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Leggett & Platt, Inc. (LEG)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

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

Good morning and thank you for taking part in Leggett & Platt's fourth quarter conference call. We are conducting the call from different locations again this quarter. Please bear with us if you experience minor delays or mixed audio quality. On the call today are Karl Glassman, Chairman and CEO; Mitch Dolloff, President and COO; Jeff Tate, Executive Vice President and CFO; Steve Henderson, EVP and President of Specialized Products and Furniture, Flooring, and Textile Products segments; Cassie Branscum, Senior Director of IR; and Tarah Sherwood, Director of IR.

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

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

I need to remind you that remarks today concerning future expectations, events, objectives, strategies, trends or results constitute forward-looking statements. Actual results or events may differ materially due to a number of risks and uncertainties, and the company undertakes no obligation to update or revise these statements. For a summary of these risk factors and additional information, please refer to yesterday's press release and the 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 Karl.

Karl G. Glassman

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

Good morning and thank you for joining us today.

First, thank you to our employees for your dedication, ingenuity, and tenacity in what was a very challenging year as a result of the COVID-19 pandemic. In 2020, our employees came together across our corporate functions and businesses to develop highly effective protocols to manage the crisis; committed to not only keeping each other safe and healthy while serving our customers, but also found many ways to give back and help their communities; redesigned the way that they work while maintaining and even increasing productivity; amended the financial covenant in our revolving credit facility to provide additional liquidity, all while having a sharp focus on managing working capital and reducing capital expenditure investments; continuing our deleveraging efforts; and delivering our 49th consecutive annual dividend increase. I am extremely proud of all that the team has accomplished. We finished 2020 as a stronger company as a result of their extraordinary efforts.

As we reported yesterday, fourth quarter sales were $1.182 billion, up 3% versus the fourth quarter of 2019. Continued strong demand in residential end markets and growth in automotive was partially offset by continued weakness in aerospace and work furniture. Fourth quarter EBIT was $150 million. EBIT increased $15 million in the quarter versus fourth quarter of 2019, primarily due to lower fixed cost and the non-recurrence of 2019's restructuring-related charges, partially offset by a change in LIFO impact.

EBIT margin increased 90 basis points to 12.7% and increased 50 basis points versus adjusted fourth quarter 2019 EBIT margin of 12.2%. Fourth quarter EBITDA margin was 16.8%, compared to 2019's fourth quarter adjusted EBITDA margin of 16.4%. Earnings per share were a fourth quarter record $0.76. Fourth quarter 2019 EPS was $0.64 and included $0.04 per share of restructuring-related charges. Excluding those charges, fourth quarter EPS increased $0.08 or 12% versus fourth quarter 2019 adjusted EPS of $0.68.

For the full year, 2020 sales decreased 10% to $4.28 billion primarily from COVID-related demand declines across most of our businesses. EBIT decreased $113 million and adjusted EBIT decreased $83 million to $446 million, primarily from the impacts of lower sales and the change in LIFO, partially offset by fixed cost reductions. Full-year EPS was $1.82 and adjusted EPS was $2.13, a 17% decrease from 2019 adjusted EPS of $2.57. In addition, we generated operating cash flow of $603 million.

During 2020, we divested two businesses in our Bedding segment, a small specialty wire operation in our drawn wire business with annual sales of $30 million and a small operation in our former fashion bed business with annual sales of $15 million. We also reported yesterday that our board of directors declared a $0.40 per share first quarter dividend. At Friday's closing price of $43.02, the current yield is 3.7%, which is one of the higher yields among the S&P 500 dividend aristocrats. We remain committed to our position as a dividend aristocrat.

Our enduring fundamentals gives us confidence in our ability to create long-term value for our shareholders. We are the 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. We continue to invest in businesses with sustainable competitive advantages in large addressable markets with opportunities to grow and add value over time.

Consistent with that objective, on January 30, 2021, we acquired an aerospace business located in the UK that specializes in metallic ducting systems, flexible joints and components for space, military and commercial applications for $27 million, annual sales of approximately $17 million. This acquisition expands our aerospace product offering to include key components such as flexible hoses and bellows that are frequently used in fluid conveyance systems.

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. I'd like to echo Karl's comments and thank our employees for your tremendous efforts this past year. Your flexibility, ingenuity, commitment and endurance made all the difference as we navigated 2020. We're well-positioned to tackle 2021 and the years ahead. And I'm honored and proud to be on your team.

We're making progress with many of the challenges we faced this past year. And we ended the year with fourth quarter sales growth and margin improvement in all three segments.

Sales in our Bedding Products segment increased 3% in the fourth quarter. Strength in the global bedding market drove sales growth in ECS, European Spring and U.S. Spring. This growth was partially offset by lower volume in adjustable bed and exited volume in fashion bed and drawn wire.

Mattress consumption in the fourth quarter was well above historic levels driven by the continued focus on home-related products by consumers. However, supply remained constrained across the market by shortages of fabrics, chemicals, and labor with each of these factors having varying degrees of impact throughout the quarter. In addition, COVID-related restrictions constrained some retail channels and drove continued strong growth of online sales. These factors impacted our primary market channels in very different ways.

We estimate that mattress sales in the US bedding market increased by roughly 1 million units or 13% in the fourth quarter. Imported mattresses increased by about 350,000 units, and domestically produced mattresses increased by about 650,000 units. Of the domestically produced mattresses, we estimate that foam and other non-spring-based mattresses increased by roughly 600,000 units and spring mattresses increased by about 50,000 units or 1%. Our fourth quarter sales growth mirrored these trends with U.S. Spring sales up 2% year-over-year and ECS sales up 8% year-over-year.

We believe that our overall share of the domestic betting market is fairly consistent year-over-year, perhaps down slightly considering the growth of mattress imports this year. The volatility in demand, market share shifts, and supply chain constraints that the overall industry experienced in 2020 likely created some minor ups and downs quarter-by-quarter but we believe our share is fairly steady overall.

As the quarter progressed, we secured non-woven fabrics from alternative suppliers around the globe, improving our production efficiency and fabric inventory position. Supply of the primary chemicals used in our specialty foam operations, TDI, MDI, and polyol, were restricted through the quarter as producers declared force majeure and implemented customer allocations due to reported production disruptions. We expect chemical constraints to persist through at least mid-2021.

We continue to add labor in our U.S. Spring facilities but also must manage inefficiencies as we train new employees and experience some added absenteeism related to COVID-19. As we move through 2021, we plan to continue to add staffing on our ComfortCore line, and we'll add additional machine capacity to accommodate demand for these products. The combination of labor and machinery additions should add about 25% to our current capacity for ComfortCore once fully in place later this year.

Sales in our Specialized Products segment were up 1% in the fourth quarter with growth in automotive mostly offset by continued weak demand in aerospace. In our automotive business, volume for the quarter was up 6%, driven by strength in our Asian operations. We expect the aerospace industry to remain challenged over the next few years given the disruption in air travel and resulting buildup of aircraft and supply chain inventories. In our aerospace business, we're seeing recovery in the fabricated duct assemblies to near pre-COVID demand levels, but our welded and seamless tube production continue to be challenged as customers deplete their inventories.

Sales in our Furniture, Flooring, and Textiles Products segment increased 5% in the fourth quarter, driven by continued strong demand in fabric converting, geotextile components, and home furniture. In Flooring products, growth in residential sales were more than offset by weak hospitality sales. Recovery in work furniture continues to lag the other businesses in the segment as the industry has been heavily impacted by the effects of the pandemic.

The fixed cost actions we took earlier in the year reduced fourth quarter costs by approximately $25 million and full-year costs by approximately $90 million. As we move into 2021, we will continue to focus on controlling our costs by keeping our variable cost structure aligned with the current demand levels and only adding fixed costs as necessary to support higher volumes and support future growth opportunities.

I'll now turn the call over to Jeff.

Jeffrey L. Tate

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

Thank you, Mitch, and good morning, everyone. Throughout most of 2020, our primary financial focus was on maximizing liquidity, generating cash, and disciplined uses of cash. Cash from operations was $219 million in the fourth quarter, a decrease of $33 million versus very strong results in the same quarter of 2019, primarily due to working capital investment to replenish inventory levels in certain businesses.

For the full year, we generated cash from operations of $603 million, the third highest level in our company's history. This compares to a record $668 million in 2019. The $65 million decrease was driven by lower earnings. We ended the year with a debt to working capital as a percentage of annualized sales at a notable 7.4%, reflecting our continued priority on closely controlling all elements of working capital.

Total capital expenditures for 2020 were $66 million, 54% lower than prior year, reflecting our sharp focus on optimizing cash flow as we navigated the effects of the pandemic. Our balance sheet remained strong and we ended the year with total liquidity of $1.5 billion comprised of $349 million in cash on hand and $1.2 billion in available capacity under the $1.2 billion revolving credit facility.

In addition, we brought back $36 million of offshore cash in the fourth quarter, bringing our full-year total to $188 million. As of December 31, our net debt to trailing 12 month EBITDA was 2.44 times. In 2020, we reduced debt by $228 million, including $108 million prepayment of a portion of our Term Loan A.

Now, moving to 2021 guidance. We expect continued recovery into 2021 as a result of strong consumer demand for home-related items and global automotive, progress with supply chain constraints and modest improvement in our businesses and industries that have been negatively impacted by the effects of COVID-19. We also expect continued inflation and commodity costs and recovery of those higher costs through selling price increases.

2021 sales are expected to be in the range of $4.6 billion to $4.9 billion, or up 7% to 14% over 2020, resulting from mid-single digit volume growth, raw material related price increases and currency benefit. The aerospace acquisition, which Karl mentioned earlier, will be offset by divestitures completed in 2020.

2021 earnings per share are expected to be in the range of $2.30 to $2.60, primarily reflecting higher volume, partially offset by increasing steel, chemicals and other raw material costs, as well as the pricing lag associated with passing along these costs, particularly in the first quarter. This guidance also assumes fixed cost savings as a result of actions taken in 2020 to be approximately $70 million as compared to approximately $90 million in 2020. This guidance assumes no LIFO impact in 2021.

Earnings per share guidance assumes the full-year effective tax rate of 23%. We expect 2021 depreciation and amortization to approximate $195 million, net interest expense of approximately $75 million, and fully diluted shares of 137 million. Based upon this guidance framework, our 2021 full-year EBIT margin should be in the range of 10.5% to 11%.

Additionally, we anticipate operating cash flow to approximate $450 million, capital expenditures to approximate $150 million, dividends of approximately $220 million, debt repayments of at least $51 million, and controlled acquisition spending and the continued suspension of share repurchases as we prioritize debt repayment after organic growth and dividends.

In summary, our focus on balance sheet strength, funding organic growth, commitment to deleveraging and investment-grade debt ratings, and maintaining our position as a dividend aristocrat has not changed. This discipline allows us to withstand uncertain times and capture both near- and long-term investment opportunities.

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

Susan R. McCoy

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

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today comes from Bobby Griffin of Raymond James. Please proceed with your question.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

Good morning, everybody. I hope everyone is doing well and staying healthy and thank you for taking my questions and congrats on navigating a very challenging year.

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

A

Thanks, Bobby.

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

A

Thanks, Bobby.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

I guess, Karl, first, I want to maybe talk a little high level about the business today and how it's positioned for inflation and maybe compare it to the last time we went through a pretty big bout of inflation, which I believe was in 2018. There are some businesses you guys have sold, so maybe we can just walk through, either by the segment level or whatnot, whatever might be easiest of just how Leggett is positioned to attack on an inflationary environment today.

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

A

Yeah. Thank you, Bobby. It's really a good question. I'll start and then ask the others to chime in. And you're right. The complexity of the business or the makeup of the business is very different today than it was just two or three short years ago that – in 2018, you'll remember we had a hard time passing through steel commodity inflation and the fashion bed business. Well, we no longer participate in fashion bed with the last divestiture, last little piece of that taking place in the fourth quarter.

We also had a home furniture business that was probably too focused on commodity products. So the team did a great job of purifying that business focusing on innovation, customer needs, higher value product. And as more upholstered furniture manufacturer moved offshore, we heavy weighted our manufacturing capacity offshore for what becomes, from an internal perspective, domestic consumption that is then exported to North America and to Europe.

So the makeup of the business is certainly healthier. Incrementally, there's been a few divestitures that have taken place that are just – they become material and when you add them up, but they're really kind of small, but they tend to be more commodity-oriented.

The other main change since 2018 is the acquisition of ECS. So we acquired ECS. ECS does a really good job of producing specialized foam. It gives them pricing power. They have agreements in place. They have the ability to pass through commodity inflation actually probably more effectively and efficiently than we have in our historic spring businesses, where in those businesses as you'll recall, we have a 90-day lag. So just a better mix of businesses. And the 2018 timeframe was a learning opportunity that our teams learned from. But Mitch anything that you want to add to that rambling answer?

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

A

That was a good answer, Karl. I would just add a couple of small points. I think you're right on ECS. I think that our ability to pass the chemical increases that we're seeing along is able to do that even faster than we had over the last year or so. So I think that's very helpful. And then the other thing I would add is that we struggled a little bit getting some raw material inflation through PHC before, and I think we have a better position to do that now as well. So overall, I think that at a high level, Bobby, it is a good question; and I think that we're on much firmer footing passing along inflation than we've ever had been really.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

All right. Thank you. I appreciate that detail. Very helpful. And when we think about the year and it's obviously very impossible to predict raw materials or where they move, but let's say we just flatten out from here, is the headwind mostly in 1Q, and then is there any type of sizing or can you put some ranges around what the raw material headwind is for us and maybe tune up our 1Q models of how big of a headwind we need to flow in? Because you did call out some pretty noticeable cost savings at $70 million, so that makes me believe the raw material headwind is pretty big given where the earnings are moving around to.

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

A

Bobby, as you said, it's really, really difficult to forecast. You'll remember on the third quarter call in November of last year, we talked that really oddly in 2020, if there was anything that was welcome, it was the fact that the steel input costs, primarily scrap, had been really pretty flat for the year. I should have never made that comment because then scrap jumped pretty aggressively in December forcing us to actually book some LIFO expense that we didn't anticipate when we last spoke as a group in November. So, it's so difficult to forecast.

Scrap went up significantly. This is steel, by the way. Steel scrap market went up significantly in January at $100 a ton. It sounds like the early forecast. February scrap won't settle probably until the end of this week. But it looks like there'll be a regression of that inflation by probably $40 to $50 a ton. So, it's difficult. What happens for the rest of the year in ability or inability to make a call on LIFO is also a challenge. But, frankly, we don't know. It will impact – the lag impact will be most severe in 1Q based on what we know today.

ECS is a different set of circumstances. At ECS, the chemical input cost inflation is much more significant than in the steel side of the business. It will probably have a longer duration moving into the second quarter. We've announced three price increases, we'll probably announce a fourth relatively soon. More difficult to forecast the timing of that, but the good news to Mitch's earlier point is that we get recovery really pretty quickly. So, Mitch, anything that you want to add to all of that?

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

A

No. I think you covered it, Karl. I think on the chemicals, it's really dynamic. The pricing started surging in the fourth quarter, we see continued increases in Q1. And as you said, I think we'll have some disruption there both from availability and from pricing through the first half of the year. But you're right. We are able to, I think, so far passed that on pretty quickly.

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

Yeah. Thanks, Mitch. Bobby, if you don't mind, can we talk about LIFO for just a second. I know that some of the...

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

Yeah.

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

...the sell siders have asked about – and some of the investors have asked about LIFO, and as Jeff said in his prepared comments, we are forecasting no LIFO expense in 2021, as we typically do early in the year because to your good point, we lacked visibility. But LIFO is really a by-product of a calculation that's done on December 31 of every year related to the amount and the value of inventory on hand.

So, the way that I think about the LIFO expense in 4Q that it was probably a pull forward because overtime, LIFO and FIFO match. Don't perfectly match at the end of the year. So, late year, cost inflation resulted in LIFO expense with no FIFO recovery ability until 1Q and 2Q. So, that's kind of the challenge that we have. At this point, it's pretty easy to call that there won't be a LIFO expense of size in 2021, but who the heck knows?

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

Okay. I appreciate the details.

Susan R. McCoy
Senior Vice President-Investor Relations, Leggett & Platt, Inc.
A

Hey, Bobby.

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

Oh, I'm sorry, Susan.

Susan R. McCoy
Senior Vice President-Investor Relations, Leggett & Platt, Inc.
A

I'd like to add one more thing. Just to make sure we're clear on the fixed cost savings, the $70 million that Jeff spoke of, that's not an incremental $70 million. That's the amount we expect to retain as we move into 2021. That was the result of the activities that we undertook in 2020. Just wanted to make sure that was clear.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

Yes. So, is the right way to think about that maybe if we just look at 2019, say, that think about the fixed cost structure of the business at the end of 2019 and then basically [indiscernible] (00:28:46) okay, incrementally, you guys have reduced that fixed cost structure by $70 million. And then, of course, there's been some investments having to come on given the demand level that we've seen in some of the end markets, is that fair?

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

A

Yeah. I think that's a fair way to think about it, Bobby.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

Okay. Okay. Well, I appreciate all the details. Thank you for taking my questions, and I'll jump back in the queue.

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

A

Thanks, Bobby.

Operator: The next question is from Susan Maklari of Goldman Sachs. Please proceed with your question.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning, everyone.

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

A

Hi, Susan.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

My first question is I wanted to talk a little bit about the margin outlook, and certainly understanding some of the near-term pressures around inflation and some of the issues that you're dealing with the supply chain. But as we kind of look past some of that, and we think about the volumes and some of the changes that you have made from a cost perspective and an operational perspective across the whole business, how should we think about the margin profile? And especially maybe as we think about this for the back half of 2021 and maybe even further out from there, where the business can operate, and how you can achieve that?

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

A

Yeah. Thanks, Susan. On a longer term basis, which I think is the genesis of your question, we still are very comfortable with our expectation that EBIT margins will be in a range of 11.5% to 12.5%. It's really the short-term issues that that we've spoken, about the lag impact, and not really getting a margin on the pass-through as a percentage. We get the recovery from a dollar perspective. So, yeah, we're very comfortable with the 11.5% to 12% long-term target.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Okay. All right. That's helpful, Karl. And then my next question, as you mentioned in your remarks that you are adding staffing and ComfortCore, you are expanding that business in terms of capacity for this year. And when we think about that for 2021, I guess, can you give us some color? And I know that you don't necessarily want to share exact percentages in there, but give us some color around how ComfortCore has performed over the last couple of quarters, and how we should be thinking about that as we look forward and think about its contribution to the Bedding segment?

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

A

Mitch, do you want to grab that?

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

A

Yeah, sure. Hi, Susan. And you're right; we continue to add staffing. We'll add additional equipment this year. It will come online at various points through the year which combined should be able to increase our capacity by about 25%. We have been increasing our production sequentially from the downturn of the second quarter to the third quarter to the fourth quarter as well, and we continue to see really strong demand for our higher-end products and giving us those content gains. So I think that if we look back over time, ComfortCore as a percentage of our total innerspring reduction was about 58% in the fourth quarter of 2019. It was about 60% in the third quarter of 2020 and about 62% in the fourth quarter of 2020.

So, continue to see gains there. And similarly, we continue to see the percentage of our ComfortCore units that also have Quantum Edge continue to increase as well up to about 56% in the fourth quarter 2020. So, we're happy and excited to make those capacity expansions and to continue to drive higher content gains across our product line.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Okay. All right. That's very helpful. And if I can, I'm going to just sneak one more in here. One of these things – one of the questions that we've been getting is around some of the issues in the auto industry in general as it relates to the semiconductors and the shortages that that industry is seeing. Can you just comment on whether that's had any impact on your backlog or your supply chains and how you are thinking about that or anything that we should be aware of there?

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

A

Steve?

Steven K. Henderson
Executive Vice President & President-Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.

A

Yeah. Sure. Good morning, Susan. First, I just want to acknowledge the automotive team everything they went through last year is now carrying over into 2021 to some extent. The chip shortage, it's an industry-wide issue and each OEM is taking their own approach based on their situations. We're reading a lot just like you are, but the situation is still very fluid with limited visibility at this point. And we have some ancillary exposure to supply chain constraints in our motor production, but we think the majority of the impact will probably come from restrictions on OEM production. And we've seen GM, Ford, Chrysler, Volkswagen others announced temporary reductions of one sort or another. But we're not seeing that impact in our orders yet; so there's a bit of a disconnect.

But that being said, based on the predictions from IHS, they're saying approximately 858,000 units could be lost in the first quarter. And they're saying you could make those – they can make that up in the second half of the year, if it doesn't continue to increase. So based on that, we would see a slight negative sales impact in Q1, but it's still too early to tell.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC
Q

Okay. All right. That's very helpful. Thanks, everyone.

Operator: [Operator Instructions] Our next question is from Peter Keith of Piper Sandler. Please proceed with your question.

Peter Jacob Keith
Analyst, Piper Sandler & Co.
Q

Hi. Thanks. Good morning, everyone and I hope everyone there is doing well. I wanted to just dig into, again, some of the planned price increases and I think you gave some good context in how the business compares to 2018. But looking specifically at your innerspring business and the steel inflation that's going on right now, because of the supply chain challenges that you guys have experienced in recent months, do you still have the same pricing capabilities to pass through to your major bedding customers in the coming months?

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

Mitch, why don't you grab that one?

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

Okay. Sure, Karl. Thanks and hi, Peter. Yeah. The short answer is absolutely. We have contractual terms that allow us to pass through the steel inflation that we see, as you've seen over the years, that has a bit of a lag but that comes through, and we're certainly able to do that for our non-contract customers as well. In fact, it went out with the increase in January and may well – given the continued inflation, have another one coming after that. So, I don't think that our ability to pass on the inflation in the innerspring business has been impacted at all.

Peter Jacob Keith
Analyst, Piper Sandler & Co.
Q

Okay. Good. And so, I know there's a lot of new innerspring product that's coming into the market this year. We have not been able to see it because of the Las Vegas market COVID dynamic. Have you guys gained content with some of your major bedding customers this year with these planned launches?

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

Yeah. I think the answer to that is yes. We just talked about the increase in our ComfortCore and Quantum Edge share there. It's been a scramble throughout 2020 and continuing here just to supply everybody's need; and I think that strong demand continues.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. Then maybe lastly just to round out on the Bedding. So, it does seem like the really strong demand is continuing. Q1 may be poised for even industry acceleration versus Q4. When we look at your U.S. Spring business, I think we and some of the investors we talked to were expecting some acceleration in Q4 sequentially as the supply chain delays moderated. Maybe looking forward to Q1, is that something that now with further moderation and strong industry backdrop and also with the anti-dumping duties that U.S. Spring is poised for some healthy re-acceleration here?

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

A

Yeah. I think so. I think we continue to make improvements in our production. I think that there's, as I talked about in my comments, I think, disruption as their share shifts across the industry and other constraints like chemicals and foam availability that impact some of our customers. So I think that creates some cloudiness. But I think from our standpoint, we have the capability to continue to increase our sales in Q1.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. Very good. Thanks so much guys and good luck.

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

A

Thanks, Peter.

Operator: The next question is from Keith Hughes of Truist. Please proceed with your question.

Keith Hughes
Analyst, Truist Securities, Inc.

Q

Thank you.I got on a little late, I hope it's not a repeat. The Drawn Wire sales were down 4% in the quarter. Is that have something to do with what's going on with some of the inflation coming in, and so, any kind of commentary on what you're seeing in that business?

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

A

Yeah. Keith, that's a good question and an interesting observation. And that all that was a signal is that from our Drawn Wire business, what's most important is they're set up to supply inter-company. So with the increased demand in springs that we've focused more of that volume internally, which has a much higher value to us than the external trade business. So that's the primary driver. And we did divest a small business; so combination.

Keith Hughes
Analyst, Truist Securities, Inc.

Q

And. Okay.

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

So definitely, Keith, the productive capacity of the sterling rod mill did not change.

Keith Hughes
Analyst, Truist Securities, Inc.
Q

Okay. All right. I think I understand what you're saying there. And adjustables were down as well in the quarter. I know you had some big promotions with the retailer that anniversaried, is that still the driver of the decline there?

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

Yeah. Just remember we were up against a comp in 4Q of 19% to 22% growth. So it was just a tough comp. That business is really good.

Keith Hughes
Analyst, Truist Securities, Inc.
Q

Okay. And I don't know if you said this earlier, but just overall in Bedding, the organic sales was about, I guess, 5% in total with some of the divestitures coming off. Do you anticipate that number to increase notably, particular with the tariff in the first half of 2021?

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

Go ahead, Mitch.

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

Thanks, Karl. Hi, Keith. Yeah. I mean, I think that it's set up to be a really strong year potentially. I think that we don't know exactly what's going to happen as the tariff continues to have strong impact. We saw November imports dropped significantly. But, yeah, I think the overall industry will continue this consumer focus on the home. I think that we are well-positioned to see continued strong growth.

Keith Hughes
Analyst, Truist Securities, Inc.
Q

Okay. Thank you.

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

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

Thank you for joining us again today, and we'll talk to you next quarter.

Operator: This concludes today's teleconference. You may now disconnect your lines at this time. Thank you for your participation.