S&P Global
Market Intelligence

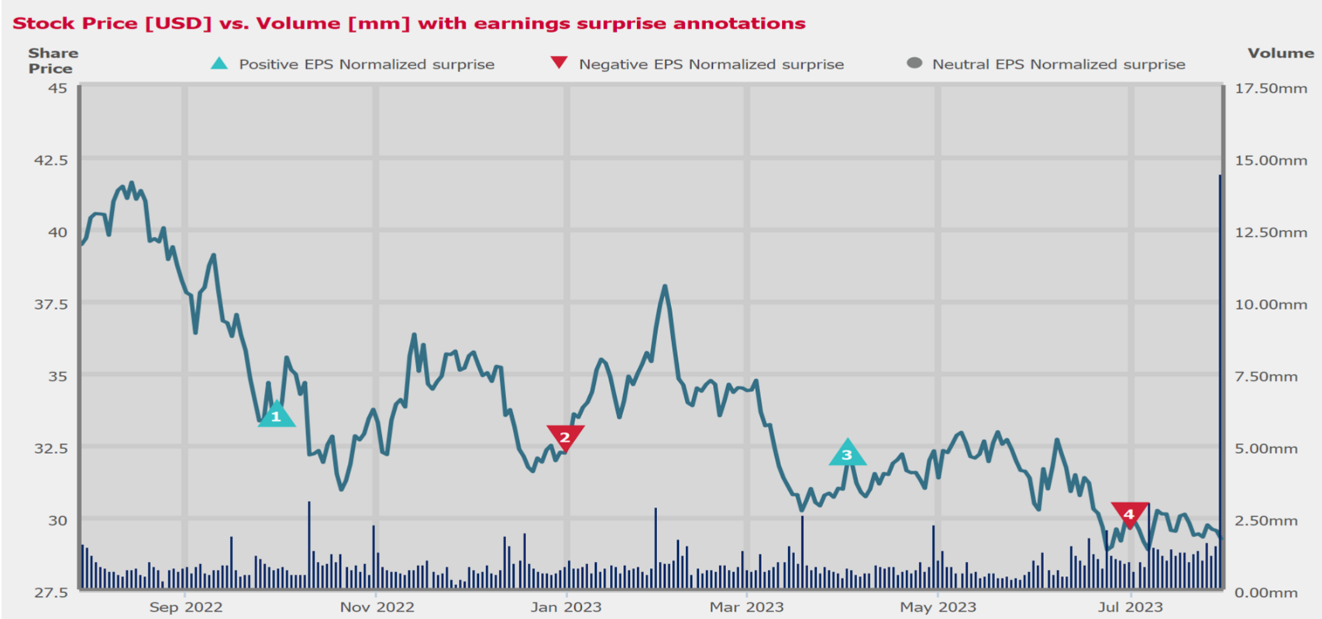
Leggett & Platt, Incorporated NYSE:LEG
FQ2 2023 Earnings Call Transcripts

Tuesday, August 1, 2023 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2023-			-FQ3 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.39	0.38	(2.56 %)	0.45	1.63	NA
Revenue (mm)	1243.20	1221.20	(1.77 %)	1275.79	4935.04	NA

Currency: USD
Consensus as of Aug-01-2023 1:50 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2022	0.50	0.52	1 4.00 %
FQ4 2022	0.48	0.39	2 (18.75 %)
FQ1 2023	0.26	0.39	3 50.00 %
FQ2 2023	0.39	0.38	4 (2.56 %)

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Call Participants

EXECUTIVES

Benjamin M. Burns
Executive VP & CFO

J. Mitchell Dolloff
CEO, President & Director

J. Tyson Hagale
Executive VP & President of Bedding Products

Steven K. Henderson
Executive VP and President of Specialized Products & Furniture, Flooring & Textile Products

Susan R. McCoy
Senior Vice President of Investor Relations

ANALYSTS

Keith Brian Hughes
Truist Securities, Inc., Research Division

Peter Jacob Keith
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 LEG 2Q 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, Susan McCoy, SVP, Investor Relations. Thank you. You may begin.

Susan R. McCoy
Senior Vice President of Investor Relations

Good morning, and thank you for taking part in Leggett & Platt's Second Quarter Conference Call. On the call today are Mitch Dollof, President and CEO; Ben Burns, Executive Vice President and CFO; and Steve Henderson, Executive Vice President and President of the Specialized Products and Furniture Flooring and Textile Products segments; Tyson Hagale, Executive Vice President and President of the Bedding Products segment; Cassie Branscum, Senior Director of IR; and Kolina Talbert, Manager of IR.

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 2023, 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 is available from the IR portion of Leggett's website. We posted to the IR portion of the website yesterday's press release and the set of PowerPoint slides that contain summary financial information along with segment details. Those documents supplement the information we discuss on this call, including non-GAAP reconciliations.

I need to remind you that remarks today concerning future expectations, events, objectives, strategies, trends or results constitute forward-looking 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 in 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 second quarter call. First, I would like to welcome Ben Burns, who stepped into the CFO role effective June 21. Ben has been with the company for 20 years and previously led our internal audit department served as our Treasurer and most recently led our business support services functions, including procurement, logistics and risk.

Ben brings a deep knowledge of our business, strong financial capabilities and an ability to drive change that has benefited and will continue to benefit Leggett & Platt.

Now turning to second quarter results. Sales in the quarter were down 8% versus second quarter 2022 from lower volume and raw material-related price decreases. Acquisitions added 3% to sales. The volume decline was driven by continued demand softness in residential end markets, partially offset by growth in automotive, aerospace and hydraulic cylinders.

Second quarter earnings per share were $0.40. This included $4 million or $0.02 per share of gain from the net insurance proceeds from April tornado damage at a shared home furniture and bedding manufacturing facility. Excluding this item, adjusted earnings per share were $0.38. Earnings decreased primarily from lower volume in residential end markets and lower metal margin in our steel rod business.

Cash flow from operations was $111 million, up $21 million versus second quarter of 2022. We are lowering our full year guidance to reflect continued volatility in macroeconomic environment and low visibility in several of our end markets. Our previous guidance anticipated a modest improvement in residential end markets in the second half of the year. We are encouraged by the continued recovery in our industrial businesses, but have yet to see an upward trajectory in the residential markets.

Moving on to our business segment results and outlook. Sales in our Bedding Products segment were down 18% versus second quarter of 2022. We previously expected 2023 market volume to be flat with modest improvement in the back half of the year. Although the market improved sequentially in May and June from seasonal lows in April, the second quarter was weaker than expected. In addition, signals from the broad market and customers are less optimistic than earlier in the year.

We now expect demand to remain at or slightly below current levels. This suggests volume in the back half of the year will be down mid-single digits, and full year mattress consumption will be down high single digits versus 2022. This estimate results in consumption down 25% to 30% from the 2021 peak and at levels comparable to 2016.

In the quarter, our volume generally tracked the overall market, but there is some variability within specific product categories. Trade rod and wire volume declined year-over-year as industrial demand was strong until the third quarter of last year. Steel rod production through the first half of the year was consistent with initial plans. However, full year production is now expected to be approximately 25% below historical levels to align with current demand versus our previous expectations of 20% below historical levels.

Volume in U.S. spring was down 13% in the second quarter. Comfort Core unit volumes declined versus last year, but tracked near or positive to the overall market. Lower-priced open coil innersprings and wire foundations declined more, which we believe is indicative of broader market trends.

Volume in Specialty foam was up 8%. Successful efforts to diversify our customer base led to growth in finished mattress units and accessories such as mattress toppers. As expected, federal margin narrowed in the first half of the year, and we still anticipate metal margin to be down mid-teens versus 2022.

Market volume continues to be the greatest headwind and impact to earnings and margin. However, our teams continue to work to improve internal capabilities and bring value to our customers despite the challenging environment. In recent years, we've strategically shifted our focus in the bedding market by expanding product capabilities and growing content at attractive price points.

Our innerspring components business has moved more towards mid- to higher end price points and greater content within each unit. Our specialty foam business allows us to produce specialty foam components and finished products for our branded partners. Consumer interest in adjustable beds continues to grow, providing us with an additional opportunity to increase content. This strategic approach enables us to innovate high-quality differentiated products for our customers and improve comfort for the end consumer.

We intend to grow our market share and increase profitability by focusing on 3 key areas. First, we will continue to pursue opportunities to enhance our value proposition by offering product differentiation and reducing total mattress production costs for our OEM customers. For example, our new combination pocket combines perimeter Edge innersprings and specialty foam to create a fabric in case innerspring and foam column that minimizes motion disturbance from a sleeping partner and improves air flow.

EcoBase is another new product that allows our customers to streamline their manufacturing process, lower cost and reduced environmental impact by replacing commodity-based foam with a lighter polyester nonwoven material under a Comfort Core unit.

Our second area of focus is improving specialty foams performance and continuing to improve costs. Continued integration of our foam and innerspring operations will drive opportunities for manufacturing savings and product development gains. And our third area of focus is maintaining our production flexibility and ensuring appropriate levels of inventory.

Our competitive position is unique, from our vertical integration of steel rod and wire, specialty polyols and additives and efficient and flexible machine technology to innovative products that service our customers anywhere in the value chain, our bedding business is well positioned to bring value to our customers and end consumers.

Sales in our Specialized Products segment increased 23% versus second quarter of 2022, driven by the Hydraulic Cylinders acquisition completed in August of last year and continued recovery in all 3 businesses. The July forecast for global automotive production shows 6.5% growth in the major markets in 2023 as the industry has seen stronger production recovery and inventory restocking than anticipated earlier in the year, while improving automotive industry production remains dynamic supply chain, macroeconomic and geopolitical impacts bring volatility across different regions. Cost recovery is continuing in our automotive business, and we expect to make further progress as we move through the second half of the year.

Strong end market demand in Hydraulic Cylinders is expected through the remainder of the year. Order backlogs in the Material Handling and heavy construction equipment market segments remain at elevated levels, but it started to moderate as our customer supply chain and labor issues have improved, allowing them to increase production levels.

In our Aerospace business, we expect strong demand in the second half of the year as industry recovery continues. OEM backlogs remain strong. However, build rates fluctuate based on supply chain availability. Sales in our Furniture, Flooring and Textile Products segment were down 14% versus second quarter of 2022. Home furniture demand remained slow during the quarter with high-end price point softening. The lower demand also impacted volume in fabric converting. While inventory levels across the market continue to improve, we expect demand to remain soft through the third quarter with the potential for some improvement in the fourth quarter.

Work Furniture demand for both contract and residential end-use products remained at low levels consistent with previous quarters. We expect demand to continue at these levels for the rest of the year.

In Flooring products, residential demand improved sequentially, but remained slow in what is typically a seasonally stronger quarter, largely due to softer remodeling activity. Hospitality demand continues to improve, but remains below pre-pandemic levels.

In Geo Components, we expect slower demand in the back half of the year as home improvement retail has softened and civil construction is slower than anticipated. We are maintaining our emphasis on improving areas within our control and proactively addressing the effects of the macroeconomic impacts on our businesses. Our employees have done an excellent job in driving these efforts, which include engaging with our customers on new product opportunities, some of which we mentioned earlier in our Bedding segment commentary, improving operating efficiency as we have done in a North American automotive facility as progress continues in specialty foam and driving strong cash management as demonstrated by our working capital improvement and year-to-date operating cash flow of $207 million. Our focused execution and enduring fundamentals position Leggett & Platt for long-term success. I'll now turn the call over to Ben.

Benjamin M. Burns
Executive VP & CFO

Thank you, Mitch, and good morning, everyone. In second quarter, we generated cash from operations of $111 million, $21 million higher than the $90 million we generated in the second quarter of 2022. This increase reflects working capital improvements, partially offset by lower earnings. We continue to closely control all elements of working capital. We ended the quarter with adjusted working capital as a percentage of annualized sales of 15.2%. Cash from operations is still expected to be $450 million to $500 million in 2023.

We ended second quarter with total debt of $2 billion, including $224 million of commercial paper outstanding and no significant maturities until November 2024. Net debt to trailing 12-month adjusted EBITDA was 3.1x at quarter end. The ratio has increased as EBITDA has declined in recent quarters, but we expect to continue to comfortably meet our debt covenant requirements and maintain sufficient liquidity.

We are focused on maintaining investment-grade debt ratings and expect this ratio to improve as earnings increase over time and we use excess cash to pay down debt.

Total liquidity was $632 million at June 30, comprised of $272 million of cash on hand and $360 million in capacity remaining under our revolving credit facility. In May, our Board of Directors increased the second quarter dividend to $0.46 per share, $0.02 or 4.5% higher than last year's second quarter dividend. At an annual indicated dividend of $1.84, the yield of 6.2% based upon Friday's closing price, one of the highest yields among the dividend kings. This year marks our 52nd consecutive year of annual increases. We continue to deploy our cash in a balanced and disciplined manner. For the full year 2023, we expect capital expenditures of approximately $100 million to $130 million, dividends of approximately $240 million and minimal spending for acquisitions and share repurchases as we prioritize debt reduction in the near term.

Our long-term priorities for uses of cash remain unchanged. They include in order of priority funding organic growth, paying dividends, funding strategic acquisitions and repurchasing shares with available cash. As announced yesterday, we are lowering our full year sales and earnings guidance. 2023 sales are now expected to be $4.75 billion to $4.95 billion or down 4% to 8% versus 2022. The guidance reflects volumes at the mid point down mid-single digits with bedding products down mid- to high single digits, specialized products up high single digits and Furniture, Flooring and Textile Products down mid- to high single digits.

The guidance also assumes the impact of deflation and currency combined is expected to reduce sales mid-single digits and acquisitions completed in 2022 should add approximately 3% to sales in 2023. 2023 earnings per share are now expected to be in the range of $1.50 to $1.70, including approximately $0.05 per share of gain from net insurance proceeds we expect to recognize for the year.

Full year adjusted earnings per share are now expected to be $1.45 to $1.65, with the decrease versus prior guidance, primarily reflecting lower expected volume in residential end markets. EPS guidance assumes a full year effective tax rate of 24%, depreciation and amortization of approximately $200 million, net interest expense of approximately $85 million and fully diluted shares of $137 million. Based upon this guidance framework, our full year adjusted EBIT margin range is expected to be 7.3% to 7.7%. EBIT margins continue to be pressured by several factors with the largest being lower volume primarily in our residential end markets, operational inefficiencies in specialty foam and the inflationary impact on margin percentages as we raised selling prices to recover higher input costs.

Important drivers of margin improvement going forward will be stronger volume, continued efficiency and cost improvements and pricing discipline as raw material costs fluctuate. Longer term, we expect innovation to drive our margins higher as we work closely with our customers to develop differentiated products. We are committed to maintaining our long-held financial strength. This discipline along with the tenacity and dedication of our employees allows us to navigate uncertain times and capture long-term opportunities. With those comments, I'll turn the call back over to Susan.

Susan R. McCoy
Senior Vice President of Investor Relations
That concludes our prepared remarks. We thank you for your attention, and we're glad to answer your questions. Operator, we're ready to begin the Q&A session.

Question and Answer

Operator

[Operator Instructions] The first question is from Susan Maklari of Goldman Sachs.

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

My first question is on the bedding business. It's encouraging to hear you talk about some of the new products and some of the innovation that is coming out. As you think about the recovery in that business, can you talk a bit about the role that those new products might play? And how -- what stage of their life cycles those are in? And how we should be thinking about the potential ramp there?

J. Mitchell Dolloff
CEO, President & Director

Yes. Very good question. Thanks for asking that. Tyson, I'll let you take that one.

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure, and thanks for the question. Those are products that Mitch covered in his opening comments that we've been working on for a while. I think we've talked about this in some of our past conference calls that during the pandemic, there was a heavy, heavy focus on supply. And then as the supply chain started to get more stable, we had more interest from some of our customers on working on new products. And so those are still both early life cycle products. They've been in our pipeline for a while, but they are now being commercialized. We are selling them into the market. It will -- so they're still early stage. It will take time for them to grow, but there's good strong customer interest in those products.

But we're also very mindful of as we ramp those up that we want to support our customers really well, as we roll them out. So I'd say a gradual improvement, but they're good examples of the types of innovation that we've worked on for a long time. If you think back historically, it's a continuation of where we've been with the growth of Comfort Core and then perimeter Edge, Comfort Core and then now products like combination pocket and eco-based, where we're adding content, not just to add it, but it adds differentiation or more comfort for end consumers, but also value for our OEM customers, where we can help them either reduce labor cost or additional content to make products more easy to manufacture.

So I think it's a continuation of where we've been heading for a long time, and we continue to add those types of products into our pipeline. Another area that Mitch didn't mention, but I think I'd like to add is innovation from our specialty foam business as well. We have some good products in the pipeline there that both help with the weight of specialty foam products and then also sustainability. So those are also products that we can add into either component form or finished products through specialty foam. And all of these are pretty technical and goes well with our integration all the way back to our machine business because they are pretty complicated in things that we have to apply machine technology all the way through our manufacturing to provide a good product for our customers.

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

Okay. That's great color, Tyson. And then maybe switching gears a bit and thinking about the specialized segment. You did see a nice recovery there. It sounds like auto production is slowly, but surely coming back. As you think about the different geographies and the different stages of the global macros are perhaps in as it relates to auto, how are you thinking about the further trajectory of that? And -- are there any areas that are perhaps leading versus lagging where you can continue to see a nice lift as things sort of move along?

J. Mitchell Dolloff
CEO, President & Director

Yes. Thanks, Susan. It has been a little bit dynamic across different regions for a while now. I'd say that probably the case that North America and Europe are the most stable right now, and we see continued improvement, and it's really been in China and Asia where it's been a little bit more volatile. You've seen some of the shift to EVs especially in China that has created a little bit of disruption. But the outlook is still very strong. The year-over-year production change for this year is now up to about 6.5% based on the IHS data, and that's up from a little over 4% back in April when we were there. So I think that also indicates some of the dynamics that we've seen, right? And that does create some inefficiencies occasionally, and there's still some supply chain issues.

But as you said, it is getting better. I think the longer-term outlook over the next 4 years or so is a CAGR of just under 3%, maybe, and so I think there is continued growth out there and will be continuing to see stability and, frankly, opportunities for us to increase operational efficiency there too. So in 2019, total production was about 75 million vehicles in the major markets. And the latest forecast indicates we get there in 2026. So we still have some room to improve.

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

Okay. That's perfect. And then I'm going to sneak 1 more in, which is welcome Ben and congrats on your new role. Perhaps you can tell us as you take on the role of CFO, what will be different? What will stay the same? And perhaps anything that you're more focused on as you come into this new position?

Benjamin M. Burns
Executive VP & CFO

Yes. Thanks, Susan. Thanks for the comments. Yes, I'd say just very excited to step into this role and appreciate to have the opportunity to serve as our CFO. Some things that I think will stay the same. Clearly, our high level of integrity, transparency and access for the investment community. Really, I'm very aligned with Leggett's values are my personal values. So those are really important to me. Also, you'll see a commitment to our disciplined uses of cash that will not change, so that will be very consistent.

Also I have a strong focus on driving shareholder value, driving strong cash flow and really being focused on margin improvement.

As I come into this role and think about how I can drive some value, I think about developing very close connection with our businesses, really a partnership and driving results. I have some strong relationships with our business leaders that I've developed over the years in some prior roles and really look forward to just partnering with those leaders and collaborating with them and just thinking about how it can best help serve them in their businesses.

I'll also be focused on working with our teams and thinking about how we modernize our finance function and really looking to drive efficiencies, and then over time, thinking about how do we add technology and make better use of that so that we can spend more time thinking about value creation and how we drive that and just optimizing those routine processes, so we don't spend quite as much time on them. So really excited to jump in and get to work, and I appreciate the question.

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

Yes. Okay. And I'll requeue.

Operator

The next question is from Bobby Griffin of Raymond James.

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

First up for me, I wanted to maybe go back to the Bedding Products segment and kind of just understand a little bit more of the margin drivers there. I know there's kind of basically 2 aspects going on. We had a little bit lower year-over-year metal margins as well as some pretty significant volume decline. So, when you look at the compression in EBIT margins in that business in the quarter, can you maybe help just provide some color on the biggest driver? Was it 2/3 volume and 1/3 the metal margins or is it even more volume related? Just trying to get some context around the impact from really the volume declines.

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure. Bobby, this is Tyson. So year-over-year, it's more heavily weighted towards metal margin, probably the inverse of what you threw out. So metal margin, the majority are probably approaching 2/3 of the remaining 1/3 being volume.

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

Okay. And then when we think about that, I mean, the metal margin is still pretty elevated versus historical standard I guess the next question off of that because my guess of 2/3, 1/3 was backwards. I mean how do we protect margins if we are moving our way back towards maybe a little bit more of a historical standard because that is a pretty sizable impact.

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure. And at this point, we've talked about this in the past as well. We have seen metal margins start to decline versus last year, it's down somewhere mid-teens, which is pretty close to our expectation that we shared at the beginning of the year. At this point, our thought is that we'll probably see the remainder of the year to be at pretty steady levels. When we see a change in rod pricing, it's pretty well mirrored by scrap. Part of that is being driven just by some of the industry dynamics around increased conversion costs, just inflation in utilities, labor, other consumables, and then just the general supply and demand environment around steel products in the U.S.

So we still think through the last half of the year, we see some consistency there. But longer term, really hard to predict. But we have a lot of things that we're working on around improving profits and margins. The #1 Ben hit it, and I know we've talked about this for a while, but it's by far volume. That's the biggest driver. And that we have around profitability and margins. Additionally, we've covered this before, too, but operational improvements in ECS, also another big area for some work.

We've taken a lot of actions so far even as the market has been soft, our U.S. Spring business has been busy reducing both fixed and semi-variable costs. A lot of those, we think will stick even as volume improves. We started making some progress around our material cost in our specialty foam business, and also diversifying some of our customer base. So those are things that even in the short run, we feel like we're going to start getting some benefit from.

And we have had some salaried head count reductions as well as some small facility consolidations, nothing that would impair our ability to support our customers, but just help us manage and reduce costs. We still have a lot of opportunities through operational improvements at ECS that we're working hard on. Our teams are really working through root causes and just finding different ways to reduce some of our costs and then additional synergies in both development and cost savings through U.S. Spring and ECS. So we have a lot of things that we're working on to help us with those things, and we're confident we'll get back to the profitability levels we've had in the past.

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

Okay. I appreciate that. And maybe my second question, I think Tyson is probably might stay with you, too, because it is on ECS. But is the volume growth actually surprised me was pretty nice this quarter at 8%, is the operational inefficiencies is really more on cost? Or was there some uniqueness this quarter from a volume standpoint that might not be valuable for us to kind of read that 8% as a true number?

J. Tyson Hagale
Executive VP & President of Bedding Products

No. We are seeing volume improvements. As we've talked about, the diversification of our customer business is important. As we saw the market softened across bedding, it was even more severe for ECS, just where we're aligned with our customers, more on the digitally native customers that had an even greater decline overall in the market than the rest.

So a lot of our efforts in trying to partner with some new customers, even as the market slow has allowed us to grow our business. And though it's going to take a while for things to really recover just given the softness, we are seeing volume improvements from where we have been. And we are making some improvements, most specifically on material costs, but we also have some offsets to that. We're obviously looking at the long run, so we are taking on some onetime costs as we start up some new equipment and programs and go through some facility changes. They're also impacting us in the short run, but we think will pay off in the long run.

J. Mitchell Dolloff
CEO, President & Director

On the volume side, right, we still have a ways to go to make up that D&B volume that's declining, but the new programs, as you talked about, that's an opportunity. It's both in finished mattresses as well as accessories, right? That's right.

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

And I guess lastly for me is just on the balance sheet. You guys missed about in the prepared remarks, leverage ticked up a tiny bit with the corresponding EBITDA. But you're kind of guiding for some cash flow here for the back half of the year. Do you have any type of near-term target? Is it possible to see the net leverage get back under 3x by the end of the year? Or any type of commentary you want to add there?

J. Mitchell Dolloff
CEO, President & Director

Yes, Ben, I'll let you take that one and note too that that's our covenant calculation on leverage is a little bit different, too, right?

Benjamin M. Burns
Executive VP & CFO

Yes. It's a great question. So, Yes. We'd say we're near the peak of our leverage, we think, and a potential to go up maybe modestly in the third quarter, but really in a similar range. And then we'd expect that ratio to begin to improve by the end of the year continue to improve into 2024. And as Mitch just mentioned, our debt covenant calculation is a bit different than what we report publicly and just a little bit more favorable for us. So there's a little bit more headroom there than the 3.1x measure would indicate, but we don't have a specific target right now, but we are committed to being a strong investment-grade company, which, in our view, from a long-term perspective means having net debt to EBITDA in the 2.5 and under range.

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

Okay. I appreciate the details and all the transparency, best luck here in the third quarter.

Operator

The next question is from Keith Hughes of Truist Securities.

Keith Brian Hughes
Truist Securities, Inc., Research Division

My question is in bedding products as well. In terms of pricing, second half of the year. We're going to see similar declines than what we saw in the first half. I guess my question is how are you expecting steel to play out?

J. Tyson Hagale
Executive VP & President of Bedding Products

Keith, this is Tyson. Yes. So just like what we covered with Bobby, probably still some continuation of where we've been in terms of metal margin. As we see some deflation in rod costs that passed through to innersprings, we've seen mirrored cost in scrap. So we see more of a continuation of our trend around metal margin. You can see in the supplemental slides, the deflation that we've seen in chemical costs, low teens overall versus last year. At this point, we see that being pretty stable. Many reps are down kind of tends to be passed through pricing there as well.

Pricing impacts from steel there, we have a large portion of the majority of our business covered by contracts where indexes to manage our pricing, and for those that aren't, we'll be fair with costs going down as we were going up.

Keith Brian Hughes
Truist Securities, Inc., Research Division

So you haven't anniversaried the decline. I guess I'm just trying to figure out when this is going to trend down towards 0.

J. Mitchell Dolloff
CEO, President & Director

I think we still have a long way. I mean, I'd say both on rod pricing, chemical pricing are still way, way above, I think, pre-pandemic kind of levels, is that right Tyson?

J. Tyson Hagale
Executive VP & President of Bedding Products

That's right. And for sure, on metal margins, if you think about this time last year, we were still seeing increasing rod pricing and just overall steel cost in the market didn't really start to see the declines happen until late third quarter and fourth quarter.

J. Mitchell Dolloff
CEO, President & Director

Yes. And I guess I would say if we have to guess that it seems like we're seeing some modest deflation, but not radical moves for the most part. We see things going up and down. A good example would be hot rolled steel. We use a lot of it in our home furniture business, for example, in the first quarter, it went up quite a bit. And then in second quarter, it's come back down not quite as much. So I think we'd see specialty chemicals tend to be a little bit volatile, but I would say that things have normalized a little bit. They continue to move probably a little bit more down than up, but not in really radical ways.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Okay. And one other question, if I look at your commentary for the year in bedding products, versus furniture, flooring and textiles. It does look like in the second half that furniture, flooring and textiles is trending towards a flat or low single decline number. Bedding space is still pretty weak. It seems unusual those 2 categories are moving in different directions.

So number one, is that correct directionally? And what do you think the difference between them is?

J. Mitchell Dolloff
CEO, President & Director

Yes. Steve, I'll let you jump in here as well. But I think it's a little bit more to do with our portfolio. We have a pretty diverse portfolio in FF&T. So home furniture, I think, is moving pretty close to the bedding market, very much residential end market. Work Furniture is a little bit different. It is some residential, but some office-based products. And so it's down after coming back to life. Last year, it fell down and is pretty low. But then flooring and our textile businesses are quite a bit different. And so flooring, I think, a little bit stronger. We're not seeing the same kind of increase that we would normally see seasonally, but it's holding up. We see some other areas there to be better.

Textiles for a big portion of that is the GEO components that is more almost industrial facing, so civil construction, private construction, things like that. So I think that's probably what drives most of the change.

Operator

The next question is from Peter Keith of Piper Sandler.

Peter Jacob Keith
Piper Sandler & Co., Research Division

Just looking at maybe the weakness in the furniture and bedding segments that's resulting in the guide down, it looks like the volume trends came in pretty similar to Q1, but curious what the trends looked like through the quarter? Did it kind of hold at a pretty consistent level? Or was there any improvement as the quarter progressed?

J. Tyson Hagale
Executive VP & President of Bedding Products

I'll jump in on the bedding part of that first. I think what we saw is probably what's been reported more broadly in the market. Actually, even on our last conference call, we talked about April, which was our expectation being seasonally down, and it was. But then we did see sequential improvement as we went through the quarter.

So April was down more towards the levels that we saw in October, November of last year. And then May and June improved from that point more to the levels that we've seen, both back in the first quarter and probably third quarter of last year. So it didn't peak out at levels that offset the softness in April, but just back more to the sort of the steady state that we've been in for a while.

J. Mitchell Dolloff
CEO, President & Director

And I think the end consumer demand would be very similar in furniture and bedding, but some of the market changes might be a little bit different. Steve, anything you'd like to add there on home furniture?

Steven K. Henderson
Executive VP and President of Specialized Products & Furniture, Flooring & Textile Products

I would just say that when the quarter started, the low end to mid-end been low for a month, but the high end was hanging in there. And probably over the course of the quarter, we saw that start to decline as well through the quarter, I would say. And then just recently starting to feel like we're probably at the bottom bouncing around and seeing a little bit of increase in the lower end of the market. So started out a little stronger, got a little weak and then it to end into the third quarter getting a little stronger in terms of demand. But we think that's primarily due to the inventory that was in the channel that's now being depleted.

J. Mitchell Dolloff
CEO, President & Director

Yes. I think, Steve, the other thing I would add too is we had the benefit of backlogs particularly at the higher end for quite a while. And as are now I think are worn out out pretty much. And so what is sales to us, deliveries to our customers that -- I think that tailwind evaporated.

Peter Jacob Keith
Piper Sandler & Co., Research Division

Okay. Yes, I was going to ask about the home furniture decline. So I think you've addressed that. So maybe I'll pivot to the bedding and the spring declines. I guess down the U.S. Spring buying down 13%, pretty similar to Q1 on a volume basis. It does seem like the industry has gotten better in Q2 and maybe even continue to get better here with Q3. Your volumes are kind of holding steady. Is there a customer mix issue within Springs? Is there some share loss? Can you just help us frame up why the volume trends aren't trending towards less negative?

J. Tyson Hagale
Executive VP & President of Bedding Products

Sure. I'll jump back in here, Peter. So the way we look at it is things are pretty consistent. -- looking across the market, overall, I think we would see things pretty similar broadly in the market with kind of where we've been trending. I talked about the April weakness. The signals that we've been getting from our customers is less optimistic for the back half of the year. I think entering the year, there was optimism that we would start seeing some modest improvement from kind of where we were at least the last part of last year and the early part of this year. But especially with the modest Memorial Day and fourth of July, that seemed to dampen the expectations for a lot of improvement in the back half.

But within our business, no, I don't think there's a customer mix change, just within our products, Mitch covered in his opening comments, but open coil and grids from a volume standpoint are more adversely impacted than Comfort Core. I think that's both some consumer -- end consumer preference and also just pressure on the lowest end of the market. So I think the mix within our product categories is probably more of an issue than any type of customer mix.

Peter Jacob Keith
Piper Sandler & Co., Research Division

Okay. And the last question I had was just on the inventory levels that you have and just thinking about maybe some of the cash flow opportunities. Do you have potential inventory reduction ahead? I know you're kind of in a low sales base right now, but your inventory turns are far below pre-pandemic levels. So wondering what you think about the status of inventory and bringing that down.

J. Mitchell Dolloff
CEO, President & Director

Good question, Peter. I think that's something that's always very focused on our mind as we focus on cash management. So Ben, I'll let you share your thoughts there.

Benjamin M. Burns
Executive VP & CFO

Yes. Thanks, Peter. Yes. I think for us, from an inventory perspective, you know the past few years have been very dynamic as we've had volatility in demand levels, supply chain challenges, our inventory balances gone up over the last couple of years. And then as we saw demand start to taper down a little bit in the back half of last year and continued into this year, we've had some great work by our teams to work with those inventory levels down while still maintaining that ability to serve our customers in a good way.

We have worked it down sequentially for a number of quarters now. But we also believe that there is a little bit more opportunity left there. So we'll continue to focus on it. We think we can drive some cash through that. And we also pay attention to all the elements of working capital. So I think our AR is in really good shape right now. Our teams have done a good job of keeping that current.

Accounts payable are down a little bit, just mainly due to the lower volumes, but it's something we'll continue to focus on and really look at that as a way to drive cash and then use that cash to stay disciplined with our uses of cash. So organic growth, funding the dividends, and then what you'll see is minimal spend on acquisitions and share repurchases in the near term, but we'll use that excess cash to prioritize paying down debt, and that really supports our commitment to being a strong investment-grade company.

Operator

We have a follow-up question from Susan Maklari of Goldman Sachs.

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

I just wanted to go back to the specialized segment. When you think about the improvement in the margin that you did see this quarter back to that low double-digit range, and you look out and you think about some of the changes that have come through in that segment specifically with some of the acquisitions you've done more recently and things that are sort of changing the profile of that business. How do you think about where those margins will go over time? And what is the role of the changing profile of that within the eventual sort of target relative to perhaps where we've been in the past.

J. Mitchell Dolloff
CEO, President & Director

Thanks, Susan, and Steve, I will let you chime in here, too. I think you're right that the difference of the portfolio within specialized does have some impact. Certainly, those acquisitions add some more depreciation and amortization, so EBIT and EBITDA look different. But particularly in this downturn time, aerospace had been a really big drag. While the volume was so low, we saw struggles in automotive and then some of the inefficiencies that we talked about. But you see the margins improving we think it may not be perfectly sequential that every quarter it gets better. But we do believe that we'll continue to improve over the long term.

I don't know that we'll get back to the peaks that we had when automotive was a huge, huge growth pattern and the largest part of the segment by far, it's still the largest part, but not the same share as it had before. But I think that we'll continue to see movement up hopefully somewhere in the teens at least, but not making any prediction at this point. But I think that we do have opportunities both for continued growth in all 3 businesses over the long term, well positioned strategically and also opportunities to get back -- to improve operational efficiency as we continue to grow those businesses. Steve, anything you would add there?

Steven K. Henderson
Executive VP and President of Specialized Products & Furniture, Flooring & Textile Products

No, just, I think there's also opportunities for us to continue to improve margins as those volumes increase. There's still some lack of consistency in order patterns and other things that are driving costs to our operations. And as those line out, we should expect to see the costs associated with those go away to some margin expansion there as well as some new product developments, particularly in hydraulics over the longer term.

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

Okay. Okay. That's helpful. And then we've touched on this in a lot of ways in this call, but maybe thinking about just the differences that you're seeing across consumer or residential end markets relative to the industrial pieces of the business. One of the interesting dynamics is that within bedding, especially, the rate of promotions is still fairly low. And we've seen that normalize in some of the other categories that we cover that are consumer related and have that sort of promotional element to them. Any thoughts on what you're hearing from your customers as it relates to sort of the broader state of the consumer? And perhaps anything that they're looking to do to help entice them or to help drive that traffic a bit?

And then I guess anything that you're also seeing broadly as you think about the recovery potential in consumer and that longer-term track for industrial, do you think they'll continue to sort of both move forward? Or are there any puts and takes that you would highlight?

J. Mitchell Dolloff
CEO, President & Director

Yes. Thanks, Susan. So Tyson, I'll comment a little bit on some of the broader issues and let you come back to some of the promotional activity there. So I think that it's a great question because it highlights the diversification of our portfolio. So while we see this lower activity in our more consumer durables facing markets, industrial businesses have done really well and they are improving. And I think hopefully we'll get back into growth mode and not just recovery mode before too long. So they want to emphasize that, that is a key element of our portfolio management.

And then secondly, I think it's an interesting question. If you think about the health of the consumer, I think it's fairly strong at this point as we've seen inflation easing and job market remaining strong and wages improving. But the focus is on consumer spending is really remains on services, on consumables and other than durable goods. And that's really the drag that we're seeing on our furniture, flooring and bedding more residential end markets.

I'd say the possibility of achieving a soft landing and avoiding a broader recession is still out there in the narrative, and maybe even becoming more likely. And if that's the case, hopefully, consumer spending comes back into residential end markets before too long, but I think it's really difficult to predict the time line at this point. I would agree that we have seen promotions lower. And I'm not -- I think that just hasn't been very effective, I think, is my take on it. What do you think Tyson?

J. Tyson Hagale
Executive VP & President of Bedding Products

Yes, I agree with everything you just said, Mitch, I mean, going back to sort of the consumer sentiment and where consumers want to spend their dollars is sort of a huge question for our industry. And we went through a period of time where promotions weren't necessary at all when everybody was spending on the home and focused on buying home related goods and then it shifted quickly. It does feel like we're back to at least the seasonal promotional periods, but there's probably still some more room to go to get back to more of the typical types of promotions.

Some things that -- I guess I've already talked a little bit about what's caused us to remove the optimism for the back half of the year, but some things that give us a little more confidence. Mitch talked about the maybe potential for soft landing, improving consumer sentiment, even though it is still at relatively low levels, some stability in the housing market. I mean, those are typically things that act as a tailwind for the bedding market. But I think both us and our customers are waiting to see some real pickup and shift back from spending on services and travel, things like that back into spending on the home and getting more of a tailwind. Because at this point, I do feel like we are creating pent-up demand. Any type of pull forward has probably been extinguished. And at this point, it's probably more creating pent-up demand rather than even neutralizing now.

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

Yes. Okay. Thanks for the color and good luck with everything.

J. Mitchell Dolloff
CEO, President & Director

Thank you, Susan.

Operator

There are no further questions at this time. I would like to turn the floor back over to Susan McCoy for closing comments. Please go ahead, ma'am.

Susan R. McCoy
Senior Vice President of Investor Relations

Thank you for joining us today. We'll talk to you again next quarter. If you have questions, please contact us using the information in yesterday's press release. Thanks.

Operator
That concludes today's conference. Thank you for joining us. You may now disconnect your lines.