Leggett & Platt
Elite Comfort Solutions Acquisition
November-7-2018

Operator: Greetings and welcome to the Leggett & Platt, Elite Comfort Solutions conference call. At this time, all participants are in listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during this conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce Wendy Watson, Director of Investor Relations. Please go ahead.

Wendy Watson: Good morning and thank you for joining us on this 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, Mitch Dolloff, EVP and President of the Furniture Products and Specialized Product Segment and Cassie Branscum, Manager of IR.

The agenda for our call this morning is as follows. Karl Glassman will start with a summary of the major statements we made in this morning's press release, and asking that we reach an agreement to acquire Elite Comfort Solutions. Matt Flanigan will discuss the transaction financing and our deleveraging plan. 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 will be available from the IR portion of Leggett's website. We posted to the Investor Relations portion of the website, this morning's press release and a set of PowerPoint slides that contain

summary information concerning this transaction. Those documents supplement the information we will discuss on this call. We recommend that you have the slides available to follow along with Karl and Matt's comments, this morning. If not, the webcast and slides will both be archived on our website for later use.

I need to remind you that remarks today concerning future expectations, events, objectives, strategies, trends or results constitute forward-looking statements. Actual results or evets 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 our risk factors and additional information, please refer to this morning's press release and 8-K, along with sections in our 10-K and 10-Q entitled Forward-Looking Statements and Risk Factors.

I will now turn the call over to Karl Glassman.

Karl Glassman: Thank you, Wendy. Good morning everyone and thank you for joining this call on such short notice. First, before we begin our discussion on ECS, I want to congratulate Mitch Dolloff, who will assume the role of Chief Operating Officer on January 1, 2019. Mitch joined the company in 2000, in the Mergers and Acquisitions Department, before serving as President of the Tubular Products Division. In 2007, he assumed the role of Director of Business Development for Specialized Products. He was appointed President of the Automotive Asia Division in 2011, and President of the Automotive Group in 2014.

Mitch was named Senior Vice President of the Company and President of the Specialized Product Segment in 2016. Since 2017, he has held his current role of Executive Vice President and President of Specialized Products and Furniture Products. In his new role as COO, Mitch will oversee all of Leggett's operations. He will, also, maintain his current position as President of the Specialized Products and Furniture Products segments.

Perry Davis will remain the President of Residential Products and Industrial Products segments and will report to Mitch. Please join me in congratulating Mitch on this very well-deserved promotion.

Moving back to our other announcement, it's an exciting day at Leggett & Platt, as we look to expand our presence in the bedding industry, with our acquisition of Elite Comfort Solutions, known in the industry as ECS. Through this combination, we will become the leading provider of differentiated products for the bedding industry and gain critical capabilities in proprietary foam technology, along with scale in the production of private label finished mattresses.

Let's start with an overview of the key transaction terms discussed on slide three. The purchase price for ECS is $1.25 billion, in cash. We expect to finance the acquisition with an expanded commercial paper program and the issuance of a $500 million five-year term loan with our current bank group. Following the acquisition, we are committed to rapidly deleveraging and maintaining a strong investment grade credit rating. We are also fully committed to maintaining our long-term dividend track record. Matt will go into more detail on these points, in a moment.

For the fiscal year ended September 30, 2018, ECS's total sales were $611 million. ECS is expected to generate double digit sales growth and strong EBITDA margins that should be accretive to company average margins. Because of impact from purchase accounting, ECS is expected to have a slightly negative effect on consolidate EBIT margins. For modeling purposes, in 2019, Leggett anticipates net interest expense for the combined company of, approximately, $90 million, diluted shares of $136 million, and an approximate tax rate of 23%.

Including these factors, the acquisition is expected to be neutral to EPS in 2019 and accretive to EPS beginning in 2020. We expect the transaction to close in January, 2019, subject to reviewing receiving the necessary regulatory approvals in other customary closing conditions.

Turning to slide four. Before walking through the compelling rationale for the transaction, let me provide a brief overview of ECS. A portfolio company of Arsenal Capital Partners, ECS is a leader in specialized foam technology, primarily for the bedding and furniture industries and maintains the most innovative technology in the market. Customers include leading traditional bedding and box bed brands and retailers. ECS is uniquely qualified to provide e-commerce, retail and OEM customers the most advanced technology solutions in specialty foam, today.

With 16 facilities across the United States, ECS produces specialty foam, develops many of the chemicals and additives used in foam production, and manufactures private-label finished products. After the acquisition closes, ECS will become a separate business unit and will operate within the Residential Product segment of Leggett. The ECS management team will continue to lead the business, reporting directly to Perry Davis.

Moving to slide five. Joining with ECS will enable Leggett to capitalize on favorable market trends. Those trends include growth of the online mattress channel, the emergence of boxed bed brands, and those brands in traditional mattress manufacturers, increasing use of hybrid and specialty grade foam technology in compressed and conventional mattresses. With our best-in-class manufacturing capabilities and ECS's proprietary and patented technology, we will be well positioned to benefit from these trends in the market.

Slide six provide an overview for the compelling, strategic rationale. Let's talk about each of these points, starting with slide seven. As mentioned, ECS is a leading provider of proprietary foam technology for the bedding and furniture industries. ECS has a diversified customer mix, a strong position in the high growth boxed bed market segment, and is recognized as the leader in innovative, high-quality specialty foam. By pairing ECS with Leggett & Platt's existing bedding capabilities, international footprint and manufacturing competencies, the combined company will be the global leader in bedding technology and manufacturing.

Turning to slide eight. We are excited to add ECS's R&D capabilities in foam technologies. Their substantial proprietary and patented technology is a differentiator and allows ECS to develop unique specialty foam products for individual customers. They own a significant amount of intellectual property and have extensive know-how around specialty foam chemistry. They maintain numerous branded specialty additives designed to enhance foam performance by reducing heat retention, improving durability, and improving air flow.

Moving to slide nine. We plan to leverage ECS's core competency in boxed bed innovation, supply chain and production to capitalize on this new and growing sales channel. The opportunity to create new hybrid products utilizing the capabilities of Leggett's Comfort Core Innersprings in ECS in premium specialty foam represents strong synergies to the combined company. We also see many opportunities to capitalize on ECS's innovative portfolio and expand, internationally. As a combined company, we are better positioned to capture a greater share of global specialty foam for bedding than ECS could achieve on its own.

ECS is an outstanding match with our acquisitions bringing criteria and supports achievement of our long term 6-9% revenue growth target. Importantly, we expect ECS to grow well above Leggett's average for the next several years.

I'll now turn the call over to Matt Flanigan.

Matt Flanigan: Thanks Karl, and good morning, everyone. Looking at slide ten, as Karl mentioned earlier, we intend to fund the acquisition of ECS through the expansion of our commercial paper program and the issuance of a $500 million, five-year term loan with our current bank group. After the transaction closes, we will evaluate financing alternatives for the reduction of outstanding commercial paper, which may include the issuance of longer-term notes in the debt capital markets.

We are committed to maintaining a strong investment grade profile and expect to quickly de-lever to a target ratio of debt to trailing 12 months EBITDA of approximately 2.5 times in 2020. We will do this by suspending share repurchases, reducing other acquisition spending and using part of the combined companies' operating cash flow to repay debt. We expect 2019 proforma operating cash flow of approximately $550 million. With all of these factors considered, we are modestly changing our dividend payout target to approximately 50% of earnings from 50-60% of earnings, previously. However, let me quickly reiterate that we strongly maintain our commitment to long-term dividend growth and, certainly, expect to extend Leggett & Platt's 47-year dividend growth track record.

Karl, I'll now turn the call back to you.

Karl Glassman: Thank you, Matt. Slide 11 provides a summary of why we are so excited about this acquisition. As you have, hopefully, taken away from our remarks, ECS is a very strategically important acquisition for Leggett & Platt and we believe it offers attractive long-term benefits for the combined company. We welcome the talented team of ECS to Leggett & Platt and look forward to working closely together to better serve our customers, drive growth, and deliver strong value creation for our shareholders.

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

Wendy Watson: 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 re-enter the queue and we will answer those questions, as well. Kevin, we're ready to begin the Q&A session.

Operator: Thank you. If you would like to be placed in the question queue, please press star, one, at this time, on your telephone keypad. Once again, that is star, one, if you'd like to be placed in the question queue. A confirmation tone will indicate your line is in the question queue. You may press star, two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. And, once again, that is star, one, to ask a question.

Our first question today is coming from Susan Maklari from Credit Suisse. Your line is now live.

Susan Maklari: Thank you, good morning. My first question is, when we think about this deal, it seems like it's sort of similar to your Legacy bedding in that it's very vertically integrated through that whole chain. So, I guess, as we think about that, can you talk to, maybe, some of the areas that you can expand these operations, how we should think about this sort of growing Leggett in terms of its customer base, its market share and just over time, really allowing you to, sort of, leverage that whole chain that's in there.

Karl Glassman: Thank you, Susan, for the question. Your observation is correct. As we started to do our analysis of Elite, it became apparent that what it took Leggett 135 years to develop in the conventional innerspring bedding industry, and that is, very much vertically integrated supply chain, wonderful relationships, long-term relationships with our customers, innovation, really, the point of differentiation for a mattress, Elite had accomplished those same things in a relatively short period of time, and it's all steeped in innovation, customer communication, understanding where the end consumer is going in terms of the channels that they are going to purchase product. Elite's done just a fabulous job in a short period of time. That integrity they have and the customer relationship is a twin to Leggett & Platt, so this acquisition's incredibly complementary.

The back story is this, that, about 18 months ago, a group of very dedicated Leggett employees started on what we call the U.S. Spring Bedding Growth Plan. And they de-constructed the bedding industry in terms of trends that are happening today and from a future perspective. And we kept coming back to a shifting channel of distribution, the growth of online, the advent and the expected expansion of boxed bed from a future perspective. And, as you know, we have a small footprint, today, in that business, manufacturing hybrid products, finished products for OEM brands and our weakness was, we didn't have the connectivity of specialty foam. That's Elite.

So, Perry Davis sat down with Chris Chrisafides, who's the CEO of Elite, and they had a lot of conversation about where the industry was going and our observation and the pressure testing that we had done in our observations with third party assessments of the industry. And, they really were in the same place, so, we started to talk about the growth of hybrid, the weakness that Elite had in not having spring capacity and the weakness that Leggett has in not having specialty foam, and by putting those attributes together through this acquisition, we will be able to facilitate the accelerating growth of boxed beds, also, the traditional manufacturer's use of hybrid and hybrid products and materials.

So, we're in, kind of, high growth mode of a changing channel.

Susan Maklari: Okay, well, thank you. Congratulations and good luck.

Karl Glassman: Thank you, Susan.

Operator: Thank you, our next question is coming from Daniel Moore from CJS Securities. Your line is now live.

Daniel Moore: Good morning and just quickly, Mitch, congratulations.

Mitch Dolloff: Thank you very much.

Daniel Moore: Of course. Just talk a little bit, yeah, you mentioned double digit growth expectations. What is the, sort of, one year trailing and maybe three-year trailing CAGR look like and a little bit more detail in terms of how much of that is increased growth in bed and box, online, market share gains, maybe, just kind of de-construct the market growth expectation versus potential share gains in that double-digit expectation.

Karl Glassman: Okay, thank you for the question, Dan. ECS growth since 2016, has been at a double-digit rate. We have expectation into the forecastable future that it will continue to grow double digits. The furniture business is important to ECS, but the bedding business is more important in terms of it being a more value-added product. So, we expect, over time, that bedding will continue to grow at an accelerated rate, not only domestically but, ultimately, internationally, as well. So, it's the acknowledged growth of the foam mattress and then, the forecastable growth of the combination of a hybrid mattress. We're not in a position where we'll talk about growth by channel, at this point, but it's really the acceleration of bedding growth, channel change, their expertise in compressed box mattresses.

Daniel Moore: Got it. And that leads to my second question and then, I'll jump back out. You touched on it, just there, but we understand Leggett's competitive differentiation, difficult to displace, kind of low-cost position, obviously, ECS brings some very interesting proprietary technology. Just help us understand the competitive mote, not only why it'll continue to grow, but what really differentiates them and makes it difficult for them to displace. Thank you.

Karl Glassman: Perry, do you want to handle it?

Perry Davis: Yeah, Daniel, this is Perry Davis. If you think about our Spring business over the last several years and the acquisition that we made back in the '90s, of Spuhl in Switzerland, the machinery provider for our company, that has been a real product and innovation differentiator for Leggett. It's allowed us to produce products that, up until the development of some of their technology, had been impossible. So, it's given us the ability to make different heights of products, different firmnesses of products using coil geometry, new designs.

Over the last few years, we've seen extreme growth in Comfort Core, which has been a transition, really, in the last ten years from open coil. But the enabler for all of that innovation and technology, the secret sauce if you will, has been Spuhl. If you look at ECS, there's a similar story. As Karl said, it's been a pretty compressed time frame over the last three years but, when the company was put together by Arsenal, they had the foresight to understand the importance of specialty foam formulation technology. And, as part of that, they included in that combination of businesses, Peterson Chemical Technologies in Fort Smith, Arkansas.

Bruce Peterson leads that, has formerly owned that group. He has been around the polyurethane foam development atmosphere for well over 30 years, is a recognized leader in that field and has an outstanding staff of chemical engineers and folks working for him, there, where they have been able to develop some formulations that, a lot of it is either protected with intellectual property. Some of it is just know-how, but they've been able to come up with some really exciting developments.

What ECS has been able to do is leverage those developments through their foam pouring assets and, ultimately, into some of their finished products, whether it's toppers or pillows or boxed beds, but been able to utilize those technologies to provide differentiated products to, not only their customer, but to the consumer. And these are products with true consumer benefits and value. So, if you look at the overall ECS company, again, it's kind of like Spuhl has been to our Spring group. It enabled them to really differentiate themselves in the marketplace and drive really strong growth over the last few years, which we fully expect to continue.

Daniel Moore: Great callout. Thank you again.

Karl Glassman: Thanks, Dan.

Operator: Thank you. Our next question is coming from Bobby Griffin from Raymond James. Please proceed with your question.

Bobby Griffin: Good morning, everybody and thank you for taking my questions. The first question I want to ask is revolving around pricing and pricing power for Elite. Leggett's always had a history of being able to pass through price. I know TDI and MDI can be very volatile chemicals, so, how does the contracts for Elite work and how does their pricing power to customer look, compared to Leggett's Legacy history of pricing power?

Perry Davis: Yeah, Bobby, this is Perry. There is a significant majority of the business that ECS does today in foam that is on contract, it's tied to chemical indices and the pass through is not terribly dissimilar to the Spring business in that there is, normally, a bit of a lag when chemical prices are going up and there's a bit of a lag when chemical prices are going down. I've sat with that team and been through, in detail, their knowledge of the chemical markets, being able to read what's going on out there and anticipate price movements within those markets. And they are very good at understanding it.

It's a seasoned team of individuals who've been in this industry a long time and they have a history of being able to pass those increases through and, as I said, normally, with a little bit of a lag when you're in an inflationary cycle. So, staying on top of that, they understand the levers that will need to be pulled, not only short-term but in the longer term, for them to stay competitive and to be able to provide profitable growth when they're going out soliciting business, then pricing those products in the marketplace.

Bobby Griffin: Thank you, and then I guess, lastly for me, maybe a little bit more difficult of a question but, how do you think this kind of impacts, maybe, some of your traditional Legacy customers from any type of potential channel conflict or anything like that? I'd be curious to hear some expanded thoughts on that.

Karl Glassman: We think it's complimentary, Bobby, that ECS does business with our current customer mix. Couple texts and e-mails, this morning, from some very large and very important customers saying "congratulations" on the deal. We look to you even more so for innovation. There's a high respect for the Elite team. They truly are elite, not only Bruce from a differentiation perspective but the rest of Chris and team that Arsenal assembled. So, we just don't see conflicts, at all. We see it as complimentary to our existing customer base.

Bobby Griffith: Very good, I really appreciate the extra detail and the extra question and my "congrats" to you, Mitch, as well.

Mitch Dolloff: Thanks, Bobby.

Operator: Thank you. As a reminder, that's star, one, to ask a question. Once again, that is star, one, to ask a question. Our next question is coming from Paul Betz at Stifel. Your line is now live.

Paul Betz: Good morning, everybody, congratulations. The acquisition, was it dependant on a favorable rule, dumping rate ruling, or do you see double digit growth with ECS, kind of, irregardless of what the outcome is?

Karl Glassman: Paul, that's a great question. The answer is "no", even if the rulings would have gone against us, us being the industry, we would still be going forward with this transaction because it's so strategic. The double-digit growth rate has been in a background, from a historical perspective, where there's a significant and growing amount of product that's being, I think, unlawfully and illegally dumped in this country. So, said differently, that ECS has been able to grow at those rates, even in light of the dumping.

The growth, going forward, and our expectation of growth is not dependant on subsequent, future rulings, so, it would just be complimentary to a base line that we've already established in our forecast.

Paul Betz: Alright, thank you very much.

Karl Glassman: Thanks, Paul.

Operator: Thank you. Our next question, today, is coming from Herb Hardt from Monness, Crespi & Hardt. Your line is now live.

Herb Hardt: Good morning. My congratulations, also, to Mitch. With this kind of growth, I think senior management needs all the effort that they can pull out of the troops. Couple questions. One is, Leggett has always been good at margin improvement and, I see the 16 facilities, they have opportunities there, as well as just on the sale side. So, number one, is that true? Number two, what is their international experience - Europe, Asia, at the moment and, I assume for the future?

Karl Glassman: Thank you, Herb. From a facilities perspective that, remember we said that this is a stand-alone business. The facilities, the 16 facilities that exist today, will exist in the future, will most probably be expanded as the industry continues to grow. There are opportunities from a margin improvement perspective to help Elite get around, their arms around the significant growth that they've been dealing with. So, in a hyper growth environment, it's easy to just do everything you can to satisfy the customer's needs. So, with our expertise in mattress manufacturing and handling from a machinery perspective, component knowledge, we're really, the teams are looking forward to helping each other just work to satisfy their customer demand.

But there is no expectation that we're going to cut cost of the physical facilities or the human capital. We have every expectation that we'll continue to invest and grow those. As it relates to international, they have almost no international business, today. The exception is, there are some specialty chemicals and additives that are exported but it's a minor part of the business. In our conversations with the ECS team, they're really excited about the opportunity to, with Leggett's knowledge of bedding around the globe, to expand that. So, we have a very large footprint in Europe, as an example, boxed beds is a growing channel of distribution in Europe.

Hybrids are growing in Europe, as well. So, to be able to take this differentiatable specialized technology into the global market place is just an absolute added bonus. And it's part of what drove us to do this deal.

Herb Hardt: Understood and good luck to you.

Karl Glassman: Thanks, Herb:

Operator: Thank you. Our next question is coming from Robert Friedner from Piper Jaffray. Your line is now live.

Peter Keith: Good morning, guys, it's Peter Keith calling in. Congratulations on the acquisition and congratulations to Mitch. I did want to dig into the import dynamic and just get your perspective. So, we've had long discussions around Chinese imports and being disruptive to the

U.S. bedding market. I guess that would not just encompass the Spring market. I think there's a view it's also disrupted the domestic foamers and some of the domestic bed in a box brands. How do you view that import threat over the next four to five years, heels of this acquisition and the ability of domestic foamers to continue to grow, such as Elite has done and, maybe, is there any risk that that growth could continue to grow to the import countries? Thank you.

Perry Davis: So, Peter, this is Perry. Last week, we got some really good news with regards to the case, obviously, the ITC voted unanimously to go forward with it and they'll begin to look at dumping margin preliminary duties, so, over the course of the next few months. But, that case is filed against China, product coming in from China, and there are other geographies, obviously, around the world where these products can be produced and shipped into the U.S. We believe, though, that in most all of those geographies, we're dealing with market economies. And, the cost will look a little bit more realistic, as compared to what we've experienced over the last few years, if we're successful with this case, if the industry's successful with this case.

As to future growth, we think there's a long runway, here, with ECS as a partner and the reason we say that goes back, again, to proprietary product, innovation and development of products that the consumer wants and, so, from that standpoint, we believe, not only is it accretive to us in terms of volume and pieces, but also in margin because those are products that can be supplied and given proprietarily to customers so that they can utilize that in their efforts to reach the consumer.

Karl Glassman: And, Peter, I think it's important to remember that, in the backdrop of the dumped product growing at an accelerating rate over the last fiscal year, Elite has been growing at significantly greater than a double-digit rate. So, to Perry's point, it's technology, differentiation, the ability to create product on an exclusive basis for a multitude of customers.

Peter Keith: Okay, thanks, that's great color, guys. Good luck.

Karl Glassman: Thank you.

Operator: Thank you. We've reached the end of our question and answer session. I'd like to turn the floor back over to Wendy for any further closing comments.

Karl Glassman: Okay, I think I'm going to take this, if I can. Thank you for joining this morning's call on such short notice. We know we haven't given you a lot time. I know more people will listen to it from an archive perspective than probably have live. This is an important day for Leggett & Platt, and our employees, customers, and shareholders, but it is only the beginning of the next chapter.

We look forward to welcoming the Elite employees to the Leggett family. Businesses are people. You are very important to our mutual success in the future. I also want to thank Arsenal Capital Partners, especially John Televantos and Royce Seroussi. You have built a wonderful company in Elite and have dealt with us with transparency and candor. Arsenal is truly a first-class private equity firm.

I also want to thank our corporate development team, led by Russel Iorio, our legal team led by Scott Douglas, the finance team led by Matt Flanigan and the investor relations team led by Susan McCoy and Wendy Watson.

It has been all hands on deck. Thank you for your efforts. Lastly, I want to thank Perry Davis and Chris Chrisafides, the CEO of Elite. They envisioned the benefits of this transaction early in their interactions with one another. For our collective customers, employees and shareholders, we look forward to speaking with you on February 5. We wish happy holidays to each of you and all of your families.

Thank you.

Operator: Thank you. This concludes the teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation, today.