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Leggett & Platt, Inc. (LEG)

Q2 2019 Earnings Call

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J. Mitchell Dolloff
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OTHER PARTICIPANTS

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Keith Hughes
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Leggett & Platt Second Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

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

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

Good morning and thank you for taking part in Leggett & Platt's second quarter conference call. With me today are Karl Glassman, President and CEO; Matt Flanigan, Executive Vice President and Chief Financial Officer; Mitch Dolloff, EVP, Chief Operating Officer, and President of the Furniture Products and Specialized Products segments; Perry Davis, EVP and President of the Residential Products and Industrial Products segment; Susan McCoy; Senior Vice President of Investor Relations; and Cassie Branscum, Manager of IR.

The agenda for our call this morning is as follows: Karl will start with a summary of the main points we made in yesterday's press release, Matt will discuss financial details and address our outlook for 2019, finally, the group will answer any questions that you may 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 documents supplement the information we discuss on this call, including non-GAAP reconciliations.

I need to remind you that remarks today concerning future expectations, events, objectives, strategies, trends or results constitute forward-looking statements. Actual results or events may differ materially due to a number of risks and uncertainties, and the company undertakes no obligation to update or revise these statements. For a summary of these risk factors and additional information, please refer to yesterday's press release and the section in our 10-K and 10-Q entitled Forward-Looking Statements.

I'll now turn the call over to Karl.

Karl G. Glassman

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

Good morning and thank you for participating in our second quarter call. First, I want to thank Perry Davis for his nearly four decades of dedicated service to Leggett & Platt and congratulate him on his announced retirement early next year. Perry is a leader within Leggett and the global bedding industry with contributions too numerous to detail today. Perry is a good friend. He will be missed both personally and professionally.

Yesterday, we reported second quarter sales increased 10% to $1.21 billion. Growth from ECS and other smaller acquisitions was 16% in the quarter. Sales also increased from continuing market share and content gains in U.S. Spring, where sales were up 4%. This was more than offset by lower volume from business exited in our Furniture Products segment, weak trade demand in the Industrial Products segment, and softer demand in Automotive.

Organic sales declined 6% with volume down 6%. The exited business accounted for 3% of the decline. Negative currency impact offset raw material-related selling price increases implemented in 2018. Second quarter EBIT increased $15 million, or 12% over the second quarter last year to $136 million, primarily from lower raw material costs, including a LIFO benefit and the ECS acquisition even after $12 million of amortization expense. These increases were partially offset by the impact from lower volume in several businesses and other smaller items.

Second quarter EBIT margin increased 20 basis points to 11.2%. Second quarter EBITDA increased $31 million over the second quarter of 2018 to $186 million, and EBITDA margin increased 130 basis points to 15.3%. Second quarter earnings per share were $0.64, up $0.01 from the second quarter last year, impacted by the items mentioned as well as higher interest expense and a higher effective tax rate.

We reduced our full year sales guidance due to lower than previously expected sales at ECS and lower organic sales. The ECS reduction is a combination of lower volume primarily from programs that were delayed or did not develop, weakness in some of our non-bedding markets, and raw material-related selling price decreases. We also have shifted some production to our U.S. Spring operations.

The reduction in full year organic sales guidance is primarily from lower than previously expected production in the Automotive market and lower trade demand for steel rod and wire. In addition, we expect currency and steel-related selling price decreases to be a headwind in the back half of the year. Even with these changes, we continue to expect full year sales growth in Automotive, U.S. Spring, Aerospace, Hydraulic Cylinders, and Work

Furniture. Matt will discuss full year guidance details as well as our near record operating cash in the quarter later in the call, but I wanted to update you on several operational items first.

We received positive news in the quarter related to the mattress industry's anti-dumping matter on imported Chinese mattresses. The Department of Commerce made a preliminary determination that mattresses were being sold at prices that violate the United States trade laws and impose preliminary dumping duties that range from 69% to 1,732%. This should allow domestic mattress producers to compete on a more level playing field. We anticipate a final determination in the anti-dumping matter by the end of the year. We continue to be excited about the combined strength of ECS and our traditional bedding business and the opportunities it presents for us going forward.

In our Home Furniture and Fashion Bed businesses, the restructuring activities are going very well. The most significant elements of both plans are behind us and we expect to be substantially complete by the end of the third quarter. We already are seeing a positive impact from the restructuring with EBIT and EBIT margin up in the second quarter from lower fixed costs attributable to the restructuring, as well as improved pricing and lower raw material costs. We continue to expect full year restructuring related charges of $17 million, with $11 million of which is non-cash.

We also wanted to update you on the Automotive market. Year-to-date production in the major global markets, which are North America, Europe, China, Japan and South Korea, is down 6% and is now expected to be down 3% for the full year. Based on the latest forecast, vehicle production in the second half of the year is expected to be flat with both 2018 and the first half of 2019. While global production will be significantly lower than originally forecast and will temper our sales growth, we expect our Automotive business to continue to significantly outperform the market.

I will now turn the call over to Matt.

Matthew C. Flanigan

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

Thanks, Karl, and good morning, everyone. Operating cash flow was $172 million in the second quarter, an increase of $92 million versus the second quarter last year and within $2 million of our all-time record for a 2Q operating cash flow performance. A keen focus upon working capital levels was reflected by our quarter and adjusted working capital as a percentage of sales at 12.4%, which improved from both last year's second quarter and sequentially from this year's first quarter. We continue to expect our full-year operating cash flow to approximate $550 million.

We are decreasing our full year capital expenditure expectations to $180 million from our prior estimate of $195 million. Dividend should require $205 million of cash. We ended the quarter with debt at 3.45 times our trailing 12-month pro forma adjusted EBITDA, which is right in line with our deleveraging plans. We have so far brought back $60 million of offshore cash in 2019 and expect to return an additional $110 million before year end.

As we announced yesterday, we are lowering our sales and EPS guidance for 2019. Full year sales are expected to be $4.7 billion to $4.85 billion, or up 10% to 14% over last year. Acquisitions should add 15%. We expect organic sales to be down 1% to 5%, including a 3% reduction from exited business.

Our full year earnings per share guidance range has been reduced by $0.05 and is now $2.30 to $2.50 per share, including approximately $0.10 per share of restructuring related costs and therefore adjusted EPS is expected to be $2.40 to $2.60. This decrease is due to the lower than expected sales partially offset by decreasing steel costs.

Based upon this guidance framework, our full year adjusted EBIT margin should be 11.1% to 11.4%. This EPS guidance also assumes a full year effective tax rate of 24%, full year depreciation and amortization of $200 million, net interest of approximately $90 million, and fully diluted shares of 136 million.

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

Wendy Watson

Director-Investor Relations, Leggett & Platt, Inc.

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, you are welcome to re-enter the queue and we will answer those questions as well. Dana, we're ready to begin the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting the question-and-answer session. [Operator Instructions] Our first question comes from the line of Daniel Moore with CJS Securities. Please proceed with your question.

Daniel Moore

Analyst, CJS Securities, Inc.

Q

Good morning. Thanks for taking the questions, and I will extend the congratulations to Perry, look forward to meeting with you shortly. Wanted to focus on the – two things. One, looking at the topline guidance revision, you gave us a number of kind of key elements. Is it possible to bucket or maybe rank order the biggest deltas relative to your initial guide, be it FX, lower raws, Industrial, Auto, maybe just kind of rank order those to give us a sense of the magnitude?

Susan R. McCoy

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

A

Dan, I would start by saying that we've got declines in all the businesses that you named. We've got – Auto is down lower than we originally expected. We have more inflation – or I'm sorry, deflation impact on our sales than we originally expected and currency continues to be a headwind. The other businesses that we named, well, steel and the steel rod and wire business are also – I think demand in that market is softening as well.

And then – I don't know, Perry, did you have anything?

Karl Glassman

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

A

Yeah. And obviously ECS expectation is softer than originally thought.

Susan R. McCoy

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

A

Yeah. Yeah. That was it.

Perry Davis
Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.
A

Right. Although weighing in on ECS, it appears that the deflation impacts have stabilized at this point. So, going forward second half of the year barring any unforeseen circumstances, we expect that to be relatively stable.

Daniel Moore
Analyst, CJS Securities, Inc.
Q

That's helpful. I'm going to sneak one other and if I can, shifting gears, the anti-dumping rules, can you help us frame it? What type of impact do you expect that – those to have on the supply of Chinese imports as we think about 2020? And is it possible to translate that to potential for incremental growth for your overall bedding business?

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.
A

Dan, it's tough math because we're so early in the process. We do know that Chinese imports in May, which is the last published data, were down by 55% in units. There has been some upshift in places like Vietnam that admittedly don't have near the manufacturing capacity that China had. To actually frame it, the Chinese units last year averaged 475,000 mattresses a month and much has been written about the Vietnam surge, which was 109,000 pieces in May as they start to build some capacity.

What we do know, the facts are that our U.S. innerspring sales were positive in June and are positive in the first three weeks of July. We think some of that is coming from anti-dumping. We know ECS mattress unit sales are up in the 13% to 14% range year to date. We think some of that is a benefit of anti-dumping. We have an expectation that their growth will be greater than that in the back half as the inventory of Chinese mattresses has worked out. So it's really kind of anecdotal. Things are moving in the right direction. But to try to quantify it going forward is a bit of a challenge.

Daniel Moore
Analyst, CJS Securities, Inc.
Q

Understood. That's good color. Appreciate it. And as I sneak out, if you have organic volume growth on ECS for the quarter that would be helpful. Thank you.

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

We don't have that detail, Dan.

Operator: Our next question comes from the line of Budd Bugatch with Raymond James. Please proceed with your question.

Budd Bugatch
Analyst, Raymond James & Associates, Inc.
Q

Good morning. It's Budd substituting for Bobby who's in Vegas for the market.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

Budd, I never thought I would hear that. Budd Bugatch substituting for Bobby Griffin. My goodness, things changed. Good morning, Budd.

Budd Bugatch
Analyst, Raymond James & Associates, Inc.

Q

Things improved, Karl. Things improved. And, Perry, congratulations and best wishes to you. I think I resemble your remark.

Perry Davis
Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

Thanks, Budd.

Budd Bugatch
Analyst, Raymond James & Associates, Inc.

Q

I guess I want to go back to that guidance changes, too. I was hoping to get maybe a little bit more detail in numerical changes that went into it. I know it was $50 million of sales decrease in the guidance to ECS, and we only have a $0.05 decrease. But I think deflation is greater than expected. Can we kind of pinpoint some of those numbers? Susan, I heard you give kind of a higher level of that but I know you've got the numbers, so maybe you can give us either some numerical ranges on the detail of that.

And secondly, and I'll just ask this as well. What does all of this say about the health of the consumer and the health of the economy? How much of that factors into these guidance changes?

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

A

Budd, as far as numbers go relative to our organic guidance, what I'd say is at minus 1% to minus 5% the midpoint is minus 3% and that is our exited volume out of the FBG, Fashion Bed and Home Furniture businesses. That leaves a range of plus 2% to minus 2% around that organic expectation. And those are the factors that we talked about before largely, if not exclusively, volume. We would expect that currency and the inflation/deflation effect from raw materials will probably be largely offset for the full year, if not, slightly negative, but not – the two combined not hugely negative.

Remember, in the first quarter, we were – the net of those two factors were up 2% and we went flat in the second quarter and probably be negative in the third and fourth quarters if not – not by a lot, but slightly, driven by the fact that last year we were still implementing selling price increases. This year, that's beginning to turn to decreases and as we anniversary last year's increases then that's going to allow those two to net to something lower than they've been so far this year. That's the amount of numeric reference or detail that we're really in a position to comfortably say.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

And from the health of the U.S. consumer, Budd, it's – we think that the U.S. consumers are reasonably healthy. The surprise to us really is the down shift in demand in Industrial Products on the wire and rod, but that's industrial demand. There's too much steel capacity in this country chasing too few opportunities. We have no interest – and that's trade commentary. So, we have no interest in selling tons of steel at less than reasonable returns. We don't need to, that's not why the steel business exists.

So that's a pull-off of demand which has hurt our sales, but again, isn't commentary on the U.S. consumer. We think the U.S. consumer is reasonably healthy, the healthiest consumer in the world for sure. We're seeing some greater softness certainly in the European market and the Asian markets.

Budd Bugatch
Analyst, Raymond James & Associates, Inc.
Q

And just if I could ask you to just expand a little bit on the Automotive situation, where that – where those markets have turned weak? Maybe Mitch can give us kind of a read on what to expect in Automotive going forward? That's such a profitable and growing business for you, but a big disappointment to see that – those headwinds develop.

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.
A

Sure, Budd. This is Mitch. Thanks for asking. Yeah and that's another element. I mean, the production forecast has continued to decline month-over-month and took another big step downward in July, which certainly impacts our outlook. I think now it feels like we're at a less optimistic and more realistic place with the forecast. And I'm talking about the IHS production forecast, not our own.

So, now, as Karl mentioned, we're at a place where the production forecast, the market forecast for the second half of the year is now basically flat with the first half of 2019 as well as the second half of 2018. So, when you look at the comps, it's quite impactful, right? The second half of 2018 was down about 9% from the first half. So we're now facing less difficult comps. But I think for our business, we're still very pleased with it. It continues to perform very well and our long-term outlook hasn't changed. I think with the disruption in the market that we see this year, we're not likely to get to our full 1,000 basis points over the market target, but I think we'll be able to get to something closer to 600 to 700 basis points.

So, we do see the back half as being stronger for us on two factors. One, as we said, the comps are simply easier and two, we see the back half up a bit for us, not huge. I don't think anything overly optimistic at this point but more based on the traditional program – new program launches that take place in the back half of the year.

I would also say that the profitability of this business even in this difficult environment continues to be incredibly strong and the team has done a really good job of reallocating or taking costs out of the business as we've seen some of the growth slow in this market. And I anticipate that will offset a very, very good chunk of the impact from the volume declines that we've seen from an EBIT standpoint. So continue to have a very positive outlook on it. Hope that helps.

Budd Bugatch
Analyst, Raymond James & Associates, Inc.
Q

One thing you didn't talk about were project wins. You normally talk a little bit about that. Have they decreased this year?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.
A

No, Budd. It's hard the project – the program awards are typically heavy weighted for the back half of the year. There's not really a meaningful comparison for – on a year-over-year basis, they're very lumpy. But as we've said before, we won over $370 million in new awards last year that will launch over the next couple of years and last about six years. So we have a really good visibility for the long term and don't expect that to change.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

2018 was a record win year for our team.

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.

A

Well, we've had consecutive record win years for quite a while...

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

They keep stacking up.

Q

Budd Bugatch
Analyst, Raymond James & Associates, Inc.

Thank you.

Operator: Our next question comes from the line of Keith Hughes with SunTrust. Please proceed with your question.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. A couple of questions. First, I'm still a little confused in Automotive. So, in the second half of 2019 in your guidance, are you assuming you're up a little bit year-over-year, is that what you're saying?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.

A

Yes, Keith. We're up somewhat in the second half year-over-year.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. So- and just the bigger picture...

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.

A

For the full year, we end up being slightly up with the market slightly down.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. So, you were down about 3% to 4% in the first half. How are you getting – it seems like you will be down a little bit for the year. How does that work out?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.
A

You're right that we're down about 3% in the first half. We expect to be up more than that and be up about 3% for the full year.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

So, that would mean you'd have to be up mid to high single digits in the second half of the year, correct?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.
A

That's correct.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Okay.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.
A

Remember that comps...

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.
A

Yeah. Remember the comps into play as well. So, it is – that's the factor that I didn't explain very well but you have both the easier comps but we are more in the second half than in the first.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

So, that gets you back to back to 600 or 700 basis points above global build rate. Is that...

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.
A

Exactly.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Is that the math?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.
A

Yeah. That's correct.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Okay. So, I guess what's – is it really for the first half of 2019 and really back in 2018, your spread came way down. What happened during that period of time? And what's causing it to reaccelerate in the second half of 2019?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.

A

I think that it's kind of tough to put a finger on it, but you had a lot of things going on that really caused disruption in different parts of the market, right? You had Brexit impact and WLTP emission standards impact in Europe, which impacts particular – disproportionate impact on certain programs, so it's not an overall market phenomenon. Then you had China trade dispute impact and the significant decline there. You had this recent acceleration of emission standards there that has really slowed sales. You had then the tariff impact and just the concerns in North America.

So we're inherently – we've picked this metric as sort of a long-term big picture guidepost. And to compare it in a sort of a detailed way on a quarter-to-quarter basis just doesn't work very well. I mean, we're inherently comparing market unit production of vehicles to our sales dollars, not our unit dollars or not our units, and there is a time lag in the supply chain. So it's inherently an imperfect comparison but it really is just meant to say, hey, we look at where we are in the market, the size of the market, and where we participate in the growth rates and our win rates that this is sort of an expectation about the long-term growth that we have for the business.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And you – the 1,000 basis points you've used and what you really haven't been that in a while is 600, 700 I think there is something like that, basis points above. Is that kind of the new normal or is there something that would cause it to reaccelerate back to 1,000 basis points?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.

A

I'd like to see a new normal in the market, right? It's been hard to know what the market is doing when every month it's been getting a little bit worse. So, I think I'd say we're still standing behind our 1,000 basis points target. We'll be realistic about it but to get in a period of stability and if we need to adjust it, we'll be the first ones to come back to you but for now we stand by it.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And then finally switching to the adjustables, adjustable mattresses were up a couple points in the quarter. There were some industry numbers that were a lot weaker. Can you give me sort of a feel what you think is going on in the adjustables market?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.

A

Yeah. That's a good question, Keith. We think that based on a calendar basis and remember that industry numbers, these numbers are lagged. But on a calendar basis, we think the first quarter was down about 12% year-over-year. And we think that the industry was down about 1% in Q2. I know that's a lot less than the industry numbers. And we think there's a couple of things that are going on to impact that. We think that if we look back at the industry numbers for the second quarter of 2018, I think they were at something like 1 million units, which seems really, really high for that period of time. So, I think that's probably throwing off the year-over-year comparison to a large degree.

And I don't mean to be critical. I think this isn't an easy task. Tracking the import data is difficult. There is multiple HTS codes. They get shifted around. So we don't believe – we certainly haven't seen negative impact anything like the industry is reporting. So we think there is a data problem there.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Okay. All right. Thank you.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.
A

Thanks, Keith.

Operator: Our next question comes from the line of John Baugh with Stifel. Please proceed with your question.

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

Good morning. And, Perry, congrats on the retirement and Susan, good to hear your voice.

Susan R. McCoy
Senior Vice President-Investor Relations, Leggett & Platt, Inc.
A

Thank you.

Perry Davis
Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.
A

Thanks.

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

I was wondering, you walked through all of these revenue shortfall items and particularly on the deflation, the question is simple, which of those really affected the earnings? In other words, some of the deflating items, I don't know what the timing might be in terms of impacting your cost of goods sold but I'm thinking it's more neutral. So I'm curious as to obviously Auto being soft and I guess ECS being soft would impact earnings, but if you could parse that out, that will be great.

Susan R. McCoy
Senior Vice President-Investor Relations, Leggett & Platt, Inc.
A

Yeah, deflation not so much. There's a lag, both directions with the raw materials typically. With prices going or costs going up, our pricing typically lags and we're often caught in a bit of a squeeze there. And coming down, it can work the opposite direction. You would have seen a big uptick in our own LIFO benefit this quarter versus where we would have been earlier. Obviously in the first quarter, it's the first time we took a swing at actually recognizing our full-year estimate. So that helped our earnings and it's built into the full-year forecast. Now LIFO is not a unique creature that's standing out there on its own. It's going to have offsetting dynamics happening within the operations but – so, deflation has been a net positive for us the part of this year and the volume obviously is not.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

But restructuring impact has been positive as well that the team has done a really good job on the restructuring and walking away from unacceptable price, low margin business, working on our cost structure, and that's kind of a thankless task. But for that team to see the bottom line positively impacted and the forecast being so from a future perspective is a really good thing. It's a much healthier business. Home Furniture is a much healthier business going forward than it has been in the recent past.

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

Q

Good. And then I apologize, I joined a couple of minutes late, if you've addressed this, but on ECS, you referenced in the slide, there was some volume shortfall relative to your expectation. Could you walk through – I assume that's not deflation. There was something about program delays or something. Could you be a little more specific on what you see there and the dynamics of that business short term?

Perry Davis
Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

Yeah, John. So, definitely topline deflation effects that we've seen more heavily weighted in Q2. We'll see those kind of going forward in a reset of our forecast going forward. We also have – we have experienced a couple of programs that have either been delayed or canceled altogether. As you know, there's a lot of puts and takes and shifts of business around in the marketplace and some of those impact us. We don't talk specifically about customers, but there's been some of that also.

And then one of the things that was a little bit unforeseen that we have experienced is some weakness in the non-bedding part of ECS's business and that's primarily related to Furniture, some Automotive, but Furniture where we've not seen the growth that we earlier would have expected in the marketplace. And then also there is a portion of that business that we're quite busy making compressed finished mattresses. The growth is – has been plus double digits and we expect that to be the case in the back half of the year. We've actually moved some of that production capacity over to the U.S. Spring side where we have a facility where we can make hybrids. And we're seeing continued strength in demand going into the back half and expected demand in both foam and hybrid mattresses.

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

Q

And, Perry, if you were – just to follow up on some of those programs that were either delayed or – particularly the ones that were canceled or maybe business you didn't get that you expected to get, is there some common – the customer found a lower price, they want to diversify their supply, was there some common theme?

Perry Davis
Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

I guess, what I'd say, John, is that where there is a lowered expectation on the ECS side, we feel like that there will be a balancing pickup on the component side. So, we really look at it as a shift. Obviously, the finished product primarily comes through ECS. We pick up some on the Spring side. If it shifts elsewhere and so on balance though it's a quite healthy situation. And like I said, I think in the back half that cadence of finished mattress business will continue to get quicker.

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

Q

Thanks. Good luck.

Operator: Our next question comes from the line of Peter Keith with Piper Jaffray. Please proceed with your question.

Robert A. Friedner
Analyst, Piper Jaffray & Co.

Q

Hey. Good morning, everyone. It's actually Bobby Friedner on for Peter. I just want to follow-up on steel deflation LIFO benefit. It looks like there was a nice benefit in Q2 for the first time in few quarters. Can you talk what's baked into guidance now from a LIFO benefit standpoint for Q3 and Q4? Thanks.

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

A

Yeah. Peter, we have half of our full year estimate booked now at $10.4 million, so double that, it's about $20.8 million, $21 million is our full year estimate. We'll continue to look at that as the year progresses and it will likely change, could go up, could go down and you can assume whatever amount we haven't yet booked, we would expect to book in equal portions in the remaining quarters.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

And Bobby, it's important to remember that as Susan said earlier, that LIFO is not a discrete accounting activity. So there is a related FIFO impact in the operations. So it's not like LIFO is a gift from heaven because there's a FIFO offset over time. It's not perfectly correlated in each quarter but over time matches up on the FIFO side. So, it gets to be – year-on-year comparisons get to be a challenge because in 2017 and 2018, we're in an increasing steel environment. Now we've flipped to a decreasing steel environment, so it has the opposite impact on the LIFO and then related impact – opposite impact on FIFO, if that makes any sense. But they true up over time.

Robert A. Friedner
Analyst, Piper Jaffray & Co.

Q

Got it. Thanks for the color. And just one more if I can on the impact of exited business. I know the Furniture margin has swung nicely from down in Q1 to up in Q2. How should we be thinking about the overall impact from your exited businesses on both sales and EBIT for the back half of the year?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.

A

Bobby, this is Mitch. I think we see pretty similar impact in the back half of the year from a sales perspective and I think probably pretty similar, maybe a little bit of improvement from a margin perspective. As Karl mentioned, the team has done a great job of both planning and executing that plan and taking out overhead costs and moving through the big part. So the riskiest elements are behind us.

It's a little tricky as we wind down Fashion Bed that we've moved through a very good portion of the inventory we have there, so we'll see significantly lower sales in the back half of the year. But I expect that we'll see a bit less decline from Home Furniture – on the Home Furniture side as we compare that first half with the second half. So, I think probably pretty similar to what we've seen in the first half.

Robert A. Friedner
Analyst, Piper Jaffray & Co.

Q

All right. Thanks a lot guys and good luck.

Operator: Our next question comes from the line of Herbert Hardt with Monness, Crespi, Hardt. Please proceed with your question.

Herbert A. Hardt
Co-Founder, Monness, Crespi, Hardt & Co., Inc.

Q

Good morning.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

Good morning.

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.

A

Hi Herb.

Herbert A. Hardt
Co-Founder, Monness, Crespi, Hardt & Co., Inc.

Q

I actually have two questions. One is given – I know your Aerospace was up 10% this quarter. But given all the problems that Boeing is having, are you involved with any of those programs?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.

A

Good morning, Herb. This is Mitch. We do have involvement there but it does not have huge impact on us. As you mentioned, Boeing has reduced the production rate from about 52 per month to 42, so down about 20%. The supply chain was struggling to keep up with production anyway, so we haven't really seen the impact of that rate reduction yet. If this continues to drag on longer than people expect right now, the expectation is deliveries will resume in early 2020 or late 2019 but who knows at this point, right, it continues to stretch a bit.

But we sell about $1 million per month on that platform. So the 20% reduction would be about $3 million or so to us annually. So, not a huge impact and we have good content on the Airbus alternative. So that's good – part of what's driving the good performance there.

Herbert A. Hardt
Co-Founder, Monness, Crespi, Hardt & Co., Inc.

Q

Okay. Thank you. My other question is as we go into next year, let's assume that retail doesn't hold up as well as you've been expecting and Industrial tends to drift, how much room do you have for margins? You've always been really good at kind of squeezing costs out. Is there a lot left over the next say 18 months if world continues to drift?

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

Herb, I appreciate the compliment and that actually is the answer. Our teams are really good in a downshift environment. Unfortunately, we learned a lot in 2008, 2009. And all the restructuring that's taking place in parts of our business, the real difference between now and 2008 and 2009 is our portfolio is a lot healthier today than it was then. So we can absolutely take cost out. We won't, from a long-term perspective, compromise product development, CapEx for efficiency reasons. So it's one of the wonderful things about Leggett is we manage from a very long-term perspective. But yes, there's an opportunity to take additional cost out.

The other thing that happens in a downshift is historically, there has been a significant improvement in cash generation. So, cash doesn't become compromise, actually it helps. So dividend, in a downshift, is absolutely solid. It's very important to us going forward. So, yeah, we don't want to learn those skills, relearn those skills but we know how to. Automotive, Mitch, I think that's a good point.

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Specialized Products & Furniture Products, Leggett & Platt, Inc.

A

Yeah. Well, we – the impact of 2007, 2008 has never left our minds. And so, as we've grown that business, particularly adding the capacity and new plants in Asia, we've done that with the downturn in mind. And so we've purposely sized them to be smaller, to be close to our customers to have not a lot of overhead, support them from some regional centers where we can. So, if we need to take action there, we'll do that.

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

A

And, Herb, this is Matt. I'll just add to amplify what Karl said. You may have heard us mention in the prepared remarks that our 2Q operating cash flow performance, we just had was $2 million within the best we've ever experienced. The best 2Q performance we ever had was in 2009. And it's because of that unwind phenomenon and our ability to bring home cash when things get soft and we would absolutely do that again in a notable way.

Herbert A. Hardt
Co-Founder, Monness, Crespi, Hardt & Co., Inc.

Q

Okay. Thank you very much.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

Thanks, Herb.

Operator: There are no further questions at this time. And I would like to turn the floor back over to Wendy Watson for closing comments.

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

Thank you, everybody, and we'll talk to you again next quarter.