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Leggett & Platt, Inc. (LEG)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Leggett & Platt Second Quarter Conference Call and Webcast. 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, Susan McCoy. Thank you, Ms. McCoy. You may begin.

Susan R. McCoy

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

Good morning, and thank you for taking part in Leggett & Platt's second quarter conference call. As with last quarter, we are conducting the call from different locations. Please bear with us if you experience minor delays or mixed audio quality.

On the call today are Karl Glassman, Chairman and CEO; Mitch Dolloff, President and COO; Jeff Tate, Executive Vice President and CFO; Steve Henderson, EVP and President of the Specialized Products and Furniture, Flooring & Textile Products segment; Wendy Watson, Vice President of IR; and Cassie Branscum, recently promoted to Senior Director of IR.

Before I proceed with the agenda, I wanted to let you know that today, after 22 years at Leggett & Platt, Wendy will be leaving the company. Wendy began her career with Leggett in 1998 and joined the IR team in early 2017. She has done outstanding work in the IR role and brought tremendous value to Leggett in all of her past roles. Please join me in congratulating Wendy on her outstanding career with Leggett. We wish her great success as she moves on to a new exciting opportunity in the next stage of her career. She will be sincerely missed.

Joining us for the first time today is Tarah Sherwood, Director of IR, who will be working directly with Cassie and me. Tarah has been with Leggett since 2007 and has a strong background in accounting and financial analysis. Tarah has held roles in Internal Audit and Corporate Development where she participated in some of the largest transactions in our history, including the acquisition and integration of ECS last year. We are excited to have Tarah as the newest member of our IR team.

The agenda for our call this morning is as follows: Karl will start with a statement of the main points we made in yesterday's press release; Mitch will discuss demand trends and the status of our operations amid the many complexities driven by the COVID-19 pandemic; and Jeff will discuss financial details.

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 detail of the key information we are sharing with you this morning, along with our regular quarterly financial information and 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 sections in our most recent 10-K and subsequent 10-Q entitled Risk Factors and Forward-Looking Statements.

I'll now turn the call over to Karl.

Karl G. Glassman

Chairman & Chief Executive Officer, Leggett & Platt, Inc.

Good morning, and thank you for participating in our second quarter call. As we reported yesterday, second quarter sales were $845 million, down 30% versus the second quarter of 2019. EBIT decreased in the quarter versus second quarter last year, primarily due to lower demand. A non-cash goodwill impairment charge in our Hydraulic Cylinders business reduced second quarter EBIT by $25 million. EBIT was further reduced by approximately $3 million of restructuring charges incurred primarily from pandemic-related cost reductions.

Second quarter earnings per share were a $0.05 loss, including $0.19 per share from the impairment charge and $0.02 per share from the restructuring. Adjusted EPS was $0.16, down from $0.64 in 2019. Our second quarter results were significantly impacted by the COVID-19 pandemic. We were pleased to see sales improve sequentially throughout the quarter as demand improved in most of our markets. The swift cost reduction actions implemented at the onset of the pandemic helped to mitigate some of the earnings impact from lower demand levels.

We continue to experience demand recovery throughout July, although at varied rates across our markets and geographies given the ongoing effects of the pandemic and continuing economic uncertainty. We have improved our liquidity and we continue to carefully manage our cash and balance sheet. We also reported yesterday that our board of directors declared a $0.40 per share third quarter dividend. We recognize the importance of the dividend to our shareholders and our liquidity supports this decision.

Our first priority remains the health and safety of our employees and their families, along with our customers and suppliers and the communities we serve around the world. As Mitch will describe in more detail, we are focused on creating a safe work environment. I am extremely proud of how our employees are working together to keep each other safe and healthy, while serving our customers during this challenging time. Our long-term fundamentals have not changed. We continue to be leaders in most of our markets, focused on innovation and working closely with our customers to provide more of what they need to be successful.

Our capabilities are unmatched in our large and expanding addressable markets. The diversity of our businesses makes us stronger. We have an outstanding track record of strong cash flow and we remain committed to our longstanding transparency and financial discipline. We are dedicated to our long-term vision for the company and we are confident that we will emerge from this crisis strong and focused on the future.

I'll now turn the call over to Mitch.

J. Mitchell Dolloff

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

Thank you, Karl, and good morning, everyone. As mentioned, sales in the second quarter were down 30% versus the second quarter of 2019, with demand improving each month throughout the quarter. April sales were down over 50%, May sales were down almost 30% and June sales were down just over 15%, all versus the prior year.

We continue to see sequential improvement through the first three weeks of July with sales near prior-year levels. As demand improved through the quarter, we ramped up most of our operations, implementing safety protocols, bringing employees back to work, and tackling supply chain challenges.

Given the ongoing uncertainty in the global economy, we remain focused on keeping our variable cost structure aligned with current demand levels. As we discussed last quarter, we reacted quickly to reduce our fixed cost. These actions reduced our second quarter cost by nearly $40 million. At current demand levels, we now expect full-year fixed cost savings of approximately $100 million. This is lower than the previous estimate of $130 million to $150 million as demand recovered faster and more robustly than expected in several of our markets.

Sales in our Bedding Products segment were down 28% in the second quarter. The reopening of brick-and-mortar retail locations and continuing strong e-commerce demand drove sequential improvement throughout the quarter with April sales down 54%, May sales down 20%, and June sales down 14% versus prior year.

The sequential demand improvements have continued with sales up 1% through the first three weeks of July. Demand in the US bedding market continues to be strong. Sales in both US Spring and ECS were positive year-over-year in June and through the first three weeks of July.

Sales in our Specialized Products segment were down 47% in the second quarter. We saw sequential improvements in this segment throughout the quarter as automotive OEMs restarted production in Europe and North America and production in Asia continued to improve.

During the quarter, segment sales were down 63% in April, 54% in May, and 29% in June versus 2019. The sequential demand improvements have continued, with sales down 13% through the first three weeks of July. In our Automotive business, all regions are operational at varied levels of capacity. Our Asian facilities are operating at 90% of capacity, our North American facilities are operating at 80% of capacity, and our European operations are at 70% capacity.

European and North American OEMs restarted production in May and demand has increased sharply. North American sales have been driven by demand for trucks and SUVs. We are very pleased to see a recovery from the steep declines in April and May, but we are closely watching global demand trends as the economic impact from the pandemic remains unpredictable.

Market demand in both Aerospace and Hydraulic Cylinders held up initially, but declined in the later part of the quarter. We expect that Aerospace demand will remain weak for some time, given the many challenges in the industry. Demand signals for Hydraulic Cylinders are somewhat mixed at this point, but we are preparing for lower sales in this market as well.

Sales in our Furniture, Flooring & Textile Products segment were down 22% in the second quarter. This segment initially was less impacted by the pandemic than our other segments primarily because of the strong demand in our Geotextiles Components business. Fabric Converting and Flooring Products also held up well and Home Furniture improved as the quarter progressed.

Recovery in Work Furniture has lagged the other businesses in this segment. Industry demand in this business may be challenged for some time as work environments change to meet evolving expectations of employers and employees. For the total segment, April sales were down 40%, May sales were down 22%, and June sales were down 7% versus the prior year. The sequential demand improvements have continued in July with sales up 7% for the first three weeks.

Looking forward, our operational priorities for the third quarter are: increasing production to meet strong bedding demand; tackling widespread labor shortages, especially in the US; managing supply chain issues associated with the global shortage of non-woven fabrics stemming from a surge in demand for medical PPE applications; and the ongoing government restrictions on production in Mexico and India; and monitoring changes in demand signals and responding rapidly to control cost and optimize cash flow.

We developed a layered approach to manage the impact of the COVID-19 pandemic in order to effectively reach all levels of the company. We focused on four primary work streams: safety and social distancing; communications, training and visual management; manufacturing layout; and governance and compliance.

As cases around the world continue to increase, we also have seen an increase in confirmed COVID cases in our facilities. Contact tracing indicates that while employees are contracting the virus in their local communities, our safety protocols are effective at preventing transmission of the virus among our employees at work. The health and safety of our employees is our number one priority and I'm pleased that our efforts are paying off.

To our employees, I sincerely thank you for your dedication, ingenuity, and resilience. The global pandemic has forced us to alter the ways we operate and interact with each other, our customers, and our suppliers. You have found creative new ways to make it work. I know it makes your job more challenging on top of all the uncertainty that the pandemic brings to our personal lives. I'm incredibly proud of how we have pulled together across our businesses and corporate functions to overcome these challenges. Thank you very much for all your efforts.

I'll now turn the call over to Jeff.

Jeffrey L. Tate

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

Thank you, Mitch, and good morning, everyone. Throughout the second quarter, our primary financial focus has been on maximizing liquidity, generating cash, and disciplined uses of cash. In early May, we amended our revolving credit agreement to change our financial covenant to a 4.75 times net debt to trailing 12-month EBITDA metric. This change increased the availability under our revolving credit facility which serves as the backup for our commercial paper program.

As of June 30, our net debt to trailing 12-month EBITDA, as defined in our revolving credit facility, equated to a maximum borrowing capacity of $1.2 billion. On June 30, our total liquidity was $1.3 billion and was comprised of $209 million in cash on hand and $1.1 billion in available capacity under the revolving credit facility.

Cash from operations was $112 million in the second quarter, a decrease of $60 million versus second quarter of 2019, primarily due to lower earnings. We continue to monitor all elements of working capital in order to optimize cash flow. Our primary focus is on customer collections. As an example, by the end of second quarter, the level of our accounts receivable in current status had improved and were consistent with pre-COVID-19 levels.

We're also taking steps to carefully control inventory levels as demand improves. Adjusted working capital as a percentage of annualized sales was 15.4% at the end of the quarter, which reflected a combination of very weak sales early in the quarter and working capital increases later in the quarter to support demand improvements. Regarding our uses of cash, we continue to expect our capital expenditures to approximate $60 million for the year. Dividends should require approximately $210 million for the full-year.

Our scheduled debt repayments for the remainder of the year are $25 million, and we're limiting our acquisition activity. In connection with our annual goodwill impairment testing, we recognized a $25 million goodwill impairment of our Hydraulic Cylinders business. The impairment was primarily driven by the anticipated longer-term impacts of the global pandemic and is a complete write-off of the goodwill associated with this business. The goodwill impairment also resulted in an unusually high tax rate in the second quarter. This non-cash expense is not deductible for tax purposes. Absent the impact from the impairment and restructuring charges Karl discussed earlier, our second quarter adjusted tax rate is approximately 29%.

So, in summary, we remain committed to maintaining our strong balance sheet, investment grade credit rating, and our position as a Dividend Aristocrat. We continue to take the necessary step to maximize liquidity and financial flexibility as we navigate the current economic challenges.

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

Susan R. McCoy

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

That concludes our prepared remarks. We thank you for your attention. Karl will direct our Q&A session and the group will be glad to answer your questions. Marya, we're ready to begin Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question is from Bobby Griffin from Raymond James. Please proceed with your question.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Good morning, everybody. Thank you for taking my questions. I hope everybody is staying safe. Cassie and Tarah, congrats on your promotions; and Wendy, congrats on the next role. Going to miss working with you, but happy for you on a personal level.

I guess, the first question I had, Karl, maybe was on a production and capacity side of things. We've heard from some other industry players that capacity was an issue as demand ramp back up pretty quickly during the quarter. Can you maybe talk a little bit about your capacity? Did that hinder growth or sales growth in 2Q? And kind of where are you at a capacity standpoint and backlog standpoint as we look at 3Q?

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

A

Good morning, Bobby. Thanks for the question. I think that you're specifically asking in the area of the US Bedding business, so we'll go down that path that, as you know, really what happened when things got so soft in April that we pulled down production, we were working off of inventory. And then, the second week of May, we started to see a surge of bedding demand in the US, not knowing if it was stimulus-related or if it was a buildup to Memorial Day. At that point, didn't know if it was a head fake, to be real honest with you. And the demand has continued to be extremely strong. Interesting data point in the month of June, we shipped more inner springs in that month than any month in Leggett's history, which is remarkable considering the backdrop.

But as regards where we sit from a production capacity go forward, what some of the issues are, Mitch, why don't you take the details, if you don't mind?

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

A

Yeah. Sure, Karl. I'm happy to, and good morning, Bobby. We're certainly doing everything we can to meet demand. As Karl said, I think that demand is outpacing the overall capacity in the industry. So, we're running full out, but there's a few challenges that I think we as well as I think everybody are facing. The first is labor in just general availability across the US especially as we try to ramp up second and third shifts, as well as the loss of employees to quarantine in communities with large COVID outbreaks. We've seen this particularly in some parts of Georgia, Missouri, Texas and California. Right now, we seem to be doing a little bit better in that area, but it's a constant battle for us.

The other big issue that...

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Okay.

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

A

...I think the industry faces is availability of non-woven fabrics. Yeah, as I mentioned, the diversion of spunbond to medical PPE has had a big impact. There are alternatives, needle punch, but they're more expensive, slower to run and availability of those fabrics is still so constrained. So, I think that this problem is likely going to be with us for a while, probably well into next year. And with the non – with the demand outpacing supply, I think we continue to see non-woven prices increase.

And then, I think the final element that comes into play is government restrictions in certain parts of the world. Today, Mexico is constraining our production capacity in couple of our plants, impacting particularly automotive and adjustable beds, and also some impact in India in automotive and PHC. So, we're, in short, running full out but there're some challenges for us to deal with on a day-to-day basis.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Okay. That's helpful. I appreciate that.

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

A

Yeah, Bobby, to add a little bit to that...

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Sorry. Go ahead.

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

A

...I don't think that it had a significant impact on 2Q, to finish the answer, that – in US Spring it might have slightly impacted the last week or so, it definitely impacted July. We're just not able to keep up with demand. Our people are pressed, they're doing a fantastic job under really difficult circumstances trying to communicate on a daily basis, but I see it more as a 3Q issue than it having been a 2Q issue.

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

A

Karl, that is a really good point as we really work through our inventory, had a little bit, and now it's day-to-day.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Okay. That's very helpful. That was actually part of my follow-up is, it'd be safe for us to look at or safe for us to think about the July data that you gave us, Mitch, and think that overall order growth is likely running above the overall reported sales growth that you talked about in Bedding just given that production catch-up that's taking place?

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

A

Yeah, that's right.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Okay. And then, when we think about the pricing of the non-woven fabrics, we've always talked about price in the past around steel-related aspects, how big of a deal is the non-woven fabrics and kind of the cost of an inner spring? And then, is that price increase that you're going to pass through to customers, is it big enough to kind of move the needle that we should account for when we think about second half revenue for the Bedding segment?

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

A

So, I think, if I saw like our price increases are up about 15%, 16% due to the non-wovens. So, some impact, but I wouldn't know – say that it's overly material. We do see continued pressure on non-woven pricing and it's not out of he question that we'd have to pass that through again later in the year. But I don't think it's an overall massive inflationary impact to us, Bobby.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Okay. Very helpful. I'm going to jump back in the queue, but I appreciate the details.

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

A

Thank you, Bobby.

Operator: Thank you. Our next question is from Susan Maklari with Goldman Sachs. Please proceed with your question.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning.

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

A

Good morning.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

And I want to say, Wendy, we'll miss you, but good luck to Cassie and Tarah. We're excited to work with them as well.

My first question is just, can you talk a little bit to the inventories in the end market? It sounds like things are extremely well when we think about Bedding and Auto, but can you just give us perhaps some insights on what you're seeing there and how you're thinking about being able to supply that inventory, given all these constraints that you're seeing?

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

A

Yeah, Susan, I'll start. In Bedding, inventories don't exist. We have a very good customer who emailed Mitch and I this morning that said we understand the supply chain issues. I can sell every mattress I can get my hands on. So, that – it's – in my history, certainly, I've never known the consumer to walk into a retail environment or to buy the product in an omnichannel environment and not get instantaneous gratification from a mattress perspective.

What our customers are telling us that there's not cancellations of those orders. The consumer is forgiving and understands the environment that we're working in. So, there's – just simply it's a case where there's significantly more demand than there is supply. And to Mitch's point, we're working daily on trying to mitigate that. It's a good problem, but a little painful for our people every day.

On the Automotive side, Mitch or Steve, you want to handle that inventory question?

Steven K. Henderson
Executive Vice President & President-Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.

A

Sure. This is Steve. Good morning, Susan. Yeah, from an Automotive perspective, the last information we have is from June, and the June inventory numbers were just about 2.6 million units or for 58 days' supply, so well within the range of the targets, actually towards the lower end, and that's down about 1.3 million units from June of last year or about 33%. And those declines happened despite the US sales in May falling 26%. So, really what's kind of happened is the COVID factory shutdowns that kind of helped self-correct the inventory levels in about two months. And as Mitch was mentioning in his comments, so there are some models, particularly some trucks and SUVs, where production is needed to increase as those products on the dealers' lots are becoming a fairly limited supply.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And following up on that, I have a slightly higher level question. We've obviously seen a lot of stimulus that came through over the second quarter. How are you thinking about or have you heard anything from your customers on how perhaps that has impacted the demand that we've seen? And obviously with all the conversations that are happening today in Washington around the next level of stimulus activity and the potential that maybe there's a gap that comes in there, how are you thinking about what that could mean for demand and this level of activity that you're seeing today?

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

A

Susan, it's a great question, with an answer that is pure speculation. But, certainly, as I said, we saw some quick pick up when the stimulus checks were initially cut, and thought that it was stimulus-driven and we don't believe our customers are telling us that the demand continued so aggressively actually to this moment that they believe that it was not stimulus-driven wholly, that it was driven by a consumer at least in our bedding and home furniture markets that is very much focused on the home.

And it's interesting that if you look at historically consumer spending on travel and entertainment, that's $1 trillion of spending that isn't finding a home right now. So, that's cruise lines, air fare, movie theaters, things like that. So, the consumer is very focused on their home. We believe that that bodes really well for the future. But the question really that we can't answer is, with the, let's call them, challenges or some people would call it dysfunction in Washington, what happens with extraordinary unemployment and does that start to slow demand, we haven't seen any of that. We think that, like I said, home focus is driving that consumption. But, frankly, we just don't know. I mean, there's – that's part of why we don't give guidance. We're appreciative of every order that we take and the margins associated with that and the goodness that it provides for our employees from a safety of job, but the visibility into the future is really tough to forecast.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Okay. I appreciate that. But your thoughts are helpful there. Thank you, Karl.

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

A

You're welcome, Susan.

Operator: Our next question is from Peter Keith with Piper Jaffray. Please proceed with your question.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Hi. Thanks, everyone, and congrats to Wendy as well and to the others in the team with the promotions. Karl, I know you said it's hard to forecast in the future, so, of course, I'm going to ask a question about forecasting into the future.

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

A

I thought you are going to give me an answer, Peter.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Probably more on a qualitative basis. So, just thinking about a COVID backdrop, let's say, in the medium-term is around us for the next year or so. I'm curious on the segments within your business that you think are benefiting from, we'll call it, COVID-related spending, I think you referenced the home. If you could flesh that out as areas that you see some positive activity that could be sustained? And then, conversely, you had mentioned a bit in the prepared remarks around extended weakness into Work Furniture and Aerospace, but also are there any other areas that we might be overlooking that could also be negatively impacted medium-term?

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

A

Peter, I'll take the positives and leave Mitch the negatives which – it's – I'm good at that actually. The positives continue to be global bedding. We're certainly seeing some more recent uplift in Europe, so those kind of home focus is not North American-centric, it's really global. So, I believe bedding, home furniture, certainly, the housing statistics bode well for our Flooring business. The Hanes businesses in both Geo Components and on the converting side that it's highly correlated to home focus, some PPE manufacturing.

So, those businesses we have every expectation we'll continue to do really well. There may be a little bit of a head fake for some of you in that. If you think of our Bedding segment, you might think of it as US Spring, ECS and – in that Bedding business, where it's much broader. It has some industrial materials business which is soft and we expect that to continue to be soft. And I actually erred when I said US bedding, I do mean not only the Spring business but ECS, ECS is doing a terrific job and that business is growing at a faster rate than US Spring. But – so those are the positives.

Mitch, I may have left some out. But if I did, why don't you hit those, and if you would take the longer-term, negatively – potentially negatively impacted?

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

A

Okay. Thanks, Karl. Hi, Peter. No, I think you hit the highlight of the positive impacts, Karl, I think that – for the most part, I think that Auto is maybe somewhere in between, certainly recovering from the depths of what we saw in the second quarter, and we're pleased to see that.

Peter, I think you're right. I mean, the – our Aerospace business is likely to remain challenged as that industry sort of sorts through the many difficulties that are there. It's a relatively small part of our overall business, pretty nimble, and fairly diverse actually and across our customer base. So, we'll hang in there and see what we can do to adjust in the face of that softer demand.

And then, I think Work Furniture probably will see less of an extreme decline in demand but, certainly, probably will lag returning to levels that we've seen in the prior years. Remember that we participate both from like task chair part of the industry, more traditional office, but also a lot on the collaborative soft seating side. And so, we'll see how that plays out as people adjust to their work whether it's at home or how they work in the office, there may be some opportunities there. But in either case where we're challenged, there we'll do our best to adjust our cost structure to the demand that we see.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. That's helpful, guys. I also just wanted to dig a little bit into the segment performance in July and maybe kick off first that the Furniture, Flooring & Textile sales growth of up 7%, I mean, that's – it's only three weeks. But that would be abnormally strong growth in the face of what you cite as weak Work Furniture business. So, punch line on that Furniture segment, what's driving that strong growth with some of the kind of really weakness? And then, also in Bedding, we talked about a strong bedding market, it's only up 1% in July. So, Karl, maybe you could dig into a little more on those areas of weakness that's holding it back?

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

A

Yeah. In Bedding, really, Peter, a lot of it is, you have to look at the whole segment and the negative impact from the industrial, but wire rod sales are a challenge. We still have not fully anniversaried the – or getting out of the Consumer Products business. So, there's some comps that are broader-based than just the US Spring, ECS business. So said differently, those consumer-focused bedding businesses that are embedded in the Bedding segment are performing much better than the segment totals would indicate.

Mitch, do you want to unpack the other segments or add any commentary on Bedding, if you want?

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

A

Yeah. Maybe just on Bedding, to be clear, so the rod trade sales, wire trade sales have been a drag. And remember that we exited the fashion bed business that we had last year. So, that's a bit of a drag on the overall Bedding segment, so just to round that out.

On the Furniture, Flooring & Textile segment, I think you're right. I mean, Work Furniture is lagging. But, I guess, I would say it's not awful. But Home Furniture has really bounced back strong, Flooring has held up very well, and both the Hanes Converting and Geo businesses are strong. So, they have been – the rest of the segment has been strong enough to more than offset the bit of a struggle we continue to see in Work Furniture.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. Sounds good, guys. Thanks a lot for all the insight.

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

A

Thank you, Peter.

Operator: Our next question is from Susan Maklari with Goldman Sachs. Please proceed with your question.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you, again. Can you talk a little bit about what you're seeing on scrap steel, raw materials, in general? Obviously, for ECS, we saw oil come down a tremendous amount in the second quarter. It's come back a bit though; just kind of across some of your big raw material inputs, what you're seeing there, and how we should think about that for the back half of the year?

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

A

Mitch, you want to take that?

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

A

Yeah, sure. Susan, I think not a whole lot of impact, actually. I think that scrap and rod pricing has moved up and down a little bit, but it is relatively stable and we don't see any big impacts there at least right now. On the chemicals side, there was some weakness in the second quarter. The major producers are trying to push through some price increases. Again, I'm hopeful that, that won't be too impactful either way. Maybe it gets back to sort of where we were in the first quarter. We'll wait and see. And then, we talked about previously the impact from the shortage of non-wovens and the increased pricing there. That's probably the most significant inflationary factor that we see right now.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And one more question. With all of these moving parts that you are seeing, are there any changes in how you're thinking about the incremental or the decremental margins for the third quarter across the different segments? Anything that we should just be aware of as we're kind of looking out?

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

A

No. Susan, you know that the answer is different depending on the business unit or frankly even segment. Recovery of Auto is a really good thing for us and the strength of Bedding is a good thing. The incremental and decremental still we believe are in that 25% to 35% range depending on business unit.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Yeah. I mean, they held up really well especially in your Furniture segment which was nice to see, so it's good to hear that we're still targeting in there. Thanks.

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

A

Susan, thanks for mentioning Furniture. Our people did a herculean task of – and executed so well on restructuring our Home Furniture business last year, and the sales are somewhat negatively impacted year-on-year comps, it really lessens – has lessened year-to-date the kind of the comp headwind, becomes a lesser issue in 3Q, but they did some really good work that showed up at the bottom line. So, thanks for acknowledging that.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. I know. Absolutely. I mean, the margin performance there was really impressive, given all the headwinds that they face, so it's good to see. You guys have done a really nice job in that segment. Your people have done a really nice job in that segment too. So, good luck there.

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

A

Thank you.

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

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Good morning, again, everybody. Quick – a couple, few follow-up questions. One, Jeff, when we think kind of at a high level with the cost take-outs, about $100 million identified, maybe about $60 million in the back half, understanding a lot of that depends on where demand moves to, but if we hypothetically think that demand gets back to prior-year levels at some point, how much of the cost take-outs could be permanent versus some that would need to come back?

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

A

Good morning, Bobby, and thanks for the question. First of all, the team has done a tremendous, tremendous job, like Karl and Mitch mentioned earlier, of really stabilizing our cost structure with the cost actions that were taken back really at the latter part of the first quarter. As we think about moving forward in the outlook, it's going to be, in our opinion, a challenge right now to give you a number, but I will tell you that we are working extremely hard to maintain as much of those cost savings as we possibly can even as demand starts to stabilize in the out quarters. I think using the word permanent in this type of still volatile environment is somewhat of a challenge for us. And so, we probably right now would not want to give out a number, but rest assured that we continue to keep that cost containment discipline in place and are looking to hold onto as much of that cost savings as we possibly can.

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

Okay. That's helpful. And then, secondly, Mitch, I just wanted to kind of fall back up on the comments about capacity in Bedding just to make sure I understand things correctly. Will the capacity constraints cause that segment's revenue or that business unit's revenue to have to decelerate here in 3Q or is it kind of the opposite that you'd expect it to be able to accelerate as you're able to catch up further on capacity as we move through the third quarter?

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

Yeah, I think it's the latter, Bobby. I think that we – I think we're overcoming the challenges, finding ways to solve them, finding ways to get more labor onboard, working through the supply chain issues on non-wovens, coordinating better with our customers, so that – on production. So, no, I don't think it will cause us to go backwards. I think we'll continue to accelerate, assuming the demand trend stays there.

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

Okay. And is the growth you're seeing in Bedding, is it broad-based across customers, or we've seen – the last couple years there's some big customers have done well, some smaller customers – I mean, some of the bigger customers have and it's kind of been mixed, but is that July demand pickup pretty broad-based?

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

Yes. I think it's very broad-based across customers, across channels, really across the entire industry.

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

Okay. It's all very helpful. I appreciate you. Let me jump back in here. Best of luck in 3Q.

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

Thank you, Bobby. Thank you.

Operator: Our next question is with Peter Keith, Piper Jaffray. Please proceed with your question.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Yeah. So, one last question for me, and maybe it's going to be for Wendy, who has been my go-to on this subject, but it's on the anti-dumping and kind of really on duty investigations. Could you provide us with some updated thoughts on the timeline that we could be thinking about in the next couple of months? And assuming that the Department of Commerce does apply some type of duty rate, when do you think your domestic Bedding business might be going to see some benefit from that?

Wendy Watson
Vice President-Investor Relations, Leggett & Platt, Inc.

A

I'll jump in. Peter, we don't expect the timeline to change. So, we would still expect a preliminary duty order sometime in mid- to late-October for the preliminary anti-dumping duties. And so, I think if you consider that sort of 90-day look-back period the Department of Commerce has where they have the right to look-back at imports coming in, that puts you in mid- to late-July. So, I would expect the import numbers starting in mid-July to be a lot less than what we've seen over the last several months. I mean, we still saw from the seven subject countries, we still saw over 0.5 million mattresses come in in May. So, I think you'll start to see those numbers come down starting in July when we get the July import numbers.

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

A

Yeah. Thank you, Wendy. And Peter, to add on to that, we're already seeing the impacts. It's – remember, the vast majority of those mattresses are foam-based. ECS is very, very busy. So, some of that is just abnormally strong domestic demand and some of it is demand that's being driven as those products onshore.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. Very helpful, guys. Thanks so much.

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

A

Yeah, thank you.

Operator: Our next question is from Judy Merrick with SunTrust. Please proceed with your question.

Judy Merrick
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks. This is Judy on for Keith Hughes. I was just wondering if you had any other commentary you could give on the auto outlook? Anything you might've learned to use the capacity with Asia being higher? Is there anything you've learned from the Asia and the trend has been consistent there, any other commentary you have on the Auto forecast? Thanks.

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

A

Good morning, Judy. Steve, if you don't mind, why don't you kind of – and thank you for the question, by the way. We need to talk more about Auto. If you unpack that, if you would, Steve?

Steven K. Henderson

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

A

Yes, sure. Good morning, Judy. We don't have the kind of visibility that we'd like to have going forward. What we are seeing in Q3 is the demand continues to increase that we – as we've seen before. But going out into Q4 and beyond, we rely on industry experts such as IHS. And IHS is saying that we'll continue to see the recovery through Q3 and Q4 to roughly 90% of normal or 2019 level. And we should see that recovery continue into 2021, being up about 13% over their forecast for 2020.

So, continued improvement in the market, but it's going to take several years to get back to the 2019 levels. The positive side for the business is the models that are in the highest demand, are also the highest content vehicles. So, that plays well for like it over the long-haul. The industry trends in terms of sustainability, electric vehicles, autonomous vehicles are all still in play, although some of that is being pushed out, and that continues to give us opportunities to play in the future, although the timing of some of that may have changed. So, industry will continue to recover. We expect pretty significant increase into 2021 if things hold up the way we are planning; and then longer-term our strategies, our product development seem to be right on target for customers.

Judy Merrick

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay, that's helpful. Thank you.

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

Susan R. McCoy

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

Just wanted to thank you guys for joining the call today and we'll talk to you next quarter. Thanks.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.