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CORPORATE PARTICIPANTS

J. Mitchell Dolloff *Leggett & Platt, Incorporated - Executive VP and President of Specialized Products & Furniture Products*

Karl G. Glassman *Leggett & Platt, Incorporated - CEO, President & Director*

Matthew C. Flanigan *Leggett & Platt, Incorporated - Executive VP, CFO & Director*

Perry E. Davis *Leggett & Platt, Incorporated - Executive VP and President of Residential Products & Industrial products*

Wendy Watson *Leggett & Platt, Incorporated - Director of IR*

CONFERENCE CALL PARTICIPANTS

Daniel Joseph Moore *CJS Securities, Inc. - Director of Research*

Herbert Arthur Hardt *Monness, Crespi, Hardt & Co., Inc., Research Division - Director of Research*

John Allen Baugh *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Justin Laurence Bergner *G. Research, LLC - VP*

Keith Brian Hughes *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Peter Jacob Keith *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

Robert Kenneth Griffin *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Susan Marie Maklari *Crédit Suisse AG, Research Division - Research Analyst*

PRESENTATION

Operator

Greetings, and welcome to the Leggett & Platt, Incorporated Second Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

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

Wendy Watson - *Leggett & Platt, Incorporated - Director of IR*

Good morning, and thank you for taking part in Leggett & Platt's Second Quarter Conference Call. I'm Wendy Watson, Director of Investor Relations. With me today are Karl Glassman, President and CEO; Matt Flanigan, Executive Vice President and CFO; Perry Davis, EVP and President of the Residential Products and Industrial Products segment; and Mitch Dolloff, EVP and President of the Furniture Products and Specialized Products segment.

Susan McCoy, our Vice President of Investor Relations, is not joining us today for the call. She is out of the office attending to a medical related issue.

Cassie Branscum is also with us on today's call. She joined our Investor Relations team at the start of the year and works directly with me and Susan as Manager of IR. Cassie has been with Leggett since 2005 and has a strong background in accounting and financial analysis. Cassie has held roles in acquisition due diligence as a controller for one of our operations and for the past several years at our corporate development department working with many of our businesses to lead both those acquisitions and divestitures. We are excited to have Cassie as the newest member of our IR team.

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

This conference call is being recorded for Leggett & Platt and is copyrighted material. This call may not be transcribed, recorded or broadcast without our expressed permission. A replay is available from the IR portion of Leggett's website. We posted to the Investor Relations portion of the website yesterday's press release and a set of PowerPoint slides that contain summary financial information along with segment details. Those document supplement the information we discuss on this call, including any non-GAAP reconciliations. I need to remind you that today's remarks concerning future expectations, events, objectives, strategies, trends or results constitute forward-looking statements. Actual results or events may differ materially due to a number of risks and uncertainties, and the company undertakes no obligation to update or revise these statements. For a summary of these risk factors and additional information, please refer to yesterday's press release and the section in our 10-K and 10-Qs entitled Forward-Looking Statements and Risk Factors.

I'll now turn the call over to Karl.

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

Good morning, and thank you for participating in our second quarter call. Yesterday, we reported strong quarterly sales growth. Second quarter sales increased 11% to $1.1 billion. Organic sales grew 10%, reflecting a 6% volume growth and a 4% benefit from raw material-related price increases and currency impact. Acquisitions also added approximately 3% to sales growth, while prior year divestitures reduced sales by 2%.

Our sales growth in the quarter came from strong performance in several businesses. Organic sales were up 48% in Adjustable Bed, 12% in Geo Component, 11% in Automotive, 7% in Work Furniture and 7% in U.S. Spring. Notably in U.S. Spring, Comfort Core innerspring units grew 25% in the second quarter from market share gains with traditional and direct-to-consumer mattress brands. We continue to gain higher-value content in our customers' mattresses through our Comfort Core and Quantum Edge that are parameter spring products. To accommodate this ongoing sales growth, we are increasing our full year estimate for capital expenditures by $25 million to approximately $185 million, primarily due to recently awarded business in our Bedding and Adjustable Bed businesses. Although there will be start-up costs associated with these significant new programs that will affect our 2018 earnings, we are very excited about these new opportunities. Matt will discuss full year earnings and sales guidance later in the call.

Second quarter earnings per share were $0.63, down $0.01 from $0.64 in the second quarter last year. In our first quarter call, we explained continuing steel inflation would compress our second quarter earnings and EBIT margin due to the pricing lag associated with passing along higher raw material costs. This primarily affected margins in our Residential and Furniture Products segments. Price increases went into effect during the quarter to recover higher steel cost, but we had not fully worked through our typical 90-day pricing lag. While steel scrap cost were relatively stable in the quarter, steel rod prices further accelerated. The increase between scrap cost and rod prices improved the metal margins at our steel mill with a corresponding EBIT margin improvement in our Industrial Products segment. If scrap -- steel scrap cost do not further increase in the second half of 2018, margins should recover in the majority of our rod and wire consuming businesses. However, our Home Furniture business utilizes flat steel, which has continued to increase in price in the U.S. While we have implemented price increases, offshore competition limits our ability to fully recover higher cost in this business. We continue to focus on cost reduction and transferring production of some products to our Chinese operations to take advantage of lower input cost.

Last quarter, I briefly addressed the Section 232 steel tariffs announced early in the year. Since that time, potential Section 301 tariffs that apply a 10% duty on a long list of products from China have been proposed. We are working through the list to determine what effects, both positive and negative, these tariffs might have on our operations, but do not expect them to be material.

I'll now turn the call over to Matt.

Matthew C. Flanigan - *Leggett & Platt, Incorporated - Executive VP, CFO & Director*

Thanks, Karl, and good morning, everyone. Cash from operations was $81 million in the second quarter, a decrease of $17 million versus the second quarter last year, reflecting increased working capital investment to support higher sales. We ended the quarter with adjusted working capital as a percentage of annualized sales at 12.5%. Accordingly, we have lowered our full year operating cash estimate by $25 million and now expect operating cash flow to approximate $425 million this year. Dividends should require about $195 million of cash and, as Karl mentioned, our full year estimate for capital expenditures is now $185 million. As always, our top priorities for use of cash remain organic growth, dividends and strategic acquisitions. After funding these priorities, if there is still cash available, we generally intend to repurchase stock.

Our financial base remains strong and this gives us considerable flexibility when making capital and investment decisions. We repatriated $123 million of offshore cash in the second quarter and currently expect to repatriate approximately $300 million of cash for the full year.

We ended the quarter with net debt to net capital of 41.6%, slightly above our target range of 30% to 40%, and total debt was 2.5x our trailing 12-months adjusted EBITDA. Both of these metrics reflect increased working capital investment, our typically higher stock repurchases in the first half of the year and the recent PHC acquisition.

As we announced yesterday, we are lowering our sales guidance for 2018 due to demand softness in our Home Furniture and Fashion Bed businesses and lower-than-previously-expected sales to some of our major retailers in Adjustable Bed despite strong year-over-year growth in that business unit. Full year sales are now anticipated to be between $4.25 billion and $4.35 billion. This range represents an 8% to 10% increase versus our reported $3.94 billion of sales in 2017. We continue to expect mid-single-digit volume growth from strength in several businesses as well as raw material-related price increases and a positive currency impact. Acquisitions, net of divestitures, are expected to add 2% to sales growth.

We are also lowering our 2018 EPS guidance and now expect full year earnings to be $2.55 to $2.70 per share versus our prior range of $2.60 to $2.80 per share. The 3 main changes in our full year EPS guidance are: number one, lower sales expectations; number two, continued impact of steel cost inflation in Home Furniture, where offshore competition limits our ability to fully recover cost increases; and three, start-up costs from new programs in Bedding and Adjustable Bed. Based upon this guidance range, full year EBIT margin should be between 11.3% and 11.8% and assumes an approximate 21% full year tax rate.

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

Wendy Watson - *Leggett & Platt, Incorporated - Director of IR*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Susan Maklari with Crédit Suisse.

Susan Marie Maklari - *Crédit Suisse AG, Research Division - Research Analyst*

My first question is around -- you mentioned, obviously, the sort of moving parts with the Home Furniture business. I guess, can you give us a little bit more color on where you are in terms of shifting some of those operations? And how we should think about that time line coming together over the next few quarters?

J. Mitchell Dolloff - *Leggett & Platt, Incorporated - Executive VP and President of Specialized Products & Furniture Products*

Sure, Susan, this is Mitch Dolloff. So when we sort of split it into 2 parts, if that's okay, there's sort of demand side and then the steel inflation and the price side. So on the demand side, really, at the end of Q1, we were expecting the business or -- we were expecting the business actually to be up slightly year over the year. Since then, we've reduced our sales outlook based on 2 factors, the first is just weak demand in the industry generally and the second is some loss of market share as we shed low-margin accounts. So as we pursue price increases, we're not willing to produce products if we're not going to make money on them. So that lower demand had definitely had some impact on our EBIT outlook. And then on the cost side, as Karl mentioned, the cost of flat steel has continued to increase in the U.S. While we've implemented price increases, offshore competition limits our ability to fully recover higher raw material cost. In Q1 and Q2, we passed along about 35% of the raw material inflation. So we still had a gap that impacted our year-over-year earnings adversely. We expect to increase our recovery in the back half of the year, but we think we'll still have somewhat of a gap. In the meantime, we've been reducing overhead and operating cost and transferring production of some of our products to our Chinese operations to take advantage of lower input cost. In many cases, we're already tooled up for those products, both in the U.S. and China. So we're moving those products as rapidly as we can. And we're also looking at taking some capacity offline, but we're still working on those studies, so we expect that to unfold through the back half of the year. In the longer term, we'll manage our global footprint to optimize steel, labor and transportation costs as well as currency impact. So I think we've made good progress particularly in the second quarter. We still have more work to do in the back half of the year. But our goal is to be substantially done with whatever restructuring activity we have by the end of the year or early into '19.

Susan Marie Maklari - *Crédit Suisse AG, Research Division - Research Analyst*

Got you. Okay, that's helpful. And then my next question is around the investments that you're making in Bedding, the $25 million for -- to support some of the new programs that are coming through. I guess, can you give us a little bit more detail on that? And then how should we think about the offsetting revenue that will come from that and the timing and maybe how it will come together?

Perry E. Davis - *Leggett & Platt, Incorporated - Executive VP and President of Residential Products & Industrial products*

Susan, this is Perry Davis. I can address at least part of that. We've been able to pick up some additional share in addition to the content gains that we talk about regularly. We're pleased to be supplying products now to several of the box bed entities. We have some that are introducing new lines, others who are actually transitioning some beds that had formerly been foam -- all-foam beds, now to a hybrid product. So that's Comfort Core products and in a lot of cases it's a Quantum Edge Comfort Core. So as we look at not only new business we picked up but shifts to our mix -- continual shifts to our mix. We have the need to invest in those assets that will enhance our production capabilities. We look to add assets through the remainder of this year and likely into 2019 as we continue to grow and we're favored with more business.

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

Yes, Susan, to add to that Perry's narrative, which is spot on, that it's a great opportunity for the company because this additional volume then flows upstream into the Industrial Materials segment as well. So Comfort Core, as you know, is high-carbon, high-quality wire, so the grade of product that is produced through the value chain is really accretive. There are start-up costs associated with every new program and there's a number of them.

Matthew C. Flanigan - *Leggett & Platt, Incorporated - Executive VP, CFO & Director*

And Susan, I just ask -- or add at the tail end of that, that relative to the specific $25 million number which you mentioned, about 2/3 of it is associated with the Bedding commentary that Perry and Karl just touched on, which we're very excited about, and about 1/3 of the $25 million is tied to Adjustable Bed-related activity, I mean, a little few pieces elsewhere, but those are the 2 big pieces of the $25 million increase. Again places we'd really like to spend our capital -- our shareholders' capital.

Operator

Our next question comes from Bobby Griffin with Raymond James Financial.

Robert Kenneth Griffin - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

I guess my first one to follow up on Susan's question about the Home Furniture group. It's been a couple of quarters we've seen kind of weakness at the top line perspective. Is the weakness more in the lower end versus the higher end? Anyway, you can help us kind of understand what's going on in that end dynamic of the market? And then given that it's kind of maybe competitor-type issues as well, how do you kind of see that stabilizing? Or is there a way that it can stabilize as we move into '19?

J. Mitchell Dolloff - *Leggett & Platt, Incorporated - Executive VP and President of Specialized Products & Furniture Products*

Okay. Bobby, this is Mitch. I'll take a shot at that again. So we really see more of the weakness, I guess, actually both -- today, both on the U.S. side and in China, but the dynamic of lower-cost finished motion furniture coming into the U.S. from China definitely has created some disruption in the industry. So I think most of our -- most of the softness really is related to the motion hardware for us. We have another side of that business that distributes sinuous wires, seat boxes, a variety of other components that go into finished goods, mainly to U.S. manufacturers. That side of the business has stabilized pretty well. So on the motion side, I think, that's where our real effort is to move to optimize our production and to reduce cost as much as we can to become more competitive. And that means taking cost out of the organization as well as shifting more production to China. So we think that we can -- we've made progress on that so far, and we think as we go -- head into '19, we will just simply be in a better cost position to be more competitive.

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

And Bobby, to add on to that a little bit is it really is if you look at the price ratification of the products, we're in good shape on the high-end, value-added IP-protected product. It's the commodity side of the business, to Mitch's earlier statement, that has become very competitive. As you know, there's about 60% delta in the cost of steel in the United States versus China. And on that low-end commodity product that is continuing to grow, we're just not going to wear out our equipment to do a lot of sales volume with no margin associated with it. So I would expect -- said differently, expect the Home Furniture business to shrink, especially in the hardware mechanism side, and to be more focused on areas where we can add significant value.

J. Mitchell Dolloff - *Leggett & Platt, Incorporated - Executive VP and President of Specialized Products & Furniture Products*

Yes. That's a great way to say it, Karl. And that's sort of the disruption, as Bobby mentioned, that we've seen in Q1 and Q2, we'll have a little bit of it in the back half but that's where we're making our way towards rightsizing it along those lines.

Robert Kenneth Griffin - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

And then, I guess, last thing from me is trying to understand a little bit better around the new program, more particularly in Adjustable Bed. And I guess, how it relates to the capital investments coming in to support the growth, but we are kind of seeing a slowdown in the second half. Maybe just help us get a little bit better clarity on kind of the ramp up of the program or the wind down of maybe an old program inside there.

J. Mitchell Dolloff - *Leggett & Platt, Incorporated - Executive VP and President of Specialized Products & Furniture Products*

Okay. Bobby...

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

Mitch is having all the fun this morning. All we will say that our Adjustable Bed story is a wonderful story. But go ahead, Mitch.

J. Mitchell Dolloff - *Leggett & Platt, Incorporated - Executive VP and President of Specialized Products & Furniture Products*

And let me, sort of, answer both parts of that question, if that's okay. So our Adjustable Bed sales were up 22% year-over-year in Q1 and 48% year-over-year in Q2. We expect our full year 2018 sales growth to be well north of 30%. So as Karl said, a very positive story. As we finished Q1, our customer forecasts were even stronger than that. Too strong, I guess, in hindsight. And so that led us to cut back a bit on our outlook for 2018, but still bringing us back to the 30% to 35% -- to 30-plus percent year-over-year growth that we're talking about now. So I know it's a little bit confusing, but it's slightly less good, I think, is the way to think about it. But still very strong at growth of north of 30%.

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

And we believe the category will continue to grow. You heard on Tempur Sealy's call the other day -- or yesterday, that their adjustable bed business grew 25% in the second quarter. You also heard Sleep number say that they're now fully engaged in 360. The market's growing and there's a customer awareness. What we're really optimistic about is the back half is both of those providers and Mattress Firm, to be real frank, are committed to advertising the category. So the business will continue to grow just at a lesser rate than we originally had forecasted. So it is a bit confusing but it is an outstanding story for us. And we are -- we really need to continue to invest capital, because we believe long term the category is just going to continue to grow.

Robert Kenneth Griffin - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

I didn't mean to pick on you too much there, Mitch, but I do appreciate all the extra color.

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

I think, he has good training for him, actually Bobby. And Bobby, on a personal note and from all of us, congratulations on the promotion.

Operator

Our next question comes from Justin Bergner with Gabelli & Company.

Justin Laurence Bergner - *G. Research, LLC - VP*

I wanted to just start off on better understanding the guidance bridge. Is it, sort of, safe to say then that the 3 drivers, the lower sales expectations, the steel prices in Home Furniture and the start-up costs, those are sort of ranked in order of magnitude in terms of the earnings guide change?

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

Yes.

Matthew C. Flanigan - *Leggett & Platt, Incorporated - Executive VP, CFO & Director*

Yes. And for sure. The sales down draft is, certainly, number one in the litany there. And then yes, just as you sequence than they were in relative order of importance.

Justin Laurence Bergner - *G. Research, LLC - VP*

Okay. And then the sales down draft, I guess, you're lowering your revenue guide by about 1%. If that's, sort of, entirely centered around Furniture Products and you're basically lowering the sales guide for that segment by about 4%?

Matthew C. Flanigan - *Leggett & Platt, Incorporated - Executive VP, CFO & Director*

The sales, in general, are about 2/3 associated with the furniture hardware story that Mitch just mentioned and about 1/3, maybe a tad less, relative to the Adjustable Bed dynamics, which, again, you just heard quite a bit about. Those are the 2 main pieces there. But the bulk of the sales midpoint drop is furniture hardware-related.

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

So therefore, your point is correct. It's embodied in that furniture product segment.

Justin Laurence Bergner - *G. Research, LLC - VP*

Okay. And then the final, sort of, part of this question is, I guess a lot of your business seems to be firing pretty well. And I guess, what I'm trying to figure out is, aren't there some positive offsets in Specialized Products or in the Residential business that are positive contributors to guidance versus your early expectations? Or is the strength only sort of meeting the expectation that you'd set out earlier in the year?

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

Matter of fact, that's a good way to put it. There are -- there's wonderful stories in 12 of our 14 business units. They're performing extremely well. But to your point that we had -- our guidance -- earlier guidance was based on a continuation of that outsized performance. So said differently, our second quarter, we were right on a number that we expected, albeit, with a little bit of tax rate help but offset by interest expense. So 2Q turned out just as we had forecasted. So from a future perspective that -- I guess, we got taken to task a little bit in -- at the end of the first quarter, when we had said that we expected units would grow and our guidance was based on units growing mid-single digits. Well, we were comfortable that they would grow that 6% in the second quarter. So our guidance is unchanged other than these 2 headwinds of Home Furniture and a slight change in Adjustable Bed.

Operator

Our next question comes from Daniel Moore with CJS Securities.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

I know it's number three in terms of the impact to EPS guide, but maybe quantify the start-up costs that you were referring to in the second half of the year? And do you expect those to linger into 2019? And a quick follow-up.

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

Yes. The start-up cost really are embedded in the growth of the Bedding business and a re-merchandising of an Adjustable Bed program, which is a good opportunity. We had a large program -- have a large program that is a little aged and needs to be re-merchandised. And every time programs are re-merchandised, that there's a little bit of margin pressure as the sellout of the old line and this ramp of the new line. So those are the 2 primary drivers. And no, we do not expect that they will continue to be a 2019 issue. We really see this as a onetime event.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Very helpful. Similar question with CapEx. It sounds like moving to a little bit of an elevated state. I know you don't want to get into '19 guide but is $180 million, give or take, a decent run rate to think about? Or are there programs this year that might roll off and might come back to where your prior guide was for this year?

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

Dan, I really don't know how to answer the question. I hope our CapEx next year is at the same rate, because it would be indicative of continued market share gains and program wins. But I just -- I don't know. I'm not being coy with you, I don't know. I hope that 2019 CapEx looks like 2018 because it's -- that money is better -- well invested for our shareholders. But I just don't know.

Matthew C. Flanigan - *Leggett & Platt, Incorporated - Executive VP, CFO & Director*

And Dan, this is Matt, I might add to that. Since we started the year, as you know, at $160 million as our best guess and now it's moved to $185 million, probably, as we sit here today, our best guess for 2019 wouldn't start at $160 million. It would probably start closer to that $180 million, again, based upon a lot of the organic things that are in the mix. But again, just like Karl said, it's too early to try to pin down really where we think that might be. But there certainly is a bias up from starting this coming year at $160 million level would be my guess.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Very helpful. Lastly, if you had a comment on performance of PHC, now that it's been in the portfolio for a couple of quarters relative to your expectations?

J. Mitchell Dolloff - *Leggett & Platt, Incorporated - Executive VP and President of Specialized Products & Furniture Products*

Sure. This is Mitch Dolloff, again. I've been very pleased with PHC. Business has integrated well into our Leggett systems. Feel very good about the management team, they're doing a terrific job and are a great cultural fit with us. Demand is very, very strong in the industry there, both in the U.S. and in Europe. We're struggling a little bit to keep up with demand, I think the whole supply chain is. So we've got a little bit of inefficiency and a little bit of extra overtime. But it's a very positive problem for us to solve. We expect that we may even make some capacity expansions there. So overall, very, very pleased with that business.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Very good. And obviously, please do pass along our best to Susan as well.

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

Dan, we'll certainly do that. And I will tell all the listeners, she is listening right now.

Operator

Our next question comes from Keith Hughes with SunTrust Robinson Humphrey.

Keith Brian Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

I hate to go back to this again, but on the Home Furniture, just from a big picture perspective, is this a demand problem from U.S. consumers or is this just a market where pricing has gone down at the low end of the market, it's somewhere you're just not willing to go to make money?

J. Mitchell Dolloff - *Leggett & Platt, Incorporated - Executive VP and President of Specialized Products & Furniture Products*

Keith, this is Mitch. I think, the answer is a little bit of both, right? So there is weak demand in U.S. consumers home furniture and there's also, as Karl mentioned, this expansion at the very low end, particularly on the motion hardware furniture.

Keith Brian Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

So motion's been a big part of upholstery furniture for a long time, are the consumers just not buying that as much now?

J. Mitchell Dolloff - *Leggett & Platt, Incorporated - Executive VP and President of Specialized Products & Furniture Products*

I think that it's less -- I think that there's still demand on the motion side, but I think we see that price point really going to the low end. So I think that's where -- really where the issue is.

Keith Brian Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. And just to be clear on the numbers, you're up in Home -- excuse me, you're up in Adjustables about 30-something percent in the first half, Home Furniture you're down about 8% in the first half. And under the guidance, would similar results need to be seen to hit the guidance range?

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

I would say yes, on Adjustables. Home Furniture has an easier comp going forward. They had a really strong first half last year, a softer back half. I think that's right, but I haven't dug that.

Keith Brian Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

It's clearly going to be down. You're assuming it's going to be down, right?

J. Mitchell Dolloff - *Leggett & Platt, Incorporated - Executive VP and President of Specialized Products & Furniture Products*

Yes. In Home Furniture, I'd see it would be down 5% year-over-year.

Wendy Watson - *Leggett & Platt, Incorporated - Director of IR*

And for that segment, Keith, we would've said, we -- particularly based on the strong growth in Adjustable, high single digits for the full year and now we would say that segment will be up low single digits.

Keith Brian Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Sorry, which segment is that?

Wendy Watson - *Leggett & Platt, Incorporated - Director of IR*

Furniture.

Operator

Our next question comes from John Baugh with Stifel.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Cassie, welcome to the team and Susan, all the best. Diving right in. I guess that first question is, is there any impact to the outlook for the year from the LIFO change?

Matthew C. Flanigan - *Leggett & Platt, Incorporated - Executive VP, CFO & Director*

Well, we did update, as you know, John, our full year LIFO estimate to essentially $37.5 million. So that's quite a bit more than we started out after the first quarter. We were closer to -- so we ramped that up in keeping what the inflation environment we see. So what that portends is that for the full year and the back half, we have about $18 million to $19 million of LIFO expense plugged in if that turns out to be a perfect estimate for the full year. Of course, as you well know, once we get into the third quarter, we'll refresh that expectation and see what it is telling us at that point in time, both in terms of prices in the market and our inventory levels, and then we'll adjust accordingly. But yes, it's now significantly higher than we thought 90 days ago and it's baked into the updated earnings guidance, obviously, as if that is a correct assumption for the rest of the year.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

So translated, as we look at the guidance today versus 90 days ago, there is a negative impact from a higher LIFO reserve? Or did I not understand that correctly?

Matthew C. Flanigan - *Leggett & Platt, Incorporated - Executive VP, CFO & Director*

No. For sure, there is. Yes.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. Same question quickly on the spread between scrap and rod. How does that outlook for the rest of the year? And I understand, that's all guess work in the back half. But what changed, if anything, good or bad, in the second quarter as it relates to that?

Perry E. Davis - *Leggett & Platt, Incorporated - Executive VP and President of Residential Products & Industrial products*

Yes, John. This is Perry. The spread obviously has grown as the year has progressed. The rod pricing strength in the marketplace of those rod producers is pretty good right now. And they've been able to push through increases, in a lot of cases, in excess of scrap increases and been able to hold that. Part of that has to do with the 232 and some of the tariffs and the threatened tariffs. But more so by the dumping actions that were taken and decided at the end of last year and the first part of this year. It's kind of effectively eliminated, not 100%, but for the most part, it's eliminated import rod from the picture. And so the domestic suppliers have been able to pick up that slack and they're all running pretty full right now. They have pricing power because the buyers of those rod products -- their choices have been reduced. They no longer look to imported rod to supplement their domestic supply. So how sustainable that is going forward? It's hard to gauge, it's the steel market, but we suspect that we won't see a lot of weakness in the rod markets over the next several months.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. So just to sum up steel, if I have this wrong, please tell me. We've got the issue with flat furniture steel inflating and you can't really raise prices there. So that's one issue. And then we have a somewhat higher LIFO reserve, but the scrap rod spread is, more or less, playing out so far as you would have guessed 90 days ago?

Perry E. Davis - *Leggett & Platt, Incorporated - Executive VP and President of Residential Products & Industrial products*

Yes. I think, that's right. It may be actually a little higher than what we might have thought at the time. But going back to LIFO, as we said in our release, the first 6 months of last year, we took about $2.5 million in LIFO expense. This year first half $18.8 million. So there's $16.3 million delta right there in LIFO expense in the first half of the year for the company.

Matthew C. Flanigan - *Leggett & Platt, Incorporated - Executive VP, CFO & Director*

And John, lot of LIFO talk here, I know, wearing everybody out, I'm sure. But the increase in our LIFO expectations compared to 90 days ago has been a little bit more than $14 million for the full year. So if you want to know what's -- how much more have we now -- do we think is in the mix, given where all of those ingredients have gone, it's up $14 million from what our estimate was at the beginning of last quarter -- or end of last quarter.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. And then pivoting to Bedding quickly, I guess, this is for Karl or Perry. I would assume your open coil entry price points for domestic Bedding producers was none too great. If I have it wrong, correct me. But the question is, when you give your guidance and we know what is kind of going on there and there might be a dumping petition filed, is there anything in your guidance that assumes or whatever that trend is changes as a result of a dumping petition?

Perry E. Davis - *Leggett & Platt, Incorporated - Executive VP and President of Residential Products & Industrial products*

Yes, John, there's not. We don't include that in anything looking forward. If it happens, we'll address that at that time. But right now, it's not baked into any of our forecast going forward.

Operator

(Operator Instructions) Our next question comes from the line of Peter Keith with Piper Jaffray.

Peter Jacob Keith - *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

Wanted to look at the Bedding business and certainly, the innerspring unit growth being positive is a notable callout. I guess, Perry and Karl, do you feel like you've turned a corner with some content and share gains, such that, now going forward, do you have some visibility that, that business could continue to run positive year-on-year?

Perry E. Davis - *Leggett & Platt, Incorporated - Executive VP and President of Residential Products & Industrial products*

We believe it will. We look for a back half of higher unit volume than we had last year. Obviously, a tremendous amount of disruption last year that now we've kind of lapped and we're getting past that. The mix changes continue to happen. And going back to just a minute ago on John's comments, yes, the open coil products that we historically have produced have become -- there's been some cannibalization by higher-value Comfort Core innersprings. We believe that in the Bedding market right now that the lower end part of the market is suffering some, probably more so than the mid- to upper ends. And a lot of that, we think, is due to the import situation. But yes, looking at our business, where we are today, the programs that we have coming in the back half of the year, we're pretty upbeat about that business.

Peter Jacob Keith - *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

Okay, fantastic. Second and last question for me and just maybe fill-in on John's last question around the steel dynamics. So you have been talking in recent months about this very favorable spread between rod and scrap. If I'm putting the pieces together, within the guidance, are you anticipating that this favorable spread is maintained or that it could revert also to a more historical norm? Can you help us understand, I guess, your thoughts around how the spreads could play out in the back half of the year from your vantage point?

Perry E. Davis - *Leggett & Platt, Incorporated - Executive VP and President of Residential Products & Industrial products*

Yes, Peter. We -- basically, you could say that where we're at today is kind of where we're forecasting we'll remain through the remainder of the year. There is one thing for sure, we're going to be wrong. It's just a matter of degree as to how wrong we are. But we believe that the spreads are sustainable at this point, given the dynamics in the marketplace that I spoke of a few minutes ago.

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

Yes. And to kind of pile on to that, Peter, that not giving 2019 guidance but because of the dynamics in the steel market related to, as Perry said, the antidumping petitions that were put in place and awarded late last year, we expect that spread to be outsized in the next year. And we won't have the negative LIFO impact offset as we see it today. But I will admit forecasting steel is a fool's game. So I just declared what I am. But the market dynamics support a long-term, higher, greater spread.

Operator

And our next question comes from Herbert Hardt with Monness, Crespi and Hardt.

Herbert Arthur Hardt - *Monness, Crespi, Hardt & Co., Inc., Research Division - Director of Research*

And best to Susan as well. Actually two questions. One is, given the commentary on the oil business in recent months, not just tariffs but demand changes and the patterns, you've often highlighted the lengths of the cycle as things get specked in. Is there any change in your own expectations?

J. Mitchell Dolloff - *Leggett & Platt, Incorporated - Executive VP and President of Specialized Products & Furniture Products*

Herb, this is Mitch. No, I don't think there is any change in our expectations in the long term. As we mentioned, sales were up 11% year-over-year in Q2 after removing the currency benefit. So we remain confident in meeting our goal of exceeding growth in vehicle production by 1,000 basis points in 2018 and in the longer term, and we see that as a target of around 11% to 12%. While there is some choppiness in the year-over-year growth forecast for the major markets, U.S., Europe and China, Japan, South Korea, at about 1% for 2018 and remain near that rate for the next several years. While that's not a huge percentage, it is all in a very healthy build of over 81 million vehicles. So it results in a lot more vehicles on the road. The production rate is -- growth rate is even higher in the developing market, closer to 7%, so that brings the total global market to around

2%. So that's how we get our 11% to 12%. As you mentioned, we do have good long-term visibility. Programs usually launch about 2 years after we win the award and run for about 6 years. There's some exceptions to that. We typically have, sort of, that cycle of new programs coming on and old program dying off. And we're winning sufficient business to give us confidence to meet our target. I think I've mentioned before that in 2017, we won over $300 million in new awards. Now you mentioned that there is some news in the market and you may have seen recent OEMs' earnings releases in the last few days that were pretty mixed. And I think trade wars, fuel economy standards, new field testing requirements that are coming online in Europe, Japan and South Korea may create a little bit of choppiness in the short term. But we still remain committed to our long-term goal of 11% to 12%. So we don't see any fundamental negative changes in the business to some sort of temporary issues that may push demand one way or the other in the quarter or 2. But fundamentally, we're really positive on the business in the long term.

Herbert Arthur Hardt - *Monness, Crespi, Hardt & Co., Inc., Research Division - Director of Research*

My second question is, you used the word repatriation for paying cash back and what are the tax implications of that?

Matthew C. Flanigan - *Leggett & Platt, Incorporated - Executive VP, CFO & Director*

Good question, Herb. This is Matt. Basically, we're bringing that cash back in keeping with TCJA, the incurred tax at the beginning of the year, but there's no incremental tax or cost to getting that cash back onshore. Doing a lot of planning to make that happen. We started out at the beginning of the year, as you may recall, saying we'll bring back we estimated about $300 million this year. We thought most of the $300 million with, again, this planning and coordinating would cause that to mostly come back in the back half of the year. As you read, we actually got back quite a bit of it earlier, $123 million came in the second quarter. So all of that is right on track, in fact, a little bit ahead of schedule, I believe. And the upshot is, it's not costing us anymore at all compared to what we just had to true up with TCJA when they put in that tax reform.

Operator

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

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

Yes. Thank you for participating. Go ahead, Wendy.

Wendy Watson - *Leggett & Platt, Incorporated - Director of IR*

Thank you all for participating, and we'll talk to you next quarter.

Karl G. Glassman - *Leggett & Platt, Incorporated - CEO, President & Director*

Thank you, everyone.

Operator

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