you moving out of that direction?

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.
A

It's not mixed into Bedding. It's in the Furniture Products segment, so be in the new Furniture, Flooring and Textile segment. As Karl mentioned early on, we did initiate some significant restructuring activity there in the fourth quarter and that meant walking away from some business that frankly wasn't strategic and wasn't very profitable for us.

And so, I think we largely completed that activity today. You'll see that our sales are lower in that business but our margins and frankly our earnings dollars are significantly higher. So, we've got a little bit of regrouping. We've reinvested in our product development. And we're making I think good progress in strengthening our relationships with our US customers. We do a bit of business in Europe, but it is mainly a US business for us today. I think that's on our – that's something that we continue to work on is to determine where else, what other geographies might be applicable for us to expand in there.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thanks. One clarification, Karl, you said something about in the future getting to 11.5%, did you just say 12% to 12.5% margins? What was the top end of the range?

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.
A

It was 11.5% to 12.5%...

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Okay.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.
A

...is the range that we feel pretty comfortable with based on the businesses that we have and knowing the acquisition accounting from an EBIT perspective dampens that down a little bit. So we're moving more to an EBITDA metric because of the acquisition growth. You saw a 15.2% or 15.4% as the forecast for two – is the forecast for this year. We think 16% is really where we should be. We're just working through some issues on restructuring and fine-tuning of businesses.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

So, from a margin perspective particularly in Bedding where you're going to – you're moving ahead of the value chain. So, there's a lot of margin coming as your example in the $400 on the finished mattress. Does that segment have the potential to be the highest margin segment just because of that move or are there some offsets to that?

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.
A

The...

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

I haven't seen it on the redone segments yet.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.
A

There's a margin conversation and then there's a dollar conversation. So, the Automotive business is a wonderful business. It will – from a margin perspective, it will continue to be a wonderful business. I don't see the value-chain Bedding business having margins – produce a lot more dollars than it does today but margin percentages probably not being higher than specialized because of the automotive and the technology and innovation in Automotive. And as Mitch said earlier, there are some subsets of that segment that we frankly – much more Hydraulic Cylinders than Aerospace that we've got some work to do to fix that will be accretive to those segment margins. So I see in the forecastable future, specialized will be – on a percentage basis the highest profit margin segment.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Okay.

Robert Griffin
Analyst, Raymond James & Associates, Inc.
Q

Bobby Griffin with Raymond James. I just want to quickly go back to the Automotive segment and maybe help us connect the dots a little better on what the software electronics area of that business looks like. An example product maybe to help us visualize it but it's a new category from what we've typically talked about. So at least I know I'm personally struggling to connect how it relates to the other side of that business.

Steve Henderson

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

A

Sure. That's a great question. So we don't want to go too deep into what something like that might look like, but if you can imagine things moving now from mechanically driven things to electronically driven things. Those all need to be connected through an infrastructure just like at your house. How you have to plug in something into a house, well a car is similar to that. You'd have to plug the components in. And then they also have to be able to be controlled via some type of software. If you come back and look at our products, who is best to develop the controls and the software to control our products, we believe that we are.

And an example of a product that we could share with you today would be something like a smart motor where we're actually able to take the electronic control unit, that's a separate unit from the motor now and put it right into the motor itself eliminating that entire piece and having a motor that is actually smart and then can be – can control by the software through the connectivity of the vehicle. So, that is – that's a way to collapse kind of the value chain and put more value into a smaller, lighter weight, more intelligent, more capable part.

Dan Moore

Analyst, CJS Securities, Inc.

Q

Thanks again. Dan Moore from CJS. As you've described, Karl, you get these two wonderful businesses and platforms in Automotive, and of course, the core Bedding. And I think that the competitive moat is pretty well defined in each of those. Maybe just drill down a little bit on what you see as the real differentiators in your Aerospace as well as the Hydraulic Cylinders businesses? I'm just kind of looking at it from a portfolio perspective and trying to figure out exactly how they fit. Thank you.

J. Mitchell Dolloff

President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

Yes. So, great, Dan. Yeah, very different businesses in terms of their scale and their maturity for us, right. In the Aerospace business, I think it really is an industry that's made up, especially at the lower levels of a large number of very small players doing very specialized production. And that's not the most efficient way for the large OEMs and higher-level peers to do business. It's obviously a very technical industry from a production capability standpoint, but it's also one that's based on relatively low unit volumes, right? We're talking millions in automotive. We're talking hundreds or thousands in aerospace. Those are very different environment to compete in.

So, we think that we're building a coherent strategy that starts with really tubing that's for ducting or for high-pressure engine applications using really exotic materials that are difficult to work with. And so starting from that base tubing to then being able to form tube assemblies and weld or attach other components to them and then move further down the chain towards. Most of them are – have to be able to withstand the vibration, temperature fluctuations that require other specialized coupling components for a lack of a better word.

And so, that's really the strategy that we're building out. As we mentioned, it's a relatively small business today. We think that we'll get it to a more meaningful scale, but I don't see us saying, hey, we're going to go do an ECS sized acquisition to get there in the short term. And I guess pretty similar on the Hydraulic Cylinders standpoint, the long-term trends in the market around e-commerce, driving the need for more material handling equipment overall, although we've seen some short-term decline. Lots and lots of construction applications.

As I mentioned we really focus on mobility. So, hydraulic cylinders that are attached to something that's moving around that's really performing at a very critical function whether it's in a warehouse or in agriculture or on a construction site or in a mining site. And so, we think it's a big market made up of a number of relatively small players, it's geographically diverse, it's technical and it's the kind of market that we should be able to do well in. And so, again, we'll look for some bolt-on acquisitions to build some scale, but that's – but again, we don't see this as, hey, let's go out and take a really big bite and step into the market that way.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.
A

High design element, component complexity, stickiness with the customer base because once you're in a program much like Automotive, you're in it for a long period of time.

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc. .
A

Yeah, that's right.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.
Q

Hi. It's Peter Keith with Piper Jaffray. So, Karl two questions for you, I'll ask them separately. So, first one is more qualitative. So, you're adding a Chief Human Resources Officer which is interesting and for a company of your size to have not that position. So, I was curious if you can talk about the thinking behind adding it and what changes we might expect from whether it's the hiring or a culture standpoint and just noticing that both Jeff and Steve are presenting here today, have been with the company less than two years. So, is there a view of infusing the company with some more outside eyes, I think, as you guys characterized it before?

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.
A

Yeah. I'll deal with the latter first. Yes. There is an assist of bringing in some new background, new approaches, different set of eyes. They've obviously known each other for a long time. They worked well together. But the CHRO is going to come from a different employer. And I certainly agree with you, Peter, for a company of our size to not have – and it's not like we've been belligerent and we don't have HR skillsets and an HR head. But the global nature – to Allen's question, the global nature of Leggett is becoming more complex. We don't have shared systems from a HR perspective. I'll give you an example.

I mean, you know me. This is pretty transparent, it's a little embarrassing. Jeff joins Leggett. Prior to joining, most people when they leave an employer and start a new one, take a little bit of time with their family. I don't think he did a lot of that. Jeff was asking for a whole lot of data. And he said, okay, help me delineate all of the accounting and financial folks in your organization. A month later, tough to track, various titles, big geography, and we're better than that. We've got to evolve. Titles are somewhat meaningless and interchangeable sometimes. So we need to add more structure. There needs to be some efficiency and a new set of eyes. But how would you – you're closer to it than I am.

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.
A

Yeah, pretty similar. I mean, last year I started getting pretty deeply involved with our HR team, really looking at systems and realized that it really went deeper than that. It's something that culturally we hadn't really had a strong investment in. We've got great people who do what we do well, but we weren't addressing a broad enough set I think of the key points to really build a strong HR infrastructure.

And so, I think Karl hit the highlights. It's really building some systems so that we know where people are, we know where they are from a job progression standpoint. We know where they are from a competitive salary standpoint, tying that to performance ratings, tying that to learning and development, and tying that to succession planning.

We've done all of those things to some degree. But doing them on an integrated more holistic basis, we think will be much more powerful for us. And we need to continue to recruit really talented folks into our organization to complete all the things that we've been talking about today. And I think it's really healthy for us to bring some folks in from the outside, who've been in different environments, who's seen what those type of systems can do as well as others. And so, it's been a great thing for us and we'll continue to go down that path.

We have a lot of great folks who have been with the company for a while and they have really strong development plans. All those investments we're talking about is really to help them and help others continue to proceed in and really build our succession planning portfolio.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Q

Okay. Thanks. That's a great answer. So I just want to ask my more quantitative question which is more of a look back versus a look forward. So Karl, if you look back in the last three years, I know – I can tell, you're disappointed. You guys didn't hit your TSR target of 11% to 14%, but you've had a number of unique headwinds to your business.

If we look at Q3 as maybe a pivot point, that was your best quarters in years. Could you just outline us for the biggest headwinds in the last three years and then how each of those might be changing as we look forward.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

Yeah. Thank you for that opportunity. The challenges have been numerous. Some of them have been external. Some of them have been internal. Probably the largest has been this ramp of steel-based inflation that we came to the awareness that we couldn't pass that inflation on in two of our relatively large business units. So, we've dealt with the problem. And what you saw in the third quarter was the absence of the Fashion Bed business even though – and I want to take just a second and complement our team.

Our people did a wonderful job of monetizing that inventory and working our way out of a business that they just kind of inherited. Hasn't been a good business for a number of years and we finally had the wisdom or guts or whatever to just stop it, and got a little bit of a head fake with the deflation that took place in 2015 and 2016. But the Home Furniture business really had a good third quarter. And it's a little smaller, but it's much, much more focused and that will bode well from a future perspective.

Peter, I'm really enthused about where we're headed. ECS' performance, they had a good third quarter. They're absorbing a lot of hybrid volume with – what a great opportunity. And we're uniquely positioned to capitalize on that from an efficiency perspective. Our bedding customers are in good shape from the standpoint this mix of ComfortCore, and I apologize for getting granular. I've been at this long time and I can't help it. But for 60% of our

US innersprings to be ComfortCore pocketed coil and roughly 50% of them to have Quantum Edge, and knowing what the launches are for programs in Las Vegas and knowing who's gaining share, that bodes well for the future as well.

A couple of people have asked about the bedding disruption with mattress firm and all of those channels, it's been tough for the industry. Mattress firm is significantly healthier today than they were a year ago today. Tempur Sealy selling into that platform is good for us, good for mattress firm. As many of you in the room would have heard on a Tempur Sealy call and I'm breaking the rule and I'm talking about a customer, but it's relative from this perspective. Tempur said that they're going to invest in consumer-facing messaging. That's really good for the industry. I mean, that was absent with the whole mattress firm debacle. So, there'll be a greater investment.

So, we're seeing kind of a separation. I think that the industry is going to look very different in all of the attributes that Mitch delineated. But there's another one that I think is missing from the perspective that units aren't units anymore. There's a little bit of a bifurcation in units. There's this wonderful mix up. But the consumer, we do so much consumer-facing study and research. The consumer that buys a $200 boxed bed on any of the e-commerce sites, they know what they're buying. They have a life expectancy of that product of two to four years.

So as I said, I've been around this industry for 40 years. But anyway, there was an expectation up until three years ago that if you bought a mattress, you retained it for 10 years. That's no longer the case. There is a disposable part of the industry and there's this wonderful innovation and technology that's driving consumption. So it's stimulating people into the industry. The technology around sleep, the correlation that the consumer now gets as it relates to the connectivity with quality of sleep and quality of life.

And these premium and mid-price products that are providing better sleep and sleep tracking devices have helped facilitate that. Some of the large producers, Sleep Number has done a great job of that. The Peterson technology around cooling has mitigated a concern that the sleeper had. So, we see significant unit growth going forward, which has historically been good for Leggett. So I'm sorry for the rambling answer, but there's a lot of things that are lined up pretty well. We need to execute; and we need more hands on deck to do it.

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

Yeah. Maybe one thing I would add too about really the great job that Steve and the automotive team has done in reacting to the slower automotive growth environment. And taking out cost, continuing to invest in the long-term trends, but I think we also saw that come to bear in the third quarter.

Allen Zwickler
First Manhattan Co.

Q

Hi. I just want to ask a long-term question without a short-term bias. I'm looking at slide 14 and it says, TSR in Top Third of S&P and the revenue growth you had 6% to 9% annually and then you have margin improvements. So, the implication of that is that your EPS should grow faster than your revenues. I mean, I'm just doing a little arithmetic here.

So, that would imply, say, a – just my number, 10% of better growth plus a dividend of 13% – excuse me, of 3%. Is that what you're trying to say thus long term? I mean, I'm not talking about 2020. But I'm just trying to get a sense for what parameters you're judged by, i.e., pay; i.e., running the business in an efficient way.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

Yeah. And thank you for the – actually that last bit because we are incentivized in a big way from an LTI perspective. So making page 14 come to life selfishly is important to us, but more importantly to the 22,000 people around the globe. What you should infer from that is profitability or EBIT growth- call it, EBITDA growth, will parallel top line growth. Growth for growth's sake is not the way that we think. So, there should be a direct correlation or connectivity between those two numbers.

Do you want to...

Allen Zwickler
First Manhattan Co.

A

At one point, you were over 13% which is a record but I presume what you're saying is that aspirational at this point given what was going on at that point in time.

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

Yeah. I think Karl answered it earlier that we see that EBIT margin range at 11.5% to 12.5% over time, varying on where we are in inflation/deflation cycle. So, we get a little bit of pick up from here, but it's probably not back to that 13% kind of number that we had before.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

13% wasn't sustainable. When you have the acquisition accounting connectivity to the...

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

That's right. Which is the focus on EBITDA...

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

Right.

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

...going forward helps.

Allen Zwickler
First Manhattan Co.

Q

Lower interest rates help you, too?

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

I'm sorry.

Allen Zwickler
First Manhattan Co.

Q

Lower interest rates help you also.

J. Mitchell Dolloff
President & Chief Operating Officer, Interim President-Bedding Products, Leggett & Platt, Inc.

A

Yes.

Allen Zwickler
First Manhattan Co.

Q

So, you get a little benefit there.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

But we're paying a heck of a lot more in interest dollars, remember, because of the leverage that came with the acquisition. So to Jeff's point, paying down that debt a little quicker, cash flow is king. I mean that's the focus, is cash flow, and our – not to be repetitive, our teams have done – really on this subject led by Mitch, have done a fantastic job of focusing on cash generation, which puts some money into Jeff's hands to pay down that debt quicker, that allows us to find other sustainable sources of growth, and reward the investor all along the process.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

Bobby Griffin again with Raymond James. When we look at the long-term revenue target of 6% to 9%, can we maybe help separate the organic portion of that versus future M&A and not particularly 2020, of course, but just on a long-term algorithm basis?

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

Yeah. From a long-term perspective, very long-term perspective and knowing that we kind of bought forward some of that growth from an acquisition perspective, I think in terms of 2% of it is going to be acquired and the remainder has to be – and then you have the base line of GDP at 2% and the rest is outsized organic growth.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

So 2% GDP, 2% acquired and then depending on the content gains are what get you how high up in the 6 to 9% range.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

Yeah, that's exactly right. Yeah, and that's where – because of the narrative around automotive and the narrative around bedding and the bedding value chain and where we are on that process, 6% to 9% is the easiest number that we have in front of us. I mean, it really is. I mean, that's not – I spend no time worrying about our ability to grow and absorb 6% to 9% growth.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

Okay. And then, I guess, second question not related – I guess, related in a little way. ComfortCore being 60% of innerspring mattress today, that's a great sign for how successful the product has been, but also means the upside penetrations getting less and less as we move forward and gets closer to the max penetration whatever that is.

What is the next leg of content inside the mattress story? Is it the attach on products, the nano-coils. We haven't talked much about that, but the Quantum Edge, is there another leg of ComfortCore? And how do we think about that content story for the next three, four or five years?

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

I'm glad you brought up nano. Nanos are still in its – which nanos are tiny coils that are right below the sleep surface. They're still in the early innings of their growth phase. So, there's adoption. You'll see more of the product in new product launches and refreshes of old launches. Really the next phase is the finished product; is growing into the combination of proprietary specialized foam, spring and hybrid mattress. And don't forget, the pure play foam mattress business. That's a big subset of the direct-to-consumer sales, and we enjoy through ECS a good piece of that business as well. So, it's a combination of the two.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

Is ComfortCore pretty much the only spring that can be used in the box bedding segment, or can the lower end open coil spring be compressed and use the hybrid offering?

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

There's probably a couple of bedding guys that aren't going to like my response, because they'll say I'm not paying attention. I don't know of a single hybrid mattress that has any spring system in it other than ComfortCore. It may be out there, but it's 99.9% of that. I mean, the question was asked about Purple, Purple is a hybrid customer and they're a good customer, but even with the elasto-meric material it is hybrid, a specialty high-end hybrid.

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

A

Maybe Karl, while we're waiting for the next question, I want to go back to Peter's question around the importance of the CHRO. I think the only other component I would add to both Karl and Mitch's response is, we've got a tremendous foundation. One thing we've recognized that because the company continues to grow we need to continue to enhance our inclusiveness and our diversity of our talents, right. Because if you look at any data, any analysis of studies that's been done, the most inclusive companies are typically the most profitable companies, right. And so, we take that component of it very seriously. Now, the executive team will obviously own that, but we think the CHRO will help us to drive that and be very focused in that regard.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

Jeff, thank you for adding that. Diversity and inclusion isn't only the right thing to do. It's capitalism at its best. The most successful companies in the world are very diverse in their thought processes, what people look like, their backgrounds and their history. So we have to be, we will be, we are being more purposeful in that search. ESG is another area and I'm going to put Wendy on the spot.

We've done a great job with ESG over the years. We don't talk about it a lot. So Ben Burns who is currently our Treasurer and Wendy Watson had been leading an ESG analysis, and we're pretty close to – go ahead, Wendy.

Wendy Watson
Director-Investor Relations, Leggett & Platt, Inc.

A

Well, we're gathering together. We realized we're doing a lot of great things. Sometimes it's business unit specific, automotive is a leader in this area and our company. But we really needed to coordinate all of the information and get it out there to all stakeholders, not just investors. It's important for our talent acquisition. It's important for a lot of different reasons. But we're gathering that together and our goal is, within the next year or so to issue a sustainability report that we'll be able to issue on a much more regular basis and to really communicate the values that are important to Leggett. And the fact that – among our peers, we believe we're a leader in that area as well.

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

A

And again, this isn't philanthropy. This is capitalism. I mean, ESG, diversity and inclusion are all part of us trying to optimize for the shareholder, and frankly be a better place to work. Anyone else?

Karl G. Glassman
Chairman of the Board & Chief Executive Officer, Leggett & Platt, Inc.

Well, certainly, we're going to have lunch – ask us any questions. The IR team I believe is the best that exists. You guys judge that. We are always available to you. The management team, where – we take this pretty darn seriously as do our people. So, thank you for your time and attention. The questions are important to us. Lots of times people will apologize – you can't ask us a question that we don't appreciate; you can try, but we learn by the questions. So, please, anything that you want to know today or in the future, don't hesitate to contact us.

So, thank you all for your time and attention. Thank you.