S&P Global
Market Intelligence

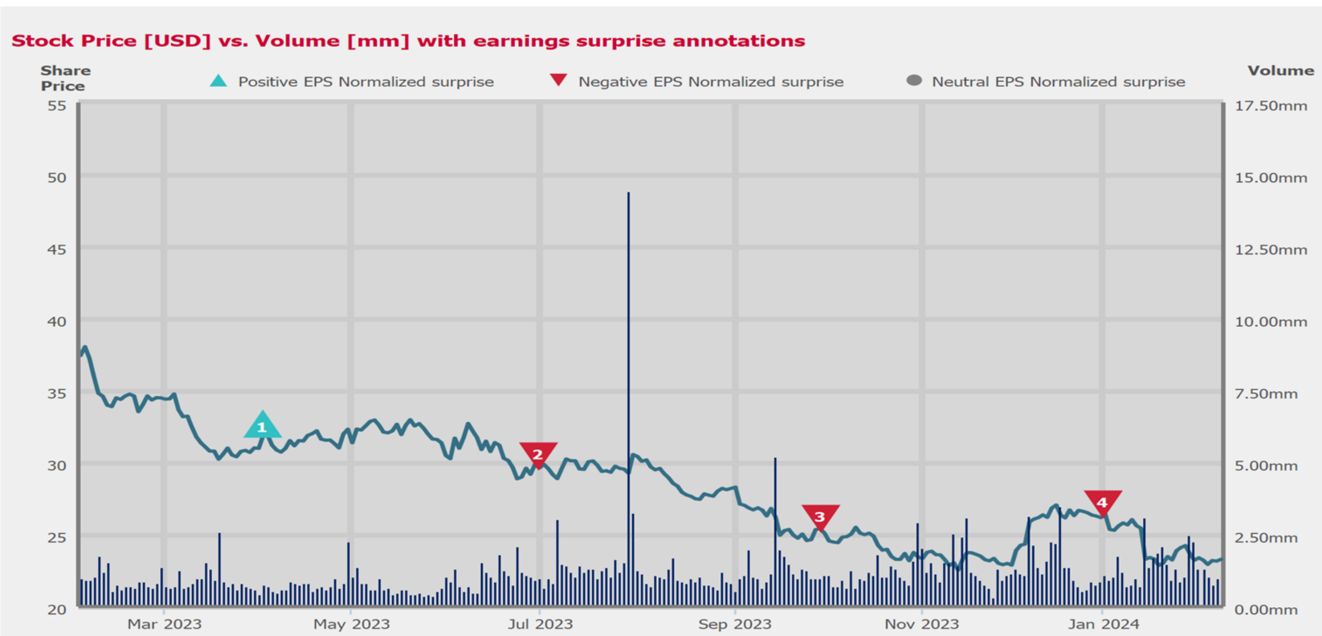
Leggett & Platt, Incorporated NYSE:LEG
FQ4 2023 Earnings Call Transcripts

Friday, February 9, 2024 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2023-			-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.27	0.26	▼ (3.70 %)	0.29	1.40	1.39	▼ (0.71 %)	1.32
Revenue (mm)	1106.06	1115.10	▲ 0.82	1144.93	4716.33	4725.30	▲ 0.19	4634.67

Currency: USD
Consensus as of Feb-09-2024 12:30 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2023	0.26	0.39	▲1 50.00 %
FQ2 2023	0.39	0.38	▼2 (2.56 %)
FQ3 2023	0.40	0.36	▼3 (10.00 %)
FQ4 2023	0.27	0.26	▼4 (3.70 %)

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EXECUTIVES

Benjamin M. Burns
Executive VP & CFO

Cassie Branscum
Vice President of Investor Relations

J. Mitchell Dolloff
CEO, President & Director

J. Tyson Hagale
Executive VP & President of Bedding Products

Susan McCoy
Director of IR Special Projects

ANALYSTS

Alexia Morgan
Piper Sandler & Co., Research Division

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

Susan Marie Maklari
Goldman Sachs Group, Inc., Research Division

Presentation

Operator

Greetings, and welcome to the Leggett & Platt Fourth Quarter and Full Year 2023 Webcast and Earnings Conference Call.

[Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Cassie Branscum, Vice President of Investor Relations for Leggett & Platt. Please go ahead.

Cassie Branscum
Vice President of Investor Relations

Good morning, and welcome to Leggett & Platt's Fourth Quarter and Full Year 2023 Earnings Call. With me on the call today are Mitch Dolloff, President and CEO; Ben Burns, Executive Vice President and CFO; Steve Henderson, Executive Vice President and President of the Specialized Products and Furniture, Flooring & Textile Products segment; Tyson Hagale, Executive Vice President and President of the Bedding Products segment; Susan McCoy, Director of IR Special Projects; and Kolina Talbert, Manager of Investor Relations.

The agenda for our call this morning is as follows: Mitch will start with a summary of the main points we made in yesterday's press release and discuss operating results and demand trends. Ben will cover financial details and address our outlook for 2024, and the group will answer any questions 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 express permission. A replay will be available on the Investor Relations section of our website. We posted to the IR section of our website, yesterday's press release and a set of slides that contain summary financial information along with segment details. Those documents supplement the information we discuss on this call, including non-GAAP reconciliations.

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 Mitch.

J. Mitchell Dolloff
CEO, President & Director

Good morning, and thank you for participating in our call. First, I would like to recognize Susan McCoy on what will be her final earnings call. She's retiring at the end of March after 38 years with the company, including 22 years in Investor Relations. Susan has made enormous contributions to Leggett, including developing an outstanding IR function that has benefited both Leggett and the investment community over the past 2 decades. Susan, thank you so much for your service and congratulations on your retirement.

In what has been a long-planned succession, Cassie Branscum stepped into the lead role as Vice President of Investor Relations, effective the beginning of 2024. Cassie joined the IR team in 2018 after serving in various roles across the company since 2005. She has tremendous financial skills and deep Leggett knowledge that will continue to serve us well as she leads the IR function going forward.

2023 was another challenging year, particularly within our residential end markets. Our employees, once again, persevered to accomplish some notable achievements, including preparing a restructuring plan for our Bedding Products and Furniture, Flooring & Textile Products segment. These efforts will drive improved operating efficiency and profitability while maintaining high-quality products and services for our customers, driving strong cash flow with a continued focus on working capital management, and advancing our sustainability data collection efforts to establish baseline metrics and goals that we plan to share in our 2024 report. Thank you for your continued dedication to each other and Leggett & Platt. We have made some difficult but necessary decisions to support the company's long-term success. I sincerely appreciate your ongoing support, and thank you for your efforts each and every day.

Before we move on to our fourth quarter and full year 2023 financial results, I would like to walk through the restructuring plan we announced on January 16 that primarily impacts our Bedding Products segment. We're taking actions to create a more focused, agile organization with a portfolio of products that are most in demand and an operating footprint aligned with the markets we serve. These actions build upon work already underway to better position our Bedding business for the future.

Optimizing the Bedding manufacturing and distribution footprint will drive most of the onetime cost and future EBIT benefits from the plan. The majority of Bedding actions will be within our U.S. Spring and specialty foam businesses. We will be winding down operations at our smaller U.S. spring distribution locations over the next few months and expect to shift innerspring production to 4 higher output facilities over the course of 2024.

Within Specialty Foam, we will be consolidating several manufacturing operations and driving more product synergies across Specialty Foam and innersprings, including private label and OEM hybrid mattress production over approximately the next 18 months. Fewer but higher output manufacturing facilities, combined with an improved distribution network will allow us to manufacture and distribute our products more efficiently and serve our customers more effectively.

While we are reducing capacity in certain product categories to align with consumer preferences that have shifted over time, we are maintaining sufficient capacity to service our customers with the products they deserve most as market demand returns to more normalized levels in the future. Sales attrition from these initiatives is primarily due to discontinuing production of certain commodity bedding products in certain geographies.

We are also consolidating a small number of production facilities in our home furniture and flooring products businesses within the Furniture, Flooring & Textile products segment. The home furniture consolidation activity is underway and is expected to be completed in the first half of 2024. The flooring products efforts are also underway but will likely extend into 2025 as multiple product lines are being shifted among locations. These actions are being taken to better align capacity with regional demand and drive operating efficiencies.

In connection with the restructuring plan, we stepped away from our total shareholder return goal and financial targets including revenue growth, EBIT margin and dividend payout ratio. We will issue revised financial targets in the future when our restructuring initiatives are implemented, and we have better visibility of further opportunities that could impact our long-term performance.

Now moving on to fourth quarter and full year 2023 results. Fourth quarter sales were $1.1 billion, down 7% versus the fourth quarter of 2022. Continued weak demand in residential end markets was partially offset by demand strength in our Automotive, Aerospace and Hydraulic Cylinders businesses. Fourth quarter EBIT was a loss of $367 million, resulting from a $444 million noncash intangible asset impairment charge. This impairment was associated with the ECS and Kayfoam acquisitions and primarily related to customer relationships, technology and trademark intangible assets.

Prolonged weak demand and changing market dynamics have created disruption and financial instability for some of our customers. As such, recent efforts by certain customers to improve their financial position are expected to reduce our future sales and earnings. This triggered an evaluation of intangible assets and resulted in the impairment charge in the fourth quarter of 2023.

Adjusted EBIT was $66 million in the quarter, down $25 million versus fourth quarter 2022, primarily due to lower metal margins in our Steel Rod business and lower volume in our residential end markets. Fourth quarter earnings per share was a loss of $2.18 due to the items discussed in yesterday's press release. Excluding these items, adjusted fourth quarter EPS was $0.26, a 33% decrease from fourth quarter 2022 EPS of $0.39.

For the full year, 2023 sales decreased 8% to $4.7 billion, primarily from weak residential end market demand and raw material-related selling price decreases partially offset by acquisitions and demand strength in industrial end markets. EBIT decreased $575 million, primarily from the $444 million intangible asset impairment.

Adjusted EBIT decreased $151 million to $334 million, primarily for metal margin compression and lower volume in our residential end markets. Full year EPS was a loss of $1 and adjusted EPS was $1.39, a 39% decrease from 2022, EPS of $2.27. Cash flow from operations was $497 million, a $56 million increase versus 2022.

Moving on to the segments. The U.S. Bedding market continues to be in a deep recession with mattress consumption at levels comparable to 2016. We believe 2023 U.S. mattress consumption was down high single digits versus 2022 and expect mattress demand in 2024 to be flat to down slightly versus last year. Imported finished mattresses are putting additional pressure on U.S. production in this low demand environment. Sales in our Bedding Products segment were down 14% versus fourth quarter of 2022 and decreased 17% for the full year.

While volume in U.S. Spring was down 12% in 2023, Comfort Core performance was consistent with overall mattress market trends. We expect 2024 volume in U.S. Spring to be down modestly, primarily due to anticipated sales attrition from the restructuring plan and further declines in lower-value Open Coil innersprings and wire grids. These declines are expected to be partially offset by growth in Comfort Core innerspring units, including growth in our new combination pocket and eco based products.

Metal margin declined slightly more than expected in 2023, primarily due to mix. We anticipate further modest declines in 2024. To stay competitive with global steel cost, both contract and noncontract innerspring pricing was adjusted in the back half of 2023. Pricing impacts began in the fourth quarter but will be fully realized in 2024. Specialty Foam volume in 2024 is expected to be down high single to low double digits, primarily as a result of customer actions that led to the impairment charge we discussed earlier. These impacts are anticipated to be realized as we move through the course of the year. We expect 2024 adjusted segment EBIT to be modestly lower year-over-year from lower volume pricing responses related to global steel cost differentials and modest metal margin compression, partially offset by approximately $45 million of lower amortization from the intangible asset impairment taken in the fourth quarter of 2023.

Despite current challenging market dynamics, the actions we are taking aim to position our Bedding business for long-term success as we improve operating efficiencies and continue to drive valuable product solutions for our customers. Sales in our Specialized Products segment increased 5% versus fourth quarter of 2022 and were up 14% for the full year. In our automotive business, the UAW strike impact on fourth quarter sales was approximately $5 million, and we do not expect any follow-on impacts from the strike in 2024.

We continue to see volatility in certain regions due to geopolitical and supply chain impacts. We anticipate growth in 2024 and expect to outperform global automotive production, primarily due to new programs-initiated production throughout the year. We expect continued strong demand in our Aerospace business in 2024 with commercial aerospace backlogs at historic highs. 2024 industry production is anticipated to be modestly above pre-pandemic levels.

In Hydraulic Cylinders, U.S. demand continues to be strong with backlogs driving growth through at least the first half of 2024. Domestic growth is expected to be mostly offset by softening demand in Europe. In 2024, we expect segment EBIT to be flat with 2023 as volume growth is anticipated to be offset by less benefit from a reduction to a contingent purchase price liability associated with the prior year acquisition. Sales in our Furniture, Flooring & Textile Products segment were down 6% versus fourth quarter of 2022, down 11% for the full year.

Demand in Home Furniture continues to be soft. We expect 2024 to be similar to last year with improvements in low end market demand, offset by continued weakness in mid- to high-end market demand. Work Furniture demand remains low in both contract and residential markets. We expect 2024 demand to be in line with 2023.

In Flooring products, we are anticipating another year of lower residential demand due to low existing home sales and renovation activity. Hospitality demand continues to slowly improve but remains well below pre-pandemic levels. After weaker-than-expected demand in 2023, we anticipate Geo Components demand to improve through the course of the year, infrastructure and commercial spending in civil construction markets, while retail sales are expected to be flat.

In 2024, we expect adjusted segment EBIT to be down modestly year-over-year from lower volume and moderate pricing pressure from deflation. The largest headwind to earnings continues to be low volume levels in our residential end markets. In the near term, we are focused on improving operating efficiency across our businesses, driving cash flow and executing our restructuring plan.

Additionally, we believe the longer-term benefits from our refocused bedding strategy will advance key product growth, improve profitability and drive enhanced value for our customers and shareholders.

I'll now turn the call over to Ben.

Benjamin M. Burns
Executive VP & CFO

Thank you, Mitch, and good morning, everyone. In 2023, we generated cash from operations of $497 million, $56 million higher than the $441 million we generated in 2022. This increase reflects a continued focus on working capital management, partially offset by lower earnings. We ended the year with adjusted working capital as a percentage of annualized sales of 13.9%, a notable improvement from 2022.

Consistent with our near-term priorities of managing cash and reducing debt, we did not complete any acquisitions and had minimal share repurchases in 2023. Major uses of cash in 2023 were $114 million of capital expenditures, reflecting a balance of investing for the future while controlling our spending, $239 million for dividend payments, extending our record of consecutive annual dividend increases to 52 years and $107 million to reduce debt.

We ended the year with total debt of $2 billion, including $186 million of commercial paper outstanding. Net debt to trailing 12-month adjusted EBITDA was 3.16x at year-end, in line with the third quarter and consistent with our expectations. We monitor our debt leverage and liquidity closely. As a reminder, our covenant calculation is more favorable than our publicly reported leverage ratio and we expect that favorable difference to expand in 2024.

Total liquidity was $697 million at year-end comprised of $365 million of cash on hand and $332 million in capacity remaining under our revolving credit facility. As we anticipate weak residential end market demand again this year, we are focused on maintaining our investment-grade credit rating and managing debt leverage while balancing continued investment in our business for future growth and our dividend track record.

We continue to focus on managing working capital and identifying other opportunities to generate cash. In 2024, we expect pretax proceeds of $20 million to $30 million from real estate sales, consisting of idle real estate, we are actively marketing and, to a lesser extent, real estate that we will be exiting as a result of our restructuring initiatives. We expect to predominantly use our commercial paper program to repay $300 million of 3.8%, 10-year notes maturing in November.

Now moving to the 2024 full year guidance. 2024 sales are expected to be $4.35 billion to $4.65 billion, were down 2% to 8% versus 2023, reflecting continued weak demand in our residential end markets, partially offset by growth in automotive and our industrial end markets. Volume is expected to be down low to mid-single digits with volume at the midpoint, down high single digits in Bedding Products, up low single digits in Specialized Products and down low single digits in Furniture, Flooring & Textile products.

Deflation and currency combined is expected to reduce sales low single digits. 2024 earnings per shares expected to be in the range of $0.95 to $1.25 including approximately $0.20 to $0.25 per share of negative impact from restructuring costs and $0.10 to $0.15 per share gain from the sale of real estate.

Full year adjusted earnings per share are expected to be $1.05 to $1.35, primarily reflecting lower volume, pricing responses related to global steel cost differentials, modest metal margin compression and several expense items that were abnormally low in 2023, and are expected to normalize in 2024, including bad debt expense, a reduction to a contingent purchase price liability associated with the prior year acquisition and incentive compensation. These decreases are partially offset by lower amortization from the 2023 intangible asset impairment.

Based upon this guidance framework, our 2024 full year adjusted EBIT margin range is expected to be 6.4% to 7.2%. The EPS guidance assumes a full year effective tax rate of 25% versus an adjusted rate of 24% in 2023. Depreciation and amortization of approximately $135 million, which is approximately $45 million lower as a result of the impairment taken last year. Net interest expense of approximately $85 million and fully diluted shares of $138 million. Cash from operations is expected to be $325 million to $375 million in 2024 as we expect fewer opportunities for working capital improvement year-over-year. We will continue to closely manage all elements of working capital.

For the full year 2024, we assumed capital expenditures of $100 million to $120 million, dividends of approximately $245 million, indicating $1.84 annual dividend in 2024 versus $1.82 in 2023 and minimal spending for acquisitions and share repurchases as we focus on managing cash. In closing, I would like to thank our employees. Your continued efforts to drive value for our customers and shareholders while supporting and keeping each other safe is very much appreciated.

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

Cassie Branscum
Vice President of Investor Relations
Thank you, Ben. Operator, we're ready to begin Q&A.

Question and Answer

Operator

[Operator Instructions]

Our first question comes from the line of Susan Maklari with Goldman Sachs.

Susan Marie Maklari
Goldman Sachs Group, Inc., Research Division

I first want to congratulate Susan. It's been great working with you all these years, and you are going to be very missed. So congrats and best of luck in your retirement.

Susan McCoy

Director of IR Special Projects

Thanks, Susan. I appreciate that and we'll definitely stay in touch.

Susan Marie Maklari
Goldman Sachs Group, Inc., Research Division

Yes. So moving on to my questions. I've got a couple of them related to the restructuring that you've announced. And maybe to start with, can you talk a bit about how you think of the long-term dynamics of the Bedding industry? With all the different moves we've seen in the last 3 or 4 years or so, how did you determine the level of demand that you need to be sized to? How are those coming together? And what are the sort of nuances of what you keep versus what you restructure out of the business? And how do you think about the go forward, I guess, of that operation?

J. Mitchell Dolloff
CEO, President & Director

Thanks for the question. I think the big picture for me is the restructuring is more than just thinking about our capacity. But Tyson, let me turn it over to you to share your thoughts.

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure, sure thing. I'll start by saying, and I know this is pretty obvious but these are really difficult decisions, and we didn't take them lightly. And part of it is what Mitch said, too, it goes beyond just capacity. I mean really if you think about how our business has been changing over several years, we've been changing our product lineup with the acquisition of Specialty Foam, how we've been pivoting to more semifinished products, incorporating foam into our innerspring products as well, and a continued long-term shift from Open Coil to Comfort Core.

So we've seen our product mix and what we're offering our customers change quite a lot over the last several years. So as we thought about the manufacturing part of the restructuring plan, also over the last several years, even during the pandemic. We've invested heavily in Comfort Core productive capacity and really efficient capacity. We've done the same thing at ECS after acquisition. We've been making investments there as well. So as we look at where the market is headed and what our customers really want and their products, we also still had some longer-term legacy capacity still in place from Open Coil in our innerspring business. So we've added the comfort core capacity and hadn't necessarily taken off as much of the capacity as we needed to.

So looking at that, we're not looking at today's market environment. We're at a really, really low point for U.S. mattress manufacturing. So we're not looking at today as the long-term needs. We really are looking at what we think to be the long-term trajectory of the overall market and more of a move towards Comfort Core and semifinished products.

So as we looked at just our overall footprint and our manufacturing capacity with what we've put into place, we saw an opportunity to go through the consolidations and still maintain our capacity and ability to flex up to whatever the market needs might be with our customers with just a smaller footprint, higher output facilities and then also adjusting our distribution network to have a fewer number of larger regional sites that will support our customers in a better way.

So it's a long-winded answer but really taking a lot of things into account and not necessarily walking away from active capacity but more to where we think the market is headed.

Susan Marie Maklari
Goldman Sachs Group, Inc., Research Division

Okay. That's great color, Tyson. And then I know that with the release a couple of weeks ago, you walked away from the long-term margin guide. But I guess, as you think about coming through this restructuring and being on the other side of it. How do we think about what that could mean for the margins, both within Bedding and then within Leggett just as a total, relative to where we are today, anything that you can sort of give us in terms of a general path there?

J. Mitchell Dolloff
CEO, President & Director

Yes, I'll take that one, Susan. So great question. Yes, I think the restructuring is certainly important for us. I think it resets us for sort of the more forward-looking market environment. And I don't mean that from a capacity standpoint, as Tyson said, we're really looking at sort of the normalized growth that we would achieve in bedding over the longer term.

But beyond that, I think we have other actions that we can take and that we are taking. The biggest one, of course, is volume. So in markets -- our residential end markets start to come back with volume, that has a huge, huge impact on the EBIT margins for the company overall. But beyond the restructuring, I think we have opportunities to continue to optimize our operating efficiency making sure that we are being as effective as we can and that we are producing products and even in certain lines that are value added to us.

Continuing to recover cost impacts outside of just raw materials and whether that's through pricing actions or continuous improvement activities are just new product introductions that give us those opportunities as well. And then I think it's always been a priority for us to continue to closely manage our corporate costs, make sure that they're aligned with services that are providing value and improving efficiency. As we always say, continuing to drive innovation and providing solutions for our customers to enhance our partnership with those key customers as well. And then finally, continuing to assess our portfolio management.

So we see that there's opportunity for us to continue to drive improvement for the longer term across the company beyond just the restructuring. There's restructuring is certainly important. It's near-term focus but [indiscernible] these things. So I think we need to get to some visibility about the volume recovery, get more progress going on the restructuring and get some more insights into the benefits from some of these other items I mentioned, and then we'll get those targets back on the table. But certainly, we believe it's something that's important, and we're focused on it.

Susan Marie Maklari
Goldman Sachs Group, Inc., Research Division

Okay. Okay. That's helpful. And then maybe I'll sneak one last one in for Ben. Everyone will get one this morning, which is, Ben, can you walk us through the change, when we think about the $500 million of operating cash flows from '23 relative to the $325 million to $375 million that you guided us to -- for this year? And then I guess with that, too, when you think about the long-term cash generation of Leggett, where can that come together? And how do we think about, again, what these changes will mean for the cash flow of the business?

Benjamin M. Burns
Executive VP & CFO

Yes, thanks for the question. I appreciate it. Yes. So our guidance for this year is $325 million to $375 million as compared to roughly $500 million in 2023. So I'd say the biggest drivers there are the contribution that we had from improvements in working capital in 2023, were really outstanding. Our teams did a great job and we drove over $100 million of working capital improvements. So that will be a contributor to cash flow in 2024 but it will be a much lower contributor because we've done such a great job. And just those opportunities are still there. We still think we have some pockets but it will be a little bit more smaller in nature.

And then the second thing I'd mention is just the lower earnings with the volumes continuing to be lower, that's going to be another contributor to the lower cash flow this year. And then the last thing is there's a little bit of a drag from the cash costs associated with our restructuring plan that will be a bit of a drag again on cash flow.

If we think about from a longer-term perspective, I think it kind of goes back to the things Mitch and Tyson were just talking about with the actions that we're taking through, the restructuring and just other opportunities to drive operational efficiencies, those will really benefit us and especially as those volumes come back. I think Mitch just said it that it's such a huge benefit to us with those incremental margins when those volumes are back to just normal levels or somewhere close to normal levels. So those are the biggest drivers. But I'd mention, we'll continue to manage our working capital really tightly and look for those opportunities to drive out costs and lower value items as well. But over the long run, I think that's kind of how I think about it.

Operator

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

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

Let me also echo a big thank you and congratulations to Susan on your retirement. It's been great working and getting to know you for the last 10 years.

Susan McCoy

Director of IR Special Projects

Thanks, Bobby. I appreciate you too.

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

I guess first, maybe let's start off in the Bedding segment. Obviously, a lot going on here to unpack with the restructuring stuff. I guess the first aspect I wanted to talk about is just the difference in the performance of Comfort Core, and I guess the Open Coil part of the business. And I'm asking more in kind of the context of by my math, it looks like Bedding innerspring volumes for Leggett versus 2019 are down, call it, mid- to high 30s. And the industry collectively is down maybe mid-20s to high 20s, right? So there's a fairly big gap there in Leggett volumes versus industry volumes.

And so I'm asking, are the Open Coil customers going elsewhere, sourcing differently? Like what is driving that gap? And then kind of when we look at the go-forward, how do we think about this restructuring and how it impacts the business with your vertically integrated steel mill because I think volumes really need to run through that to make that profitable. So just kind of connecting all that aspect is the question.

J. Mitchell Dolloff
CEO, President & Director

Tyson, I'll be happy to hand it over to you.

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure thing. Thanks for the question, Bobby. So I'll start just with the Open Coil part. We have seen just a long-term trend down in that category. Some of it has been just a shift from our customers from Open Coil to Comfort Core. So there has been -- some of that drag on Open Coil has just been a shift. There has been some different sourcing options, especially during the pandemic when things were short. And then there's also been some differences in U.S. steel costs versus Europe. So we have seen some growth in imported innerspring, especially on the lower end in Open Coil.

The other part you didn't mention but does get wrapped up in our volume around innerspring is wire grids. And that's been a significant decline in overall volume. And that's more of just a shift in consumer preference in type of foundations. So that also is impactful in overall volume in our innerspring business.

The other part of it back to our rod mill, you're absolutely right. I mean volume is a critical part. As we have seen the Open Coil decline in wire grids, a lot of our products that go into Comfort Core also consume more wire because we have products that go fully to the edge, replacing some foam components. So there is still a an offset, even with fewer units, we are still driving tons.

And right now, it is a big drag because overall it's the market where we are, we do have open capacity at the rod mill. But between market recovery and some of our efforts just to diversify out and selling into some industrial markets, we still feel good about the overall capacity utilization at Sterling.

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

I guess two follow-ups on that, Tyson. I mean the different sourcing options that are popping up, I've noticed as well kind of just checking the industry. Are those -- is there a way to compete better against those? Does -- do we need to have lower pricing? Or do we have some type of different product offering to compete against the different sourcing options to maintain those customer relations? And then just more of a financial question. Hypothetically, if the -- or I guess not hypothetically, if the rod mill goes back to full capacity, what does that benefit? What is the drag on segment profitability from the rod mill running at partial capacity today?

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure. Yes. So to your first question. Yes, I mean, our biggest job is to help our customers succeed. And so we want to make sure that we're giving them options to compete with especially just low-priced goods. So we will help them with VA/VE opportunities even on the low end but also offering them different product options that help them compete there. I mean our restructuring effort is a big part of that as well. I mean us becoming more efficient utilizing our assets in a more efficient way in distribution is in a large part to serve our customer better and help them succeed.

So all of those things factored in. I mean, definitely around the innovation, trying to do the VA/VE work and giving the different options is a way to help offset some of those low-price options. And then overall, I mean, not just in the rod mill, but running all the way through our vertically integrated rod bar Spring value chain and also at ECS, the volume has, by far, the most significant impact to our margin profile. So that would be the biggest driver of recovery overall for the bedding segment.

J. Mitchell Dolloff
CEO, President & Director

Tyson, maybe just to add on there. So a little bit in the -- what you talked about is refocusing our strategy and not just focusing on volumes. So if we talk about the Open Coil opportunities that are there and we could go chase pricing but that comes with a risk, right? In terms of some of the financial stability to participate in the market today and just what the margin profile of those products would look like.

Do you agree with that?

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

Perfect. And I guess, Mitch, switching gears here, and sorry just to kind of zero in on margins but I think that is the kind of the debate over the next couple of years. A lot of news in The bedding products and getting that restructured differently, specialized roughly a 10-ish percent EBIT margin versus historical high teens levels, auto production globally is coming back. What is the other aspects that need to happen there to rebuild the margin profile of that business over the next, call it, 1, 2 and 3 years?

J. Mitchell Dolloff
CEO, President & Director

Thanks, Bobby. I think that we have been making progress as we've gone through the last couple of years. We've seen still a lot of dynamics in the automotive industry but we definitely see volume coming back and that's helping and we see improved margins in automotive. We still have work to do and room to make those improvements but we're definitely on the right path. Similarly, although it's smaller in Aerospace, very strong backlogs in the industry. So that volume will continue to come back, again, not as large of an impact as automotive but it certainly will help.

And then we're seeing a little bit of a challenge in the year -- in this year on Hydraulics, where there's really strong backlogs, both in material handling and heavy construction markets. And we see the strong backlog at least through the first half in the U.S. on that part of the market. But the heavy construction side in Europe, particularly in Germany, it seems like it may be a little bit more challenged in demand. So we'll see some ups and downs. But I think that the progress that we've made over the last couple of years in specialized, I think, demonstrates our confidence in the ability to return back to a higher margin profile, certainly, maybe it doesn't go back to the peak margins that we had. But certainly back to the higher margin profile that will provide a lot of benefit to the company.

Operator

[Operator Instructions] Our next question comes from the line of Peter Keith with Piper Sandler.

Alexia Morgan
Piper Sandler & Co., Research Division

This is Alexia Morgan on for Peter Keith. My question is on antidumping scenarios. I know we're expecting a decision later this month. Can you give us an update on antidumping legislation? And then what are the best and worst-case outcomes that you're thinking about once there's a ruling?

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure. This is Tyson. I'll jump in and tackle that one. So yes, we're a party to that. And kind of what we said in past cases, the U.S. industry just needs a level playing field, and that's really what the industry is after. No matter which scenario we think might play out. We fully expect to see some level of imported mattress activity. It may move around to some different countries. There may be some shoring in the U.S. for foam importers. But we still see that dynamic playing out regardless of scenario.

It really is difficult to say how much will come back to U.S. producers just given potential moves to other regions. Also right now, things are a little muddy just because ahead of a potential decision. We have seen a higher level of imports over the last couple of quarters, just I think with some of the importers attempting to get in ahead of any imposed duties. So that will take some time to work through, especially in a really soft market. So we'll see what kind of overhang there is in kind of the near term. But overall, I think we would see just that kind of helps support the continued hub of the industry. So overall, I think we'd say it's still to be determined how much impact would come back to the U.S. producers.

Alexia Morgan
Piper Sandler & Co., Research Division

Okay. And then my next question is related to spring and foam pricing. Is there any deflation within those categories? And then any deflation baked into the sales outlook?

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure. I'll take that one as well. Yes, we've seen commodities at prices, both chemicals and steel moderate over the last year. So over the last year, we've seen pricing in our Specialty Foam business decline as we've been trying to compensate for those client declines given that back to our customers. In our Steel business, we've seen same, last year, we saw metal margins decline overall. We also mentioned in the prepared remarks that we've also adjusted innerspring pricing just relative to overall competitive global steel market.

In the past, we've seen Europe and U.S. steel be in a pretty tight range but we've seen a divergence of that last year. So we have adjusted pricing just to fairly compensate for that with our customers. As far as 2024, there is -- since most of the steel impact came in the back part of 2023, the full year annualization of those price changes would be reflected in our guidance.

Operator

Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Ms. Branscum for any final comments.

Cassie Branscum
Vice President of Investor Relations

Thank you for joining us this morning and your interest in Leggett, and have a great weekend.

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