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Leggett & Platt, Inc. (LEG)

Q3 2021 Earnings Call

### **CORPORATE PARTICIPANTS**

Susan R. McCoy

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

Karl G. Glassman

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

J. Mitchell Dolloff

Director, President and Chief Operating Officer, Leggett & Platt, Inc.

Jeffrey L. Tate

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

### OTHER PARTICIPANTS

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

**Bobby Griffin** 

Analyst, Raymond James & Associates, Inc.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Allalyst, Fipel Sallulei & Co

Judy Merrick

Analyst, Truist Securities, Inc.

### MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings, and welcome to the Leggett & Platt Third Quarter 2021 Webcast and 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, Susan McCoy, Senior Vice President of Investor Relations. Thank you, Ms. McCoy. You may begin.

#### Susan R. McCoy

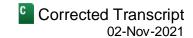
Senior Vice President-Investor Relations, Leggett & Platt, Inc.

Good morning and thank you for taking part in Leggett & Platt's third quarter conference call. 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; and Cassie Branscum, Senior Director of IR.

The agenda for our call this morning is as follows: Karl will start with summary of the main points we made in yesterday's press release; Mitch will discuss operating results and demand trends; and Jeff will cover financial details and address our updated outlook for 2021.

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 IR 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

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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-Qs 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 third quarter call. Yesterday, we reported record quarterly sales from continuing operations of \$1.32 billion, EBIT of \$144 million and earnings per share of \$0.71. Sales in the quarter were up 9% versus third quarter 2020 and reflect the pass-through of significant inflation in 2021, partially offset by lower volume in several of our businesses. When comparing to the pre-pandemic results of the third quarter 2019, trade sales grew 6%, adjusted EBITDA increased 1% and adjusted EPS was flat.

Like many other companies, we continue to navigate a myriad of macro market challenges, including supply chain issues related to semiconductor shortages, foam chemical shortages, labor availability and freight challenges, as well as higher costs associated with each of these issues. Given this very challenging operating environment, we are extremely pleased that our teams were able to deliver third quarter earnings in line with a pre-pandemic and relatively strong third quarter 2019. We narrowed our full year guidance range for both sales and EPS, primarily reflecting lower expected volume in our automotive business due to declines in global production forecast. Jeff will provide more detail on the updated guidance later in the call.

Leggett remains well positioned both competitively and financially to capitalize on long-term opportunities in our various end markets. Our enduring long-term fundamentals give us confidence in our ability to continue creating long-term value for our shareholders.

With that, I'll turn the call over to Mitch.

#### J. Mitchell Dolloff

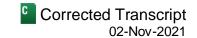
Director, President and Chief Operating Officer, Leggett & Platt, Inc.

Thank you, Karl, and good morning, everyone. First, I would like to thank our employees for leading us through another challenging quarter with great success. Your determination and agility helped us to navigate the material, labor, and transportation issues that Karl mentioned, allowing us to better serve our valued customers. I greatly appreciate your commitment, ingenuity, and forward-looking viewpoint. I'm proud to be a part of your team and of all that we've accomplished together.

Sales in our Bedding Products segment were up 13% versus the third quarter of 2020 and up 10% versus the third quarter of 2019, primarily from raw material-related selling price increases from inflation and steel, chemicals, and nonwoven fabrics. Volume was down in both the one- and two-year periods, primarily due to chemical shortages, labor availability, and transportation issues, which continued to constrain US mattress production, negatively impacting component demand and our finished goods production.

Availability of chemicals used in our specialty foam operation is slowly improving, but remains challenging and dynamic. We import chemicals to supplement domestic supply, but port delays and logistics issues are limiting access to those products. We now see chemical challenges continuing into 2022. Our European Bedding

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business softened during the third quarter as consumer demand returned to more normal seasonal levels. In third quarter last year, market demand was very strong as OEMs and retailers built inventory and COVID restrictions began to ease.

We anticipate long-term growth opportunities in Europe from the Kayfoam acquisition we completed in June. Similar to the trends we've seen in the US Bedding market over the past several years, European consumers are purchasing more mattresses online and in compressed form, increasing demand for specialty foam and hybrid mattresses. We are well-positioned to support our branded mattress customers as a supply chain partner for components and private-label finished mattress needs.

Adjusted EBITDA margins in the segment improved over third quarter 2019, primarily from expanded metal margins in our Steel Rod business and fixed cost actions taken last year. Margins were lower versus third quarter of 2020, primarily from lower volume, production inefficiencies driven by supply chain constraints and higher freight costs.

Sales in our Specialized Products segment were down 3% from third quarter 2020 and down 12% from third quarter 2019 due to lower volumes in Automotive and Aerospace, partially offset by growth in hydraulic cylinders. In our Automotive business, volume was down over the one- and two-year periods. The semiconductor issues that have impacted many industries remain the major challenge for the automotive industry with global production forecast for the balance of 2021 declining dramatically this past quarter and again in October.

Industry production was impacted to a much larger degree than expected with many OEMs reducing or completely shutting down production of some models for extended periods. Consumer demand remains strong and vehicle inventory remains at record low levels. Once supply chain stabilize, the industry should see improving production. Industry forecasts indicate recovery starting the back half of next year and continuing through 2023.

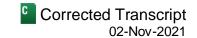
In our Aerospace business, demand for fabricated duct assemblies is near third quarter 2019 levels, but demand for welded and seamless tube products is still well below pre-pandemic levels. With the lingering impact from pandemic-related disruption in air travel and resulting buildup of aircraft and supply chain inventories, the industry is not anticipated to return to 2019 demand levels until 2024.

End market demand in Hydraulic Cylinders is very strong and order backlogs continue to grow. However, global supply chain constraints and labor availability has hampered the ability of our OEM customers to ramp up production. We expect our sales to increase as OEM production increases, but supply chain constraints in this business could persist into 2022. EBITDA margins in the segment declined over the one- and two-year periods, primarily from lower volume, partially offset by fixed cost actions taken last year.

Sales in our Furniture, Flooring & Textiles Product segment were up 12% versus third quarter 2020 and up 13% versus third quarter 2019, primarily from raw material-related selling price increases and demand strength in Home Furniture. We expect strong demand in our Home Furniture business for the remainder of the year and into 2022.

While demand remains below 2019 levels, Work Furniture sales continued sequential improvement for the fifth consecutive quarter, with strong demand for products sold for residential use and improving demand in the contract market. Volume was down in our Geo Components business as retail activity returned to more normalized levels after a surge in demand last year from the consumers focused on home improvements.

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Volume was also down in Fabric Converting due to the non-recurrence of the surge in medical and filtration sales last year. In Flooring products, residential end market demand is above pre-pandemic levels, whereas hospitality demand remains well below 2019 levels. Volume was down in the quarter due to limited chemical supply, labor availability and transportation disruptions.

Adjusted EBITDA margins in the segment improved over the third quarter of 2019, primarily from improvements in our Home Furniture business and fixed cost actions taken last year. Margins were lower versus third quarter 2020, primarily from lower volume. Overall, the fixed cost actions we took last year reduced our third quarter cost by approximately \$20 million versus the third quarter of 2019.

Across all of our businesses, we remain focused on controlling our costs by only adding fixed cost as necessary to support higher volumes and future growth opportunities. With fluctuating demand and limited labor availability, we are making short-term investments to attract and retain our labor force.

We have rebuilt inventory at our Steel Rod, Drawn Wire and US Spring businesses following severe depletion in 2020 and are holding slightly higher levels of inventory – in inventory in order to meet anticipated customer demand as foam and labor availability improves across the industry.

We will take our rod mill out of operation for approximately three weeks near the end of this year to replace the reheat furnace and are holding additional safety stock as a precautionary measure. As a result, higher levels of inventory in these businesses are expected through the remainder of the year and will likely alter our normal seasonal cash flow cycle to some degree.

I'll now turn the call over to Jeff.

Jeffrey L. Tate

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

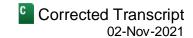
Thank you, Mitch, and good morning, everyone. In the third quarter, our cash from operations was \$50 million, down from last year's third quarter record of \$261 million, primarily due to planned working capital investments to build and maintain the higher inventory levels that Mitch discussed earlier as well as inflation and the cost of those inventories. With the expectation of carrying higher inventory through the end of the year and lower forecasted earnings, we have reduced our full year operating cash estimate.

We now anticipate cash flow from operations to approximate \$350 million in 2021. At the end of the quarter, adjusted working capital as a percentage of annualized sales was 14.3%. Through September, we brought back \$232 million of offshore cash and currently expect to return over \$240 million of cash for the full year. In August, we increased the quarterly dividend by \$0.02 to \$0.42 per share. At an annual indicated dividend of \$1.68, the yield is 3.6% based upon Friday's closing price of \$46.85, one of the higher yields among the S&P 500 Dividend Aristocrats.

This year marks our 50th consecutive year of annual increases. We're proud of our dividend record and we plan to extend it. During the third quarter, we used our commercial paper program to repay the remaining \$280 million of the Term Loan A issued when we acquired ECS. We also amended the terms of our \$1.2 billion revolving credit facility and extended the maturity to September of 2026.

Our strong financial base, along with our deleveraging efforts over the last two years, give us flexibility when making capital and investment decisions. We ended the quarter with net debt to trailing 12-month EBITDA of 2.41 times and \$965 million of total liquidity. Our long-term priorities for use of cash are unchanged. They include, in

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order of priority, funding organic growth, paying dividends, funding strategic acquisitions, and share repurchases with available cash. For the full year 2021, we expect capital expenditures of approximately \$120 million, dividends should approximate \$220 million, and acquisition spending of approximately \$150 million. We do not expect any significant share repurchases as we continue to focus on deleveraging.

As announced yesterday, we are narrowing our sales and earnings per share guidance ranges. 2021 sales are now expected to be \$5 billion to \$5.1 billion, or up 17% to 19% over 2020. Guidance reflects mid-single digit volume growth, raw material related price increases, currency benefit and approximately 1% growth from acquisitions net of divestitures. The change versus prior guidance of \$4.9 billion to \$5.1 billion primarily reflects higher raw material related price increases and lower expected volume in Automotive, resulting from semiconductor shortages impacting industry production. 2021 earnings per share are now expected to be in the range of \$2.86 to \$2.96, including \$0.16 per share from the real estate gain recognized in the second quarter.

Full year adjusted earnings per share is now expected to be \$2.70 to \$2.80, with the change versus prior guidance of \$2.70 to \$2.90 primarily due to lower Automotive volume. This guidance also assumes fixed cost savings as a result of actions taken in 2020 to now be approximately \$75 million. Based upon this guidance framework, our 2021 full year adjusted EBIT margin range should be 11.1% to 11.2%. Earnings per share guidance assumes a full year effective tax rate of 23%, depreciation and amortization to approximate \$190 million, net interest expense of approximately \$75 million, and fully diluted shares of \$137 million.

In closing, we remain focused on cash generation, while reducing debt and deploying capital in a balanced and disciplined manner that positions us to capture near- and long-term growth opportunities both organically and through strategic acquisitions.

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

### Susan R. McCoy

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

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

### QUESTION AND ANSWER SECTION

**Operator**: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first questions come from the line of Susan Maklari with Goldman Sachs. Please proceed with your questions.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Thank you. Good morning, everyone. My first question...

Karl G. Glassman

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

Good morning, Susan.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

...is around maybe could we get some more color on what you're hearing from some of your customers in terms of auto production, understanding that the chip headwinds are, obviously, pretty tough out there. But just any kind of incremental commentary around what some of the OEMs are telling you and any regional differences as you think about the different parts of the world that you're seeing in terms of production levels and availability.

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

Good morning, Susan. Well, Mitch will answer the question, and we'll kind of marry that with some IHS data which helps us from a directional perspective. But Mitch, why don't you go ahead and start it, if you don't mind.

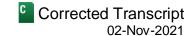
# J. Mitchell Dolloff Director, Provident and Chief Operating Officer, President Radding Products, Loggett 9, Platt Inc.

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

Yeah. Sure. Thanks, Karl, and good morning, Susan. Yeah. Let me take a shot at that. It's kind of mixed signals still from the OEMs, right, as they're challenged with understanding what their production schedules are going to be if the chip situation remains very – very dynamic. But if we step back to the July IHS production forecast for the major markets so that'd be North America, and Europe and the sort of developed Asian countries, which is most impactful to us. As we – that July forecast showed year-over-year production being up just under 8%. And so then, it has declined and had been declining sort of month to month in small increments. And then, all of a sudden, in September, took a big drop down, which I think became sort of more realistic to what's actually happening out there with the chip availability and then took another step down in October. So, now, we've gone from being up 8% year-over-year for 2020 to down over 2% is the forecast. And I think there is still risk there. But I think, again, this is chip production on OEM production that trails back to us. From our standpoint, we do use some chips, but they're pretty generic, and we've so far been able to navigate the availability there. So, this is the industry impact on us.

As we look into the third quarter here, we would see production for the major markets was down almost 23% year-over-year, and the outlook for Q4 is down just about 20%. So, I think it continues to be challenging through the remainder of the year. And then, as for the forecast looking out into 2020, I think you see, year-over-year, maybe down a bit in the first quarter and maybe a little bit of improvement in the second quarter and then a more optimistic look for the back half of 2022. I think that we'll have to continue to watch that. I think the chip situation

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continues to be very dynamic. But hopefully, we'll start seeing some improvement in the back half of 2022. And the current forecast shows sort of being back at 2019 production levels by the end of 2023.

You asked a second part of that question around regional differences, which I think is a really good question. It feels like that the North American OEMs were impacted most quickly as they ramped up production most quickly and feels like that is maybe getting a little bit better. I don't see any massive surge, but I think maybe is sort of starting to level out and recover slightly. And now, we're starting to see more impact spread to Europe and a little bit into Asia. So, I think it is a little bit dynamic regionally, but I think, we're probably seeing the - continued to see hopefully sort of the worst impact in Q3. But we've said that before, but I think we don't see the kind of very optimistic surge coming in the next quarter or two that the industry was forecasting previous to that. Let me pause there and see if that's helpful to you.

#### Susan Maklari

Analyst, Goldman Sachs & Co. LLC

No. That's very helpful. Thank you for all that color. That was great, Mitch. And my follow-up question is, you've obviously proven the ability to get price, even this guarter across Bedding and Furniture and Flooring. I mean, you're seeing that kind of mid, high-teens pricing. Where are you just kind of across the business as you think about price/cost and how should we be thinking about that as we look to 2022? Are you positive? Are you fairly caught up? Is there more to come? Is any color there?

#### J. Mitchell Dolloff

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

Yeah. Sure. Yeah. I think we're in a really good spot. I mean, I think that we have made some changes, some of the restructuring we did in Home Furniture to walk away from sort of lower-margin business, commodity business has allowed us to be more impactful in passing along inflation. And I think inflation levels are high enough that we're having to pass it along, our customers are having to pass it along and it's just a different dynamic than historically. So, I feel like we're pretty well caught up. Sometimes we have a bit of a lag. But I'd say, for example, there was a chemical increase that came through sort of in the mid of the third quarter. It took us a little bit longer than it had to pass that through, but now that's through as well. So, I don't see that dynamic changing.

I think where it's most challenging, of course, is in the Automotive side where we have long-term contracts, but we don't have the same kind of inflationary impacts that we have, say, across steel and chemicals and nonwoven. So, we're able to offset those either through discussions with our suppliers or through delaying or eliminating that sort of annual price downs that are traditional in that industry or through other VAV activities. So, I feel like the teams have done an incredibly good job of passing through the inflation that we've seen so far, and I think we're well-positioned to do that should it continue.

#### Susan Maklari

Analyst, Goldman Sachs & Co. LLC

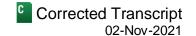
Yeah. Okay.

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

Karl G. Glassman

Yeah. And to follow on to that, Susan, as Mitch said, I think we're fully caught up now with the foam increase that went into place early October. The issue that's out there is it looks like there'll be some steel inflation, some - the scrap forecasts are up in November when scrap settles here next week. So, I think that we'll probably see some

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continued inflation in the steel market that we'll recover, as we always do, with the historic lag. But we're not done from an industry perspective as it relates to steel. So, some people have asked about metal margin. I expect that the metal margin is sustainable for the forecastable future and may even expand because of really strong demand signals augmented by commodity inflation and basic scrap.

Susan Maklari Analyst, Goldman Sachs & Co. LLC	Q
Okay. That's very helpful. I'm just going to squeeze one more in, which is kind of continuing on the of price versus volume. When we look at the update to the margin guidance that you gave and the move down, my assumption is that's really reflecting all the pricing that's coming through while the come off. As we think about next year, if we assume that that volume recovery starts to come bac production levels rise kind of across Bedding, Autos, all these segments, is it fair to assume that yet incremental margin expansion along with that?	at incremental e volumes have ck in and
Karl G. Glassman Chairman & Chief Executive Officer, Leggett & Platt, Inc.	A
Yes. I think your suspicion is correct. It's volume-dependent, Susan.	
Susan Maklari Analyst, Goldman Sachs & Co. LLC Yeah.	Q
Karl G. Glassman Chairman & Chief Executive Officer, Leggett & Platt, Inc.	А
We need productive activity and we need some supply chain stability. So, we get past the manufainefficiency that's caused by the supply chain disruption. So, units and predictable supply chain way in adding the incremental margin.	•
Susan Maklari Analyst, Goldman Sachs & Co. LLC	Q
Yeah. Okay. All right. Thank you. I will pass it along.	
Karl G. Glassman Chairman & Chief Executive Officer, Leggett & Platt, Inc. Thanks, Susan.	A
Operator: Thank you. Our next questions come from the line of Bobby Griffin with Raymond Jan proceed with your questions.	nes. Please
Bobby Griffin Analyst, Raymond James & Associates, Inc.	Q
Good morning, everybody. Thank you for taking my question. hope everybody is doing well.	
Karl G. Glassman Chairman & Chief Executive Officer, Leggett & Platt, Inc.	A

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Corrected Transcript 02-Nov-2021

Good morning, Bobby.

#### **Bobby Griffin**

Analyst, Raymond James & Associates, Inc.

I guess, first, I want to - Karl, since we brought up it in Susan's questions, just touch back on steel real guick. There has been over the last couple of days some talk about changes in the EU/US aluminum/steel tariffs. I don't quite know exactly what's changing or if it's been settled completely yet, but do you see any impact to Leggett from those changes and anything there that could change the dynamics happening right now with the steel and rod spread?

Karl G. Glassman

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

Bobby, it's a really good question and we factually don't know what those negotiations are at this point. We do not believe that they'll have an impact from the standpoint that the steel business is truly local. And the US rod and wire producers have been assisted by anti-dumping actions that are in place, will continue to be in place that are separate and apart from any tariffs. So, we do not think that it will be disruptive in any way. It's somewhat dependent on a strong EU economy, and the steel market in the EU itself is pretty tight, too. So while it's early, we don't expect any, really, impact at this point.

**Bobby Griffin** 

Analyst, Raymond James & Associates, Inc.

Okay. That's helpful. And then, I just want to maybe also touch on Automotive. Clearly, a very dynamic supply chain environment. And I was just curious, from your perspective, is there things you guys can do where you're prepared, when the chip availability at least comes back, and maybe talk a little bit about the ability of the Automotive segment to ramp up quickly in production, because I have a feeling once chips open back up, there is going to be a flood of orders from the OEM to try to get these cars back on the lots and stuff.

Karl G. Glassman

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

[Mitch?

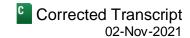
J. Mitchell Dolloff

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

Yeah. That's a great question. Yeah. Sure. Thanks, Karl. That's a great question, Bobby. I think, one, I think that there had been this optimism of, hey, this is going to get resolved one day and it's going to come pouring back. And I don't think that that's what it looks like. As we talked about, I think we see some modest improvement through the first half of next year. But I do think, I mean, a really important point to this is that the consumer demand for vehicles is very, very strong and inventories are very, very low. And so, at some point, you are right, when this constraint resolves itself, that's going to be a very strong tailwind for us and for the industry, in general, but not only to get vehicles on the lots and service demand, but then to build back up inventory levels.

Fortunately, for us, a lot of the Automotive production is more automated than some of our other production. And so, I think that there is not – I think it's that balance of making sure that we're maintaining appropriate levels of labor, as I've mentioned, like investing in our labor force in these times, difficult to bring people on. And as we see things start to improve, we'll make sure that - I think that we'll have visibility and time to continue to ramp up. But I don't think it's equipment adds or things like that.

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#### **Bobby Griffin**

Analyst, Raymond James & Associates, Inc.

Okay. That's helpful. And then lastly from me, and I'll turn it over, is just, Karl, inside the Bedding segment, clearly, hard to kind of see what the industry does on a quarter-by-quarter basis. But maybe can we unpack the US Spring volumes and the foam volumes versus what your expectations or what you kind of heard how the industry, the US industry performed in 3Q? And is there any way to maybe parse out what some of the labor and availability challenges cost from a volume standpoint?

Karl G. Glassman

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

Well, that is a complex question, Bobby, and we're...

**Bobby Griffin** 

Analyst, Raymond James & Associates, Inc.

Is it?

Karl G. Glassman

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

...going to actually take it back. Mitch and I have been talking about this a lot. So, he is going to answer it. But we're going to kind of take you back in history a little bit to give you kind of a status update of where we think the industry, where it's come from. So, Mitch, if you don't mind, will you unravel all that?

#### J. Mitchell Dolloff

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

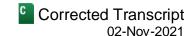
Yeah. Let me take a shot at it, Karl. So, Bobby, let's focus on the US Spring side here first, right, so on the component cycle here. And we've been in a little bit of a different cycle dynamic than the industry. So if we step back and we think about Q2 of last year, when the pandemic hit, everything slowed down. We had a surge in need for medical products. And so, all of a sudden, at the end of the second quarter, demand started to creep back up. We all thought that was a great thing and then really became very strong in the third quarter of last year.

And for us, we had nonwoven shortages. We had labor shortages. So, we were sort of the first negatively impacted by all of these supply chain constraints that are so common in our dialogue today. And so, in the third quarter of last year, we were just literally depleting our inventory and making all we could, but we couldn't keep up. And you probably remember those challenging times for us. So, from a comfort coil perspective, for example, that was a – Q3 of last year was even higher than of 2019. So, it was a bit of a peak for us. And again, just depleting our inventory.

And then, as we went into Q4, our volumes dropped significantly not because there wasn't demand, but because we just couldn't get the labor and the nonwovens material that we needed to keep up. We also, at that time, walked away from a decent volume of low margin, open coil business. So, that has been a bit of a drag, from a sales standpoint, but not really from a profitability standpoint. Since that time in, call it, Q4 of last year, we've been sequentially improving our production and our sales.

And so, I guess, that as we went through that time where we were unable to fully support our customers, they, not surprisingly so, then turned to imported product which finally started to come towards the end of last year, more of sort of headed to beginning of this year, just as the OEMs then started facing their foam shortages and then later some of their labor constraints. So, there is a bit of excess inventory that's been worked through. Now, we have

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the data with hindsight that shows like those imports of component innersprings are coming down and our volumes are sequentially improving and have every guarter since the fourth guarter of last year.

So, we're just on a little bit of a different dynamic cycle. And so, as we said, we're here with strong inventory position, keeping labor in place to be able to support our customers as their production improves, so they work through their backlogs, work through the foam shortages and their labor constraints, and move into next year. Let me pause there. Does that help?

Bobby Griffin

Analyst, Raymond James & Associates, Inc.

Yes. That's helpful, Mitch. I appreciate the detail. Sorry to end on a complex one, but I do appreciate you taking the time to walk through it.

J. Mitchell Dolloff

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

Okay, All right, Great, Bobby, And then I think if we say from a foam standpoint for us, Q3 was also very strong from an ECS standpoint just because of the business we were winning, and then more in line with the overall industry, we had the chemical constraints that have been - continue to impact us, but are hopefully getting a little bit better in Q4.

**Bobby Griffin** 

Analyst, Raymond James & Associates, Inc.

Okay. Helpful. Best of luck here in 4Q and then heading into 2022.

J. Mitchell Dolloff

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

Thank you, Bobby.

Operator: Thank you. Our next questions come from the line of Peter Keith with Piper Sandler. Please proceed with your questions.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

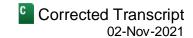
Hi. Thanks. Good morning, everyone. Thanks for taking the questions. Maybe I'll just follow up on that last comment from Mitch just around the foam business and feeling pretty good about it. I'm having a hard time reconciling the negative 17% drop in volume year-on-year. I know there is the chemical constraints, but we thought at this point, you'd be having some benefits from anti-dumping and it does seem like the demand backdrop through Q3 has been pretty good. So, can you just help me understand what's going on with the drop in volume?

J. Mitchell Dolloff

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

Sure, Peter. I'll take a shot at it. I think maybe you misunderstood my comment. So, what I was saying was that our volume was really strong in the third quarter of last year at ECS as we were winning new business. And then, our impact has been more like the overall OEM industry impact as we've continued to face supply chain constraints due to chemical shortages throughout the year, including during the third guarter.

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I think that outlook for us for chemicals in the fourth quarter is improving to some degree, hopefully, would allow us to be more in line to service the full demand that we have. But that is really the constraint for us is the chemical availability, and it remains a very challenging and dynamic situation. But I think it's improving.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

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Okay. All right. That's helpful. And so, maybe this is related to it, but if we're just looking at the sales guidance for the fourth quarter, it looks like you're calling for, again, high-single digit year-on-year growth, but it's against a tougher comparison than Q3. So, the two-year growth needs to accelerate quite a bit. Could you just help us get comfortable with what part of the business should be accelerating on a two-year basis?

Susan R. McCoy

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

Peter, this is Susan. And a big part of that increase that you're looking at will be on a two-year basis actually will be inflation. I think volume in the two-year look is flat to slightly down.

Peter Jacob Keith

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Analyst, Piper Sandler & Co.

Okay. So, there's more price increases coming through for the fourth quarter?

Susan R. McCoy

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

Yeah. And if you remember – well, I have to look this up myself. So, you may not remember, but we were in a deflationary setting in the back half of 2019, thinking of the two year. And actually, last year, we had just begun to inflate selling prices in the fourth quarter. So, we were flat in the third quarter. Deflationary first half, flat in third quarter, and finally had a little bit of inflation in the fourth quarter. So, yeah, we've had – with all the inflation we've brought in this year, most of that year-over-year change, no matter which quarter you're looking at versus which prior one-year or two-year look-back, a big part of all of that is pricing.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Okay. Very helpful. And then I had one last question just on labor availability. You've mentioned this now for both mattresses and flooring, I believe. So, what actions are you taking to address the labor availability that seems to be prevalent everywhere so it doesn't seem like an issue that's going to be going away?

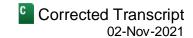
Karl G. Glassman

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

Yeah. I think there is two different issues, Peter. And when we spoke to labor availability on the Bedding side, it was primarily a customer issue. So, what our customers are telling us is, as foam is becoming more available to them, that they're having a more difficult time ramping their productive capacity because of the availability and/or ability to retain labor. So, that is more of an external issue. We have had pockets of labor availability issues. From time to time, it's very, very local. In – our comment on the Flooring side is in the third quarter, we had some lack of available labor in two geographies. That has been partially mitigated, augmented by the challenges that we face from a trucking and transportation labor that our Flooring business is all delivered to stores, primarily retail outlets,

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and that availability of trucking and delivery labor has been a challenge. So, it's not a comp issue at all. It's a matter of just live bodies willing to work and come to work on a repetitive basis.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Okay. Thanks for clearing that up for me. Appreciate it. Good luck.

Karl G. Glassman

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

You're welcome.

**Operator**: Thank you. [Operator Instructions] Our next questions come from the line of Judy Merrick with Truist. Please proceed with your questions.

**Judy Merrick** 

Analyst, Truist Securities, Inc.

Thanks. This is Judy on for Keith Hughes. Just clarify one on your answer, Karl, on the industry for Bedding for Bobby's question. So, your spring's inventory is in good shape even though the foam is not expected to be resolved into 2022, but where your inventory is now in the springs?

Karl G. Glassman

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

Yes. Inventory is in really good shape. The foam situation is improving slowly, but is incredibly volatile, and we don't think that there will be full availability of chemicals into 2022. So, Judy, you have it right.

Judy Merrick

Analyst, Truist Securities, Inc.

Okay. Great. Thank you.

Karl G. Glassman

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

You're welcome.

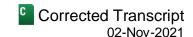
**Operator**: Thank you. There are no further questions at this time. I would like to turn the floor back over to Susan McCoy for any closing comment.

Susan R. McCoy

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

Thank you, Daryl. All I have to say is just thank you for joining us today and we look forward to talking to you again next quarter. Thank you.

**Operator**: Thank you. That does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a great day.



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