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Leggett & Platt, Inc. (LEG)

Q1 2020 Earnings Call

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Jeffrey L. Tate
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Executive Vice President & President, Specialized Products and Furniture, Flooring & Textile Segments, Leggett & Platt, Inc.

OTHER PARTICIPANTS

John Allen Baugh
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Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Robert A. Friedner
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to Leggett & Platt First Quarter 2020 Earnings Call and Webcast. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

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

Wendy Watson

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

Good morning and thank you for taking part in Leggett & Platt's first quarter conference call. We are conducting the call from different locations today, so please bear with us, if you experience minor delays or mixed audio quality. On with me are Karl Glassman, Chairman and CEO; Mitch Dolloff, President and COO; Jeff Tate, Executive Vice President and Chief Financial Officer; Steve Henderson, Executive Vice President and President of the Specialized Products and Furniture, Flooring & Textile Products segment; Susan McCoy, Senior Vice President of Investor Relations; and Cassie Branscum, Manager of IR.

Karl will begin with a brief review of the current status of our employees' health and safety measures. Mitch, will discuss our demand levels and operational steps we are taking in response to impact from the COVID-19 pandemic. Jeff, will discuss financial details and proactive steps we are taking to enhance our liquidity position, and Karl will close with final remarks.

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 is available from the IR portion of Leggett's website.

We posted to the Investor Relations portion of the website yesterday's press release and a set of PowerPoint slides that contain summary detail of the key information we are sharing with you this morning along with our regular quarterly financial information and segment details. Those documents supplement the information we discuss on this call, including non-GAAP reconciliations.

A reminder that remarks today concerning future expectations, events, objectives, strategies, trends, or results constitute forward-looking statements. Actual results or events may differ materially due to a number of risks and uncertainties, and the company undertakes no obligation to update or revise these statements. For a summary of these risk factors and additional information, please refer to yesterday's press release and the sections in our 10-K, 8-Ks, and 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 first quarter call under these unprecedented circumstances. First, I welcome Steve Henderson, President of our Specialized Products and Furniture, Flooring & Textile Products segments. Steve is joining us today to participate in Q&A and will be a regular participant on our quarterly earnings calls.

Steve joined like Leggett in 2017 as President of our Automotive business after more than 30 years in a variety of leadership positions at Dow Automotive Systems, most recently as Business President-Automotive Systems. He brings immense knowledge and experience to our management team.

As we reported yesterday, first quarter sales were $1.045 billion. Earnings per share were $0.34, including a $0.07 per share reduction from items detailed in the yesterday's press release. Adjusted earnings per share were $0.41. Yesterday's press release included full details on our first quarter results. We are limiting further prepared comments on the first quarter in order to spend more time discussing the impact of COVID-19 on our business and outlook. We will be happy to discuss any questions you have on first quarter performance during Q&A.

As announced on April 2, we suspended our full-year 2020 guidance due to the uncertainty surrounding the full-year impact of COVID-19. Our first priority is the health and safety of our employees and their families, along with our customers and suppliers and the communities we serve around the world. Given the unprecedented times, we have taken early and decisive action to protect our employees and ensure as safe a work environment as we possibly can. We have executed on several proactive measures to protect the company and preserve capital that Mitch and Jeff will discuss. While the environment continues to be uncertain, we are committed to taking the proper steps to protect our employees and the financial well-being of our company.

I'll now turn the call over to Mitch.

J. Mitchell Dolloff

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

Thank you, Karl, and good morning, everyone. The impact to our operations from COVID-19 developed in China by January and across all geographies by mid-March. Throughout most of the first quarter, weekly sales average at approximately $90 million, consistent with 2019. However, in the final two weeks of the quarter, we saw a steep and rapid sales decline across the company, with sales down roughly 40% and 50% versus the weekly average.

Sales reached a low point in the first week of the second quarter, down 60% versus the weekly average and have been recovering since then. Sales in the third week of the quarter were down approximately 45% versus the weekly average. We continue to see gains in the fourth week of the quarter in our bedding operations, but do not yet have full visibility across all of our businesses.

We quickly implemented cost savings measures across the company aligning our variable cost structure to current demand levels. About three quarters of our operations have remained open to service customers, but with very limited production and staffing. As demand improves and production ramps back up, we will begin to return our employees to work on a measured basis.

We also moved quickly to reduce our fixed costs which historically have been approximately 25% of our total costs. We eliminated non-essential spending across the company. We postponed the investments we spoke about on the last earnings call including network upgrade and enhancing our human resources organization and related technology.

We implemented a 50% salary reduction for our senior executive officers and a 50% cut in the cash portion of our board retainers. We expect these actions to reduce our fixed costs this year by approximately $130 million to $150 million with a benefit in the second quarter of nearly $50 million. We deeply regret the impact of these measures on our employees affected by temporary layoffs and we look forward to bringing them back to work as soon as we can.

We also are closely monitoring all elements of working capital in order to optimize cash flow. Our primary focus is on customer collections. We also have taken steps to tightly control inventory. We dramatically reduced purchases and production levels and in most cases, we have been fulfilling customer orders out of inventory. As demand has improved, we are in the process of increasing production in some of our businesses.

Our Bedding Products segment initially suffered the most rapid and steep decline in demand. Through mid-March, weekly average sales were approximately $45 million. In the final two weeks of the quarter, sales decreased by over 40% and 60% versus the weekly average. By the third week of the second quarter, sales were over 50% of the weekly average. Demand continued to improve last week. I anticipate that sales were roughly 65% to 70% of the average last week. The US bedding industry has been severely impacted by widespread closures of traditional retailers as government shutdown orders went into place. E-commerce channels have fared somewhat better.

In our Specialized Products segment, weekly sales averaged $20 million through mid-March. In the final two weeks of the first quarter, sales decreased roughly 50% as the pandemic spread across Europe and North America. In the first three weeks of the second quarter, sales were down over 60% as automotive OEM plants remain idle. Our Asian automotive business was the first to experience declines as the Chinese government ordered shutdowns in late January. We restored most of our China production by the end of February, but then faced a global decline in demand across all regions.

Currently, all of our European and North American automotive operations are idle, and our Asian facilities are operating at a reduced rate. In response, we significantly reduced fixed costs and variable costs across the business. In the European and North American automotive markets, we see several OEMs planning to restart production in mid-May. Regardless of when production resumes, we expect the supply chain restart to be complex and take time to ramp up.

In the Furniture, Flooring & Textile Products segment, average weekly sales were slightly over $25 million throughout the first quarter. In the first three weeks of the second quarter, sales were down approximately 30% versus the weekly average.

Looking forward, our strategic priorities for the second quarter are optimizing cash flow, understanding changes in demand and corresponding opportunities and planning for expanded production across our operations as markets reopen and demand improves. In early March, we formed a cross-functional crisis response team that meets daily. We help our business leaders manage items such as responding to workplace health and safety issues, establishing protocols, interpreting government orders and securing personal protective equipment.

The team developed a comprehensive handbook to document new work procedures and changes to production necessary to facilitate proper social distancing. Our business leaders are actively implementing training and change management initiatives to drive and maintain new ways of operating. I am incredibly proud of our business leaders and the crisis response team. They have done a terrific job. They are collaborating, adapting and rising to the challenge. Their efforts will help all of our employees feel safe and be safe both today and as we ramp up production.

I'll now turn the call over to Jeff.

Jeffrey L. Tate

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

Thank you, Mitch. And good morning, everyone. First, I want to address the dividend. In keeping with our regular practice, our board of directors expect to make a decision on our second quarter dividend during the board meeting later this month. The decision will take the evolving economic conditions into consideration. Next, as Mitch discussed in his comments, our primary financial focus since mid-March has been on generating cash, disciplined uses of cash and retaining liquidity in response to COVID-19 impacts.

Commercial paper is our primary source of short-term liquidity. Our commercial paper program is backed by $1.2 billion unsecured revolving credit facility with a syndicate of leading banks. The credit facility's financial covenant is a debt to trailing 12 month EBITDA metric. Prior to March 31, the covenant required debt to remain below 4.25 times the trailing 12-month EBITDA. As of March 31, the covenant stepped down to 3.5 times. This was a planned one-time step-down when we increased the size of the credit facility in connection with our January 2019 acquisition of ECS. The step-down effectively reduced our borrowing capacity under the credit facility. The maximum that we can draw is now 3.5 times the trailing 12-month EBITDA.

At March 31, our debt to trailing 12-month EBITDA as defined in our revolving credit facility equated to a maximum borrowing capacity of $650 million. On March 31, our total liquidity was $734 million, comprised of $506 million in cash on hand and $228 million in available capacity under the commercial paper program. This past Friday, May 1, we had $372 million in remaining capacity under the revolver, with $278 million in commercial paper outstanding at a weighted average maturity of approximately 48 days and a weighted average interest rate of 2.53%. Because we did not know how long the significant demand decreases across our markets will continue, we are currently working with our bank group to amend covenants in our revolving credit facility.

In addition, we have taken several steps to reduce our uses of cash for the remainder of the year. As Mitch discussed, we cut non-essential spending and reduced fixed cost by an estimated range of $130 million to $150 million, the large majority of which will benefit cash. We reduced our capital expenditure budget by over 60% to approximately $60 million for the year. We are halting acquisitions. And our scheduled debt repayment for the remainder of the year totaled $37.5 million. Importantly, we have no significant debt maturities until August 2022.

We also expect a 2020 cash flow benefit of approximately $15 million from the payroll tax deferral provision of the CARES Act based on our latest estimate. This provision allows payment deferral of the employer portion of social security taxes for the remainder of 2020. These employer taxes will be paid over the following two years, half in 2021 and the other half in 2022.

Concerning our credit exposure and risk, we increased our accounts receivable reserve in the first quarter. We recognized $12 million in bad debt expense primarily from COVID-19 impact on our customers and risk across our account portfolio, particularly among our bedding customers. If this situation persists, our credit exposure could continue to deteriorate.

In summary, we remain committed to our balance sheet and are being proactive to maximize our liquidity as well as our flexibility to this uniquely uncertain time. With those comments, I'll turn the call back over to Karl for closing remarks.

Karl G. Glassman

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

Thank you, Jeff. We are extremely proud of the ingenuity and resourcefulness of our employees and how they have pulled together to support each other and their communities. Our employees are providing components for hospital beds and medical mattresses, helping solve supply chain issues and ventilator production, providing wire and fabric for face mask producers, and in some cases converting our internal resources to face mask production. Finally, our specialty foam chemicals team has found a way to produce hand sanitizer to provide to our own facilities.

To our employees, thank you for your dedication and resilience in these uncertain times. As Mitch and Jeff explained, and like so many of you and communities around the world, we are facing significant business challenges as a result of the COVID-19 pandemic. These unprecedented circumstances have forced us to make very difficult decisions as we take steps to reduce costs during this period of drastic decreases in demand. The decisions to temporarily layoff a large number of our employees around the world was one of the most difficult of my career, as our strength has always been and will continue to be our people. Please know we are focused on doing everything we can to return our employees to work.

Leggett has successfully navigated several challenging business and economic conditions in its storied 137-year history. Our long-term fundamentals have not changed. We continue to be leaders in most of our markets, focused on innovation and working closely with our customers to provide more of what they need to be successful. Our capabilities are unmatched in our large and expanding addressable markets. The diversity of our businesses makes us stronger. We have an outstanding track record of strong cash flow and we remain committed to our long-standing transparency and financial discipline. We are dedicated to our long-term vision for the company and are confident that we will emerge from this crisis strong and focused on the future.

I'll now turn the call back over to Wendy.

Wendy Watson

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

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

Karl will direct our question-and-answer session as the group answers your questions. In order to allow everyone an opportunity to participate, we request that you ask only one question and then yield to the next participant. If you have additional questions, you are welcome to reenter the queue and we will answer those questions as well. Cheri, we're ready to begin the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from John Baugh with Stifel. Please proceed.

John Allen Baugh Q

Analyst, Stifel, Nicolaus & Co., Inc.

Thank you. Good morning and best wishes to all on the team. Difficult times. I was wondering particularly, I guess, about auto and airlines and I'm thinking a little longer term here and just curious as to your thoughts, these are high-margin businesses. There is a lot of damage going on to these end markets and how you think about the recovery of those businesses post virus and whether or not there may be some permanent cost structure changes that are needed to get to previous profitability levels and how easy that would be to achieve? Thank you.

Karl G. Glassman A

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

First off, John, thank you for your kind comments. Our teams are working really well together and I'm proud to work with this dedicated group of people and I appreciate your sensitivity. We're going to throw Steve Henderson right into it. Steve, if you don't mind, please take a swing at John's auto and aero questions. And Mitch certainly, if you have any additional details you want to layer on, please do so.

Steve Henderson A

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

Thanks, Karl. Good morning, John. Well, there's a lot in there in your question. But, as Mitch mentioned in his comments, it's a very complicated supply chain and it's going to take some time to work through here in the short term. So, North America and Europe stopped very quickly and that left not much opportunity to build ahead any kind of inventory of critical components. So, restarting the supply chain, which is starting this week to some extent will take pretty significant effort. There will be intermittent stoppages due to the interdependence of the supply chain, countries, states, all of the different restrictions that are out there right now hamper that from operating as effectively as they could.

We believe we'll see it starting out with single shifts, shorter shifts, probably slower line rates and shifting content towards stuff – vehicles that are easier to fill. We know our customers are going to have to proceed very carefully. Like us, they're going to have to monitor their employees, have PPE there for them, implement new processes. So, we think it's going to start out slow as these are kind of trial runs of social distancing. A little further out, we'll probably push model changeovers out a bit. So typically, there is a model change coming up here. So, EPA can't certify vehicle customers haven't been able to do the engineering certification validation. So, you can see those kinds of things push out two to three months.

Longer term, we see that some of the macros of the industry of connected, autonomous, and shared are definitely going to be impacted in the short-term, particularly around autonomous and shared vehicles. The return on the autonomous is out too far; and shared, just because of the COVID, an element of it. So, we'll see how many of those developments get pushed out a little further. Our belief is though the areas that we play in, and comfort and convenience will matter more in the future regardless of where the market is headed, and we'll continue to be a pretty relevant supplier in the future. And this can take probably a few years to work its way through. So, that's it for automotive.

In aerospace, we held up pretty well in the first quarter. We were less impacted at the end of the first quarter, but we started to feel that a little bit going into Q2. Extreme disruption to air travel, we expect that long-term aircraft production will be reduced because of passenger demand and also the airlines' financial condition. Both, Boeing and Airbus have announced production cuts as a result, but we don't really know what that means at this time, but we are expecting that again this will take some time to work its way out.

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

Thank you. Good luck.

Steve Henderson
Executive Vice President & President, Specialized Products and Furniture, Flooring & Textile Segments, Leggett & Platt, Inc.
A

Thank you.

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

Yeah. Thank you, John.

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

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

Good morning, everybody. I hope everybody is doing well and their families are staying healthy. And I appreciate you taking my questions. First, I guess, I want to talk a little bit about the health of the bedding and furniture distribution networks here in the US. A large part of the retail outlets, Leggett's components end up in are by small and medium sized businesses. So, can you maybe share any commentary or color on what you're hearing about how those businesses and customers in those retail outlets, how they made it through this crisis here in April and kind of what their health is going forward, because I think that'll be very dependent on how the recovery trends for bedding in 2020 and 2021.

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

Bobby, I'll take a swing at it. Mitch, certainly join in at any time, but what we're hearing is the small independents, Bobby, are actually faring reasonably well. They tend to be in smaller communities that are less impacted and the sales through those channels have actually been stronger than average. So, rural brick-and-mortar is doing fine. The larger, more heavily levered chains that had been impacted by private equity over the last few years, they are not faring as well, because they're more highly leveraged. But long-term, I think that there'll be a continued mix to e-commerce. We're certainly seeing that in e-commerce distribution being stronger than brick-and-mortar.

But to your point and to your share – our shared concern is long-term, post-recovery, the goodness, the ability for product to be distributed through a supply chain ultimately to Mrs. Consumer in a way that is fits her preferences and her desires to experiencing the product and/or buy from – in an omni-channel environment is important. But we haven't really seen a lot of negative impact. The fact that stores are starting to come back to life, we've seen some early – just in the last few days, a little bit of recovery in home furniture. The Governor of California's announcement last night that he was going to start to open some retail distribution certainly is positive. It depends on how that's all phased. But I rambled a whole lot, but Mitch is always more substantive than I am. But Mitch, do you have anything to add?

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

Well, just a little bit. I don't agree that I'm more substantive, but I think you're right that it's sort of accelerated the shift towards the omni-channel environment that we've seen coming. And I think that for sure, those smaller rural retailers are hanging in there. But I think we're seeing everyone get creative, right, and even though some of the larger brick-and-mortar retailers focusing on online channels and having innovative ways to have people feel safe in the store. So, I think that – it's just accelerated the dynamic that was happening previously.

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

Okay. Thank you. That's very helpful. And I guess secondly, this one is for Jeff. I just want to maybe ask around the working capital opportunity. Trying to get a sense of just how much of the working capital opportunity is there in the second quarter to work through some of the inventory that was already made? And then, in particular, just without asking for or looking for actual guidance, but – can that create an opportunity where 2Q can just be a better cash flow generation quarter than 3Q, I mean, as 1Q 2020 as you work through that?

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

Yeah. Good morning, Bobby, and thanks for the question. Your synopsis of it is, I would say, very accurate in terms of the dynamics we're expecting between the first quarter and second quarter. And obviously, we're not giving any guidance. But when you look at directionally, what we're expecting in terms of working our way through the inventory, as Mitch mentioned in his remarks, that's one of the critical components and the other is that we are intently, intently focused around continuing customer collections in terms of reducing our accounts receivable. So, the combination of those, in our opinion, will lend itself to an improvement from a directional trend perspective from 1Q to 2Q as we think about working capital and, i.e., cash flow improvement.

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

Thank you. Very helpful. Best of luck in this tough environment.

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

Thank you.

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

A

Thank you, Bobby.

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

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning, everyone. Thanks for all the commentary too. Very helpful to hear. Everyone's doing all right there. My first question is just; can you talk a little bit to what you're seeing on the input cost side of things? We've obviously seen a lot of significant deflation coming through in some key commodities. Can you talk to how we should be thinking of that rolling through over the next few quarters?

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

A

Boy, Susan, that's a great question. The question is better than the answer. What we saw or what the industry saw is, purely from a steel perspective, scrap trade down pretty significantly in April. It looks like it's going to trade up in May, because of the lack of availability of scrap, there's not a lot of scrap being collected at these low prices and it's not being produced because of really no North American automotive production. And to Steve's point, that will start slowly. So, I would expect steel is always a supply and demand issue, and there's not a whole lot of demand. I would expect that steel cost will continue to stay somewhat muted, but if demand picks up before supply, remembering there's a lot of productive capacity that's idled right now, we may see a couple months of blip where costs do accelerate.

On the input cost for foam chemicals, we're seeing deflation, but to be real honest with you, in that whole sector, there is not a whole lot of demand. So, not everybody is able to make use of these lower input costs. So, it's a great question. I'm not sure that we're confident that we're going to have the benefit from input cost deflation going into the back end of the year as people might think, purely because of supply and demand dynamics.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's helpful. My next question is just kind of building on Bobby's question, if we go back, 2009 was a record year in terms of Leggett's ability to generate cash. As you think about what was going on in that downturn and in that environment, and compare and contrast that to what you're seeing today, can you talk to Leggett's overall ability to generate cash? How we should be thinking about that relative to what we've seen in past downturns? And what it could mean for the business and maybe especially as we think about things like the dividend and some of those things that are always been really important and kind of core to Leggett?

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

A

Yeah. It's a good question. Again, it's so different. You'll remember in the 2008-2009 timeframe, I was the Chief Operating Officer, so I've been through this. And it was very different, and that the decline was slow and gradual and we were – we didn't have the kind of instantaneous cliff. We didn't have – we had layoffs, but not mass layoffs. We didn't have – as a macro economy, we didn't have 30 million people filed for unemployment in a three-week period. So, much of the demand that we experience is based on consumer confidence and we have a consumer that doesn't know frankly what to think. So, they're just completely different dynamics.

What we don't know today is depth or duration. The company's ability to generate cash is significant. Jeff's answer was spot on. And that cash generation in 2Q should be really pretty good, but it all depends on demand in Q3 and Q4 from a sales perspective and to be able to get that operating income married by cash generation, which is what we really experienced in 2008-2009. So, it's distinctly different. I will tell you that the portfolio is much healthier today than it was in that timeframe; big cash generators in the bedding supply chain and automotive once it restarts. So, we're in a better spot in a admittedly more difficult environment that's much more difficult to predict and is very uncertain with volatility. It's maybe embarrassing for us not to be able to guide, but heck, we don't know if there's going to be a second wave. We just don't know. We're appreciative of the trends that we're experiencing in April, but I mean, heck, that doesn't mean that they'll continue. It always feels like we're one day away from bad news.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. I appreciate that and the color is very helpful. Good luck with everything.

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

A

Yeah. Thank you.

Operator: Our next question is from Keith Hughes with SunTrust Robinson Humphrey. Please proceed.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. I guess two questions. First on production. Are you at the point now where you can run production in parallel with demand or is this still, this production maybe run below demand, and bring down in inventory as we stand today?

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

A

Mitch?

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

A

Hi, Keith. So, I think it varies by BU. We see it depending upon the demand levels. As we mentioned in automotive, we're running production in Asia at around 60%, 65% level, but idle in North America and Europe. In our domestic bedding assets where we've seen demand pick-up in April and we're restarting some facilities. So, it really varies by business unit, but I think in most cases, we're pivoting towards increasing production levels.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And I guess second question is on the dividend. I know you're going to let us know on the dividend. I guess, why are we not seeing an announcement today? What's going to happen in the next week-and-a-half, two weeks, this is going to sway the decision one way or the other.

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

A

Yeah. Keith, this is Karl. Historically, you would have not seen an announcement today. The dividend is always considered at the May board meeting. The May board meeting is scheduled for a week from Friday, so the May 15. And really what we were – we knew that we were going to be asked the question, and answer is, based on as is our typical course, the board will make a decision. It will make a decision based on the evolving economic conditions. As Jeff said in his prepared remarks, we're working with the banks on some covenant relief, and all of those things will be considered contemporary sales trends.

Every week of data is helpful. So, continued cash generation. So, everything's being considered, but nothing's changed. I mean, the board considers dividend in May every year. It just happens that the May board meeting is a little later based on board members' availability. It hasn't changed, it's been scheduled for May 15 for probably three years.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. That's all from me. Thank you.

Karl G. Glassman

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

A

Yeah. Thanks.

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

Robert A. Friedner
Analyst, Piper Sandler & Co.

Q

Hey. Good morning, everyone. It's actually Bobby Friedner on for Peter. Thanks for taking my questions. I just want to ask about the near-term sales trends, so it's good to see that there was some stabilization in mid-April. This lines up with the timing of government stimulus checks going out and we've heard other bedding furniture companies talk about acceleration in mid-April. So, my question is, do you think growth has bottomed out here in near term or is there consideration that trends could slow again once stimulus check benefits wane?

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

A

Bobby, that is a question that frankly the answer – potential answer haunts Mitch and I. We don't know. We have that concern that we're – we just don't know. That's why, we can't give guidance. It's so difficult to forecast. When you look at the significant number of people that are unemployed in this country, many of them are making more money on unemployment than they were working. And then, they augment that with the stimulus check. And is that what's driven recent demand? We just don't know. Typically, Bobby, as you know, this would be the season when normal bedding and furniture starts to pick up some acceleration moving into Memorial Day, but there's nothing normal about this year. So, a great question we don't know the answer to.

Robert A. Friedner
Analyst, Piper Sandler & Co.

Q

All right. Fair enough. And maybe separately, curious as you look at different countries reopening economies in the Asia area, are there any interesting insights or learnings you could share with us?

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

A

Mitch, why don't you take a swing at that one, you and Steve?

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

A

All right. I'll take a shot at it and Steve, you can help clean it up. I don't think anything that's really uniquely insightful unfortunately. As our China production went down in January in automotive and of course, we learned a lot of lessons, the team did a great job in establishing protocols and figuring out how to just handle that situation and pretty quickly got back up to 85%, 95% of our productive capacity by the end of February and then the global demand just wasn't there. And so, we haven't really seen that impact yet of the Asian or European loosening that's taken place from a demand perspective. I think that's still to come. Steve, anything that you would add or change?

Steve Henderson
Executive Vice President & President, Specialized Products and Furniture, Flooring & Textile Segments, Leggett & Platt, Inc.

A

No, I just say in terms of the market, it's returning slowly in most of the areas other than in China. That's probably because domestic consumption has increased quite a bit in recent years, and now, people are just slowly returning back to normal. And as the stores are opening, automotive dealerships are opening, they're now able to go back in, but they're doing so cautiously.

Robert A. Friedner
Analyst, Piper Sandler & Co.

Q

All right. Thank you, everyone. And best of luck going forward.

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

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Hello, again.

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

A

Hello, Susan.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

There's two more questions that I just want to touch on. The first is, can you give us some sense of the decremental margins in the business; and then, either by segment or on a consolidated level, I'm not sure how to think about that. And especially, given some of the work that you've done over the last, call it, 18 months or so, and divesting some of those segments and things like that, what does that mean as the volume comes down? And then, how should we think about the incremental margin as well as things do slowly start to come back?

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

A

Mitch, you want to take a swing at that?

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

Yeah, Karl, happy to. Susan, yeah, I think that our incremental or decremental margins are somewhere averaging in the 25% to 35% range and they vary by business. I think that you're right, the measures that we've done last year on the restructuring and again by moving swiftly and deeply to take cost out as this occurred will help us. So, I think our goal would be able to maintain that kind of margin range and reduce our fixed costs. So, we will have to adapt to the new demand level whatever that turns out to be.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC
Q

Okay. And is it safe to think, Mitch, that your specialty businesses are probably at the higher end of that range, while something like furniture bedding is maybe a little lower?

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

I think it's right to think that those are generally at the higher end of the range, but there's not a really wide spread.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC
Q

Okay. Okay. That's helpful. And then, for follow-up question is a bit more strategic and that one of the outcomes of this whole situation could be that we just generally see consumers shopping more online and especially perhaps for bedding, just given what we've been seeing in that industry. And I know that you had more recently kind of gotten deeper into that side of the industry working with some of the more e-commerce aligned businesses there. Has your strategy around that changed at all or is it changing given what we're seeing? And how do we think about your ability to service that demand if we really do see it staying higher even as things do kind of normalize or stabilize in the retail environment?

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

Susan, Mitch and I were talking about this very subject early this morning. Thank goodness that we own ECS, that ECS' ability to make specialized products that are kind of heavy weighted to an omni-channel environment was a good move and in hindsight is proving that the hypotheses that we developed over omni-channel a few years ago is being accelerated by this unfortunate set of circumstances. But don't think that just the digital native players are the recipients of that that the traditional OEM mattress manufacturers and the traditional brick-and-mortar retailers are doing a tremendous amount of online business. So, it's getting blurry. So, I don't think we have any constraints. There's learnings that we've developed since the ECS acquisition that will prove to be extremely valuable going forward. But, Mitch, do you want to add anything?

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

No. Karl, I think, you're right on target. I think it confirms the strategy, the path that we were headed down and we're seeing it play out across as you said both the direct-to-consumer channels as well as other e-comm players.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you.

Operator: And our next question is from John Baugh with Stifel. Please proceed.

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

Q

Thanks. As a follow-up, I wanted to jump into the AR and I guess two-part question. Did you see losses increasing or was the adjustment you made the reserve just sort of a conservative forecast? And secondly, what does focus on collections mean? Are you requiring cash on delivery, I mean, at a time when presumably some of your customers are looking to push out their payments, it sounds like you're trying to make the opposite happen.

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

A

Yeah. I'll take part of it and Jeff and Mitch will probably all have comments on this. There was an attempt, a little bit from some of our customers to push out, and we have pushed that back. We have an obligation to pay our suppliers and we believe our customers have an obligation to pay us. So, we have taken a pretty rigid position that we expect our customers to pay us. We feel it's an obligation. It's a commitment that they have to us. We have not seen a deterioration. Actually, we've seen somewhat of an improvement in AR. The answer to your first question, John, is, no, we didn't really see – didn't at all see an increase in losses, but Jeff, why don't you walk through the FASB guidance and why the reserve was enhanced.

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

A

Good morning, John. Yeah. From our perspective, John, one of the things that we implemented in first quarter was on the CECL, current expected credit losses. And as a part of that, we went through and looked at the risk profile of our customer base across all of our markets in anticipation of what potential expected losses could be, especially in this pandemic type of environment, and we felt it was prudent to increase the reserve based on that assessment.

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

Q

And I assume the AR balance will come down, partly largely because revenues are going or falling, or is there something else in terms of days or receivables that's going to change as well, Jeff? Thank you.

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

A

Sure, John. No, we do not expect our DSO. In fact, our DSO, as Karl mentioned, has actually been improving at this point here. So, from our perspective, we're going to continue to maintain that discipline as we move forward into 2Q.

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

A

And that monetization of AR and the inventories is really what drives the answer to Bobby's question of second quarter cash generation.

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

Q

Got it. Thank you. Good luck.

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

A

Thank you, John.

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

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

Thank you, everybody, for participating today and we will talk to you again next quarter.

Operator: Thank you. This does conclude today's conference. You may disconnect your lines at this time and thank you for your participation.