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LEG - Q4 2017 Leggett & Platt Inc Earnings Call

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OVERVIEW:

Co. reported 4Q17 sales of $984m and EPS from continuing operations of $0.27. Expects 2018 sales from continuing operations to be $4.2-4.3b and EPS to be $2.65-2.85.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Greetings, and welcome to the Leggett & Platt Incorporated Fourth Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ms. Susan McCoy, Vice President of Investor Relations. Thank you, Miss McCoy. You may begin.

Susan R. McCoy - *Leggett & Platt, Incorporated - VP of IR*

Good morning, and thank you for taking part in Leggett & Platt's fourth quarter conference call. Joining me today are Karl Glassman, our President and CEO; Matt Flanigan, EVP and CFO; Perry Davis, who is EVP and President of the Residential and Industrial segments; Mitch Dolloff, EVP and President of the Furniture and Specialized segments; Dave DeSonier, our Senior Vice President of Strategy and Investor Relations; and Wendy Watson, who is our Director of Investor Relations.

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

This conference call is being recorded for Leggett & Platt and is copyrighted material. This call may not be transcribed, recorded or broadcast without our expressed permission. A replay is available from the IR portion of Leggett's website. We posted to the Investor Relations portion of the website yesterday's press release and a set of PowerPoint slides that contain summary financial information, along with segment details. Those documents supplement the information we discussed 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.

With those comments, I'll turn the call over to Karl Glassman.

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

Good morning, and thank you for participating in our fourth quarter call. I want to take a moment and thank our dedicated fellow employees around the world for your efforts this past year. You are very much appreciated.

We are pleased with our fourth quarter and full year 2017 sales growth, which was largely driven by new programs, increased content and market share gains. Our EPS was lower in 2017, most significantly from the effect of onetime costs associated with the Tax Cuts and Jobs Act, which Matt will discuss later in the call.

Adjusted EPS was 1% lower, primarily from rising steel cost over much of the year and LIFO expense, which pressured profit margins.

For 2018, we expect that market improvement and Leggett initiatives will drive sales growth and increases in earnings per share.

Last week, we acquired Precision Hydraulic Cylinders, a leading global manufacturer of highly engineered hydraulic cylinders, primarily for the materials handling market. The purchase price was $85 million. PHC has current annual revenues of $81 million and represents an attractive new growth platform for us. Hydraulic cylinders is one of a handful of new markets identified during the Styles of Competition analysis and growth process we began in 2016. PHC serves a market of mainly large OEM customers utilizing highly engineered, codesigned components with long product life cycles, yet representing a small part of the end product's total cost. This business aligns extremely well with the Critical Components style shared by many of our strongest performing operations and is expected to add 2% to our 2018 sales.

Hydraulic cylinders is a new business unit in our Specialized Products segment and will report to Mitch. We welcome PHC's employees in North Carolina, the U.K. and India to the Leggett & Platt family.

Our businesses remained well positioned for long-term profitable growth. Matt will run through our guidance for 2018 and our 2020 financial targets later in the call.

Fourth quarter sales increased 9% to $984 million, reflecting 5% higher volume from strength in Automotive, Adjustable Bed and several other businesses and 4% growth from raw material-related price increases and currency impact. Acquisitions added 2% to sales growth, but were offset by divestitures.

Fourth quarter earnings per share from continuing operations were $0.27. This included several items outlined in yesterday's press release that net to a $0.32 per share reduction in earnings. Excluding these items, adjusted fourth quarter earnings increased 11% to $0.59 per share from $0.53 last year. This increase is primarily due to higher sales in the quarter.

For the full year, sales increased 5% with organic sales up 6% from a combination of 4% volume growth and 2% benefit from raw material-related price increases and currency impact. Acquisitions added 2% to sales, but were more than offset by divestitures.

Full year earnings per share from continuing operations decreased to $2.14 from $2.62 in 2016.

Current year earnings include the fourth quarter $0.32 per share net reduction just mentioned. Full year 2016 earnings included a $0.13 per share net benefit from divestiture gains and other small items.

Adjusted full year earnings per share decreased 1% to $2.46. Adjusted EPS benefited from higher sales, a lower effective tax rate and a lower share count.

However, these improvements were more than offset by higher steel cost, the lag associated with passing along that ongoing inflation and several smaller factors.

During 2017, we completed 3 small acquisitions, including a distributor and installer of Geo Components, a surface-critical bent tube manufacturer supporting our private-label seating strategy and work furniture, and a producer of bonded carpet underway. We also continued investing capital to support organic growth opportunities, primarily in Automotive, Bedding and Adjustable Bed.

During the year, we divested the last remaining business within our Commercial Vehicle Products.

In the past, we have provided segment narrative in our prepared remarks during this call. We are departing from that practice since those results for both the quarter and the year are detailed in yesterday's press release and in the slide deck we posted to the Investor Relations website. We are making this change to reduce repetition and allow more time for Q&A. We will be happy to discuss any questions you have relating to the segments during Q&A at the end of the call.

I'll now turn the call over to Matt.

Matthew C. Flanigan - *Leggett & Platt, Incorporated - CFO, EVP and Director*

Thanks, Karl, and good morning, everyone. First, I'll address the recently enacted Tax Cuts and Jobs Act. Our fourth quarter and full year 2017 earnings include a net $50 million or $0.37 per share charge for the estimated impact of the TCJA. This is comprised of a $67 million charge related to the deemed repatriation of accumulated foreign earnings, a $9 million charge for accrual of foreign withholding taxes on expected future cash repatriations and a $26 million tax benefit from the revaluation of tax liabilities at the new lower U.S. federal tax rate.

As provided in the act, the deemed repatriation tax will be paid over 8 years. We expect our 2018 effective tax rate to approximate 22%. This rate reflects the lower U.S. federal tax rate, our anticipated mix of domestic and foreign earnings and the impact of state income taxes. While the U.S. tax rate has decreased, the benefit to Leggett is not as significant as might first be assumed. A larger share of our income is expected to be earned in higher tax foreign jurisdictions, the U.S. domestic production activities deduction has been eliminated and the deduction for a portion of executive compensation will be phased out. The 2018 rate also includes an ongoing accrual for taxes payable to foreign jurisdictions associated with repatriation of cash from future earnings.

Finally, our tax rate is impacted by changes in stock compensation, which vary from year to year and is forecasted to be lower in 2018.

During 2018, we expect to repatriate approximately $300 million of cash currently held in foreign accounts. Both the timing and exact amount of this repatriation activity is difficult to predict and is subject to local, foreign, governmental requirements among other things.

In keeping with our long-standing priorities, cash will be used for: one, organic growth involving capital expenditures and working capital investments; two, dividends; three, strategic acquisitions; and four, share repurchases.

In the short term, we may use a portion of that cash to repay $150 million of debt that matures in July.

We do not plan to pay a special dividend or undertake significant incremental share repurchases with this cash.

Now back to our 2017 financial performance. We generated operating cash flow of $444 million. We continue to have a sharp focus on working capital management and we ended the year with adjusted working capital as a percentage of sales at 10.6%, which was a notable improvement from our recent trends.

In November, we declared a $0.36 per share quarterly dividend, which was a 6% increase versus the fourth quarter of 2016. The dividend payout, as a percentage of adjusted earnings, is within our targeted range of 50% to 60%, and we expect future dividend growth to approximate earnings growth.

At yesterday's closing price of $43.45, the current yield is 3.3%, which is one of the highest yields among the 53 companies that comprise the S&P 500's Dividend Aristocrats.

For the full year, we repurchased 3.3 million shares of our stock at an average price of $48.66 and issued 1.7 million shares, primarily for employee benefit plans.

Our financial base remains very strong and this gives us considerable flexibility when making capital and investment decisions.

In November, we issued $500 million of 10-year notes with a 3.5% coupon and used the proceeds primarily to repay outstanding commercial paper. We also increased our revolving credit facility, which supports our commercial paper program, from $750 million to $800 million and extended the term of the facility to November 2022. We ended 2017 with net debt to net capital at 33%, comfortably within our long-standing target range of 30% to 40%, and we have the full $800 million of credit available to us.

We also monitor debt to EBITDA and ended 2017 with debt at 2.1x our trailing 12 months adjusted EBITDA.

We assess our overall performance by comparing our total shareholder return to that of peer companies on a rolling 3-year basis. Our target is to achieve TSR in the top 1/3 of S&P 500 over the long term, which we believe will require an average TSR of 11% to 14% per year.

For the 3-year period that ended on December 31, 2017, we generated compound annual TSR of 7% per year. That performance placed us just below the midpoint of the S&P 500. While this is disappointing, we continue to believe our disciplined growth strategy and prudent use of capital will support achievement of our top third goal.

We believe the macro environment should support modest growth in our end markets over the next few years. More importantly, we expect to grow organically at a faster pace in our markets as a result of content gains, program wins and other opportunities we have developed within our growth businesses such as Automotive, Bedding, Adjustable Bed, Work Furniture, Geo Components and Aerospace. As we enter 2018 with continued steel inflation, we also expect sales to increase from the pass-through of higher raw material costs, although there will, again, be a lag in timing, which occurs when we adjust our own selling prices.

With this backdrop for 2018, we are forecasting stronger sales growth.

Sales from continuing operations are expected to be $4.2 billion to $4.3 billion or up 6% to 9% over last year. We expect mid-single-digit volume growth from strength in many of our businesses.

The PHC acquisition should add 2% to sales growth and raw material-related price increases should also add to sales growth. We expect 2018 earnings per share of $2.65 to $2.85 compared to our 2017 adjusted EPS of $2.46. We, therefore, expect earnings to grow 8% to 16%. This assumes an effective full year tax rate of approximately 22%, as mentioned earlier.

Based upon this guidance range, our 2018 full year adjusted EBIT margin should be 12% to 12.5%. Recent steel cost inflation is expected to pressure margins during the first quarter. Assuming costs stabilize, margin should improve for the remainder of the year.

Operating cash flow should approximate $500 million in 2018 with working capital expected to be a smaller use of cash than in 2017. Capital expenditure should be near $160 million for the year and dividend should require approximately $195 million.

As has been our practice, after funding organic growth in dividends, remaining cash flow will be prioritized towards competitively advantaged acquisitions. Potential acquisitions must meet stringent strategic and financial criteria. Should no acquisitions come to fruition, we have a standing authorization from the Board to repurchase up to 10 million shares each year. No specific repurchase commitment or timetable has been established. However, we currently expect to repurchase between 2 million to 3 million shares in 2018 and issue approximately 1 million shares, primarily for employee benefit plans.

18 months ago, we shared a set of 3-year operating targets that reflected our top third TSR goal through 2019. With the modest decline in 2017's adjusted EPS from continuing operations, we're extending by a year and slightly modifying our longer-term targets.

The 2020 operating targets are: revenue of $5 billion, an EBIT margin of 13% and EPS of $3.50. This EPS target reflects our anticipated 22% tax rate. These targets assume a stable macro environment that yields moderate demand growth. And they also assume that content gains continue and that organic growth will be augmented by strategic acquisitions. The targets anticipate no significant inflation, deflation, currency fluctuation or divestitures.

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

Susan R. McCoy - *Leggett & Platt, Incorporated - VP of IR*

That concludes our prepared remarks. We thank you for your attention, and we will be glad to answer your questions.

(Operator Instructions) Michelle, we're ready to begin Q&A.

QUESTIONS AND ANSWERS

Operator

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

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

I guess, my first question is, can you just talk a little bit to what you're seeing in terms of the Bedding side of things? The spring components look like they were basically flat in the fourth quarter. But given some of the events that are going on on the retail side that could come down over the course of 2018 and the fact that we've got some easier comps coming into the first half of the year based on what happened last year, can you just help us put that all together and give us some sense of how we should be thinking about that?

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

Susan, this is Perry Davis. I'll take that question. We, as you know, just completed last week the January Las Vegas market, in which most of the large Bedding producers rollout at least partial line introductions. And during the market last week, we saw some really significant action with regards to several of our key components. New introductions by most of the majors, particularly, in the Hybrid category, which generally contains our Comfort Core product lines. We saw continued growth and introductions related to nano-type upholstery coils. Those coils that, in a lot of cases, will replace polyurethane or foam-related type components and -- which, incidentally, have inflated significantly over the last year. But we're well pleased with the positioning of our products that were introduced last week. There are some headwinds that we've seen so far this year. We've seen some -- particularly in the first couple of weeks of the new year, we've seen weather-related issues that have kind of staunched some of the weekend shopping activity. But overall, we think we're well positioned with not only our product category mix changes to higher-priced, higher-margin products, but also related to content gains that we continue to see as we go forward and we'll expect to see those throughout 2018.

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

Okay. That's helpful. And then my second question is, perhaps, a little bit bigger picture, but a lot of this steel inflation or some of the steel inflation that you've seen, I assume, is coming off of some of the uncertainty around the Section 232 and what could come down with that. And as we sort of think about the potential for some lower imports on the steel side coming in, can you help us understand some of the puts and takes for Leggett as it could relate to that? And may be within that, remind us some of the economics around the rod mill and how that could potentially come together over time? I know it's a lot, but...

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

Yes. No, that's fine. Really, at this point, 232 potential action is -- we don't think has had any effect to our steel pricing. We did see at the end of the year about a $30 cost input from scrap at our Sterling mill and then we saw another $30 scrap increase in January. So as we talked before, those take a while to roll through the system. But they do impact rod pricing, which in turn impacts wire pricing, which in turn impacts spring pricing. And by the time that all gets rolled through, we generally are talking about 1/4 or so of activity. The word I got yesterday for February scrap is sideways, so we don't see any additional inflation at this point in time. Could happen later on. It's hard to predict, 30 days out, what's going to happen in the steel markets. But as we see those roll through, we'll begin to get recovery in early Q2. And at this point in time, it looks like -- if you look at a year-on-year, probably, we've seen inflation in steel components somewhere in the 8% to 10% range. And -- but once those are in place, as we've said in the past, they bode well for us. And that once we lap those cost increases and we're able to recover, it's good for our margin outlook.

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

Okay. And then if we do see, perhaps, a shift in the volumes coming into the U.S., is it of the potential that you could get more volume domestically from your rod mill?

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

Susan, that -- I agree with -- this is Karl. I agree with Perry. 232 is just out there. It probably will be more impactful on flat product than long product. The long products being rod and wire or round products are being impacted by significant demand increases globally, which are driving the primary input cost, which, as Perry said, are scrap and iron ore back to its most basic form. There are antidumping provisions in place already that are protecting the domestic producers of rod and wire in some categories. Those recently levied will be in place for at least another 4 years and then there'll be a sunset review after that. So 232 is unknown at this point, but I just don't think it will be impactful.

Operator

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

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

Margins were, for the full company, effectively, flat in the fourth quarter. Given the steel moving in January, are we most likely going to see down margins in the first quarter as you deal with this recent inflation?

Susan R. McCoy - *Leggett & Platt, Incorporated - VP of IR*

Yes, Keith, that was basically the comment we were making when we were talking about full year guidance. It's a bit qualitative, but yes, I would say first quarter margins down because of the steel influence of pricing lag associated with that. But if we were to stabilize as we move forward, we would expect to be up in margins in the back half of the year and that's the full year improvement in overall margins.

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

Okay. And on the acquisition, Karl, is this going to be a platform for growth in the future? And if so, can you give us some kind of feel of what the structure of that market is, the number of players and sizes of things of that nature?

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

Keith, it certainly will be a platform for growth going into the future. We're really pleased to welcome PHC into Leggett & Platt. There has probably been more robust due diligence around not only the company but the sector than anything that I have seen in my 30-something years at Leggett. But I'll ask Mitch to go through the market dynamics, but I will say, we would not have made this acquisition if we didn't intend to substantially grow our position in that arena.

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

Keith, this is Mitch Dolloff. So yes, we're very much excited about growing PHC. We see this as a very attractive market. The market overall is about $11 billion and we see our addressable portion at about $5 billion. So lots of room for us to play. We particularly like the fit of this business with the businesses where we win today. So the products are highly engineered. There's codesign with the customers with deep interaction. There is a lot of large customers and a fragmented supply base. The products are programmatic in nature. So you win it for a program and it lasts for a number of years and has long life cycles and it requires flexible manufacturing with large volumes across many product variations. Sounds a lot like some of our businesses that are doing pretty well. So we think that it's something that's a really good fit for us. It's also a global business. As you may have seen in the press release, we have -- PHC has operations both in the U.S., in the U.K. and in India. We think that there's opportunity to help grow in other parts of the world and they're heavily playing in lift trucks today. I think there's also opportunity to gain some traction in some other important segments, most notably, construction equipment, where PHC does some activity today but we think that's an opportunity for further growth down the road.

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

And this will be reported to Specialized division, is that correct?

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

That's correct.

Operator

Our next question come from the line of Bobby Griffin with Raymond James.

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

Real quick, just on the Furniture Products segment, in the slide, some production efficiencies were referenced. Just curious if maybe you could expand upon what those were and maybe what business units those impacted within the segment?

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

Sure, Bobby, this is Mitch. Yes, they're really primarily growth-related issues that we had. First is in Adjustable Bed, where you saw our huge volume increases in the fourth quarter and in some cases, we struggled just to get enough capacity to get those out the door that led to some additional cost there. We'll get that worked out over time. We'll improve our processes. We're adding capacity. But in the near term, it caused some headaches. And I would say, also, in Work Furniture, primarily on our collaborative seating growth where also that business is growing rapidly and sometimes we struggle just to keep up with the demand there. Same thing. We'll work on improving our processes. We'll work on increasing our capacity. But in the fourth quarter, it definitely caused us a bit of pain.

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

Okay. I appreciate that detail. And then on the margin pressure faced in that segment Furniture Products, was the majority of it steel related? Or -- how do I think about the production issues versus the steel-related cost? And then maybe the second part, how is the pricing recapture trending in that segment because, I know, it's a longer and kind of a little bit more painful of a process to pass-through price in their versus the Bedding components area?

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

Okay. Yes, absolutely right that the biggest piece of it is the material related versus the price and most painful in Home Furniture and Fashion Bed, our static base line there. So that is the biggest weight by far. In terms of the recovery of the steel inflation, a little bit of a complicated dynamic. So we have production in Home Furniture in Asia, where we have been able to recover some of the material increase, probably about 70% of it or so in the fourth quarter and continue to work there, but it's challenging. Then the other element of that dynamic is that the continued lower cost of steel in general in China than in the U.S. And so in our U.S. production, it's been really difficult to recover any of the material inflation. So we will work and we are working to not only continue the price increases, but to reduce costs significantly in that business unit, also to shift production to our lowest cost opportunity. So we think that while the market dynamics may remain a little bit challenging for us, there are some things that we can do to control our own destiny and improve our results.

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

All right. I appreciate that detail. And then just lastly for me from a modeling standpoint. What is the forecast, I guess, for the global auto build in '18, the most updated one imply for your markets when you guys weighted by the markets you're in?

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

Bobby, I think it's pretty consistent with what we've seen. We'll see a little bit of recovery in North America versus the decline last year. We're heavy-weighted still, just from history, towards North America, but have significant operations in -- throughout Asia and in Europe and those are growing as well as North America. But when we look over all of the developed markets, so call it, North America, Europe, China, Japan, South Korea, pretty similar, right, up about 1%, not a big change from what we've seen in the last few years. So we see kind of steady as it goes. For sure, there were some disruptions in North America as the first half -- the first part of the year started off strong and then really fell apart in Q3 and Q4 that will give us some tough comps in Q1. But for the big picture for the long term, we still see the market growing 1% or 2% and we're still committed to beating the market growth by 1,000 basis points. We really look to the -- our program wins, what we did in 2017 and what we continue to do and we see it fueling that growth.

Operator

Our next question come from the line of Daniel Moore with CJS Securities.

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

I wanted to circle back and drill down a little bit more on PHC as well. You gave some detail in terms of what's unique and what's attractive about the market. Maybe talk a little bit about the margin profile today expectations where we can get over the next couple of years and EPS accretion embedded in your 2018 guide.

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

Okay. This is -- Daniel, this is Mitch Dolloff again. So market margins are double-digit EBIT. And -- of course, we will be impacted by purchase accounting when we have that. We see the business as being modestly accretive to EPS in year 1.

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

In terms of opportunities, any synergies, cost savings and opportunity for margin expansion as we look out a little further?

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

Yes. I think as we build the platform, for sure that will be part of what we're looking for in the long term. This is our first swing in this area, so we've got some building to do.

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

Got it. And lastly, 2020 goals, any split between your -- the organic growth -- range of organic growth assumptions embedded versus what you might add via acquisitions?

Matthew C. Flanigan - *Leggett & Platt, Incorporated - CFO, EVP and Director*

Daniel, this is Matt. Definitely heavily leaning toward organic growth. We'd say, of that 6% to 9%, you would imply closer to 5% to 6% via organic and then supplemented with strategic acquisitions. Certainly not in any sense attempting to time acquisition, of course, never do that. But we certainly anticipate that they will be part of that mix. But it's definitely heavier-weighted towards organic growth and the content gains and wins and programs we can see on the horizon to a great extent already.

Operator

Our next question comes from the line of John Baugh with Stifel.

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

If you could address -- and you already did Fashion Bed and Residential Furniture. But are there any other parts of your business where you're seeing input cost inflation, where you don't expect to fully offset the pressure with price increases? How might you otherwise combat that margin compression in those areas?

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

John, the short answer is no. We will get, albeit, with the lag that Perry spoke of get full recovery in Bedding and then the connectivity to industrial. The Bedding commentary is global. We are passing through that inflation in Europe, as we speak. So there's just no hesitation about our ability to get full recovery with the lag. We will continue to get recovery in the Home Furniture and to some degree, in the Fashion side of the business, but as Mitch said, at a lower-than-lesser rate, though it's a more competitive and more commodity-oriented business, though it really -- those businesses, the opportunity really is a cost game at this point. We just have to...

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

And so -- and there are -- Karl, that's not like a steel answer. Are there foam issues or fabric issues or anything relating to input costs outside of steel? Or no concerns there?

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

Yes. Good question, John. The foam cost -- the global foam inflation is really, really good for our Bedding businesses. As Perry said, we were getting content gain because of consumer preference anyway. It's been accelerated by this significant foam inflation, not only the penetration of Quantum Edge. It's remarkable to me that while Comfort Core is 40% of our U.S. innerspring, Quantum Edge is 33% of that 40% for a product that was produced -- introduced, I'm sorry, just 2 years ago. We expect that attachment rate to grow significantly this year. You would've seen evidence of that last week in Las Vegas. So foam inflation is good. Doesn't impact us negatively. It's only a positive. Fabric inflation, we are seeing fabric inflation for sure in our Hanes businesses, both in the industry side and the Geo Component side. They do a wonderful job of full recovery. So they have announced increases as well. They will get those. We're just not exposed anywhere else other than, as we discussed, in the Home Furniture and to a lesser degree, Fashion Bed, because it's a smaller business. It's a tough question by the way, John. About the impact of commodity inflation on Automotive, our Automotive business is not real steel sensitive, so we're not -- just not concerned about commodity inflation in our Automotive business.

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

Okay. And then International Bedding, I'd love some color on trends there and what maybe similar or different from the U.S., which -- you always seem to talk about is the U.S., but it's an important part of your business?

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

Yes. John, this is Perry. It is an important part of our business and a growing part. The overall unit growth of about 11% year-on-year in the fourth quarter is significant. Because of inflation, that growth also is in excess of 20% in the fourth quarter and about 20% for the year last year. Significant growth in Europe. We've got an outstanding management team in Europe that continues to grow that business. We're building out infrastructure there to support that with a significant add-on to one of our facilities. We also see good opportunities right now in South America and in Brazil. We've grown our position there significantly, looking at opportunities in other geographies there to expand that business and doing it profitably and in light of a pretty heavy economic headwinds in the Brazilian market, but we've been appropriately cautious in our growth there and it's paying off for us and that we've been able to introduce new products. There's been a bit of a winnowing out of some of our competitive activity because of the rough economic climate. It all bodes well for us. So overall, those 2 markets, in particular, in -- have been growth areas. Other areas where we play to a lesser degree, but we do play, is in the Pacific -- Asia-Pacific. Those are good strong markets for us that continue to grow modestly and we provide in those areas products that generally are somewhat differentiated. We don't compete as heavily on the commodity side. And then, we have small operations in South Africa. Well, that economy has definitely been not strong over the last 2 to 3 years. We continue to operate there and weather the storms. And at some point, that will turn. But primarily, our international business represented heavily by Europe and by South America. Those markets are strong for us.

Operator

Our next question comes from the line of Peter Keith with Piper Jaffray.

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

A question on the auto business. So we've now had 2 quarters in a row of 8% growth. And Mitch, I think you addressed some of the destocking in the U.S. How should we think about that going forward for the next few quarters because now you are bringing up the dynamic of tough compares? I guess, when should we think about that segment getting back to double-digit growth?

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

Peter, we did have double-digit growth for the full year. So I look at this as very much a long-term view. We may have some gyrations quarter-to-quarter as program launches happen, as other disruptions happen in the market. But over the long term, we see that double-digit growth being really what our target is and what we've achieved. So I'm not -- I don't know that I can comment on a quarter-to-quarter fluctuation.

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

Yes. And Peter, to add -- to pile on a little bit. Based on significant program awards, we have clear visibility into 2020 and feel completely confident of that 1,000 basis points growth over global build. And it looks like global build is forecasted to be in the 1.5% to 2% range. So our position hasn't changed at all. We are wonderfully happy with our position in Automotive.

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

Okay. Very good. And then separate follow-up just on the adjustable base side. So there's absolutely phenomenal growth there right now. I'm curious if that is primarily being driven by the -- maybe the gains at Mattress Firm this year, which will be launched in the first half of '18 or growth that you're seeing -- strong growth from multiple large customers that's driving that 40-plus percent growth right now?

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

This is Mitch, again. Yes, I think it's more broad-based than that. For sure, we're seeing growth with our large customers but we're also doing what we can to penetrate further down throughout the retail base, offering different types of programs to services, retailers and quick ship program, direct from factory, container direct program. So it's really important part of the combination of our Fashion Bed and Adjustable Bed business. So fortunately strong growth at our major customers and continuing to drive further penetration throughout the retail chain.

Operator

(Operator Instructions) Our next question comes from the line of Justin Bergner with Gabelli & Company.

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

My first question just relates to the 2018 guide. Are you expecting, I guess, U.S. Spring component dollars to be up in 2018 within your guide? And how about innerspring units? How does that sort of shape out within your 2018 guide?

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

The answer is yes. We expect dollars to be up as they were in 2017. And yes, specific to innersprings, and we tend to give you Bedding data -- our U.S. aggregated Bedding data. In the fourth quarter, innersprings were down 2%, but dollars of just innersprings take box spring constructions out of it, which is actually a comfortable loss because it becomes really good Adjustable Bed business. But if it's just innersprings, we were up mid-single digits. A lot of it content gains and some pricing. We expect that same dynamic to continue through all of 2018. To answer your last question, Justin, we do expect units to be positive in the U.S. in calendar 2018.

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

Okay. Got it. That's helpful. And then switching over to your long-term 2020 targets. It seems like the sales goal is slightly higher than what you'd previously budgeted for 2019, the margin goal slightly lower and then the EPS sort of slightly higher when you sort of adjust for the lower go-forward tax rate. Is that just -- is that sort of of the right way to think about things versus the prior long-term guide?

Susan R. McCoy - *Leggett & Platt, Incorporated - VP of IR*

Justin, yes, I think it is. We would be with this framework, assuming somewhat higher EBIT dollars but also a beneficial impact from the tax rate. And -- I mean, bear in mind that all of these targets were intentionally round and intended to be directionally where we're headed for 2020.

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

Okay. And then the earlier question asked about like organic growth within the 2020 targets and I think the answer was 5% to 6% organic. How much raw material inflation should we think of as being embedded in that organic growth to sort of back out the underlying volume trend?

Susan R. McCoy - *Leggett & Platt, Incorporated - VP of IR*

We had a qualifier, I think, in our narrative, so it basically is relatively neutral for inflation, deflation, divestitures, et cetera.

Matthew C. Flanigan - *Leggett & Platt, Incorporated - CFO, EVP and Director*

Yes, and currency.

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

Okay. So neutral would assume some modest -- would neutral assume some modest inflation then or 0?

Matthew C. Flanigan - *Leggett & Platt, Incorporated - CFO, EVP and Director*

No. It's -- we don't assume any significant inflation, deflation, currency or divestitures. We'll be wrong on all 4 of those points. But for the purpose of the guideline and the targets, we assume that they are basically benign.

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

Okay. And then just one quick one. What was the adjustable -- adjusted tax rate for Q4 '17?

Susan R. McCoy - *Leggett & Platt, Incorporated - VP of IR*

It was 23%.

Operator

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

Susan R. McCoy - *Leggett & Platt, Incorporated - VP of IR*

Okay. I'll just say thank you for taking time to join us today, and we'll speak to you next quarter.

Operator

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