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LEG - Q2 2017 Leggett & Platt Inc Earnings Call

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PRESENTATION

Operator

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

I'd now like to turn the conference over to your host, David DeSonier, Senior Vice President of Strategy and Investor Relations. Please begin, Mr. DeSonier.

David M. DeSonier - *Leggett & Platt, Incorporated - SVP of Strategy & IR*

Good morning, and thank you for taking part in Leggett & Platt's Second Quarter Conference Call. Joining me this morning are the following: Karl Glassman, who is President and CEO; Matt Flanigan, our Executive VP and CFO; Perry Davis, EVP and President of the Residential Products and Industrial Products segments; Mitch Dolloff, EVP and President of the Furniture Products and Specialized Products segments; and Wendy Watson, Director of Investor Relations. You will note that Susan McCoy, our VP of Investor Relations is not joining us today for the call. I can't remember when was the last one Susan's missed one of these. She is out of the office today attending to a medical issue.

The agenda for our call this morning is as follows: Karl will start with a summary of the major statements we made in yesterday's press release and provide segment highlights; Matt Flanigan will discuss financial details and address our outlook for the remainder of 2017; and finally, the group will answer any questions that you have.

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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 and the section in our 10-K entitled Forward-looking Statements. I will now turn the call over to Karl Glassman.

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

Good morning, and thank you for participating in our second quarter call. Yesterday, we reported another quarter of sales growth despite weak demand in several of our businesses. For the full year, we continue to expect sales growth and strong earnings. Second quarter sales increased 3% to $989 million. Organic sales grew 4% from continued strength in Automotive and Adjustable Bed and raw material-related price inflation. Divestitures completed in the last 12 months reduced sales 2.2% while acquisitions added 1.8% to sales growth. Second quarter earnings per share were $0.64 versus $0.72 in the second quarter 2016. Compared to last year's adjusted EPS of $0.66 in the second quarter, EPS declined $0.02. Adjusted EBIT decreased in the quarter versus second quarter last year, primarily due to the pricing lag associated with passing along higher raw material cost. The second quarter EBIT margin of 12.4% is a 290 basis point decrease from second quarter 2016 reported EBIT, and a 140 basis point decrease from second quarter 2016 adjusted EBIT. Price increases went into effect during the quarter to recover higher steel cost, but we had not fully worked through our typical 90-day pricing lag. Earnings and margins continue to be compressed during the second quarter but should improve over the remainder of the year. Given our second quarter results and continued softness in some of our end markets, we have narrowed our full year EPS guidance on a 1% lower sales outlook. Matt will discuss our 2017 guidance in a few minutes.

Now to the segments. In Residential Products, second quarter sales were flat with a 3% decrease in organic sales offset by acquisitions. Lower pass-through sales of Adjustable Beds reduced segment sales by 4%. Volume decreased an additional 1%, offset by a 2% sales increase from raw material-related price inflation. As a reminder, the Adjustable Bed sales headwind will begin to anniversary in the third quarter.

U.S. Spring component dollar sales were down 6%. Innerspring units were down 8%, with a 2% decrease in Comfort Core units. Boxspring unit volume was down 6% in the quarter. International Spring sales were strong with dollars up 11%. Machinery sales decreased significantly, primarily from a large sale in 2016 that did not repeat, offsetting organic growth from the other parts of the segment.

Setting aside last year's litigation gain, segment EBIT increased and EBIT margin improved, primarily due to the pass-through of raw material cost increases in the second quarter and a favorable sales mix.

In the Industrial Products segment, second quarter total sales decreased 7%, largely from divestitures completed during 2016. Organic sales were up 1% with steel-related price increases offsetting lower volumes. The Industrial segment's EBIT and EBIT margin are more directly affected by raw material price increases and the lag in passing those increases along. The second quarter EBIT and EBIT margin decreased due to higher raw material costs and lower volume. In the Furniture Products segment, second quarter sales increased 7%. Adjustable Bed sales grew 29%. Work furniture and home furniture sales also increased. These gains were partially offset by lower sales in Fashion Bed. Segment EBIT and EBIT margin decreased primarily from an unfavorable sales mix and raw material cost increases.

In the Specialized Products segment, second quarter organic sales increased 5% with continued strength in Automotive and Aerospace, partially offset by currency impacts and declines in CVP. Excluding currency changes, Automotive sales grew 11% and Aerospace organic sales increased 7% in the quarter. The segment's EBIT and EBIT margin were down slightly, with the benefit from higher volume offset by growth-related costs in automotive, higher raw material cost and other smaller items.

I'll now turn the call over to Matt.

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

Thanks, Karl, and good morning, everyone. Cash from operations was $98 million in the quarter, a decrease of $53 million versus second quarter last year, primarily due to lower earnings and increased working capital. This working capital increase resulted primarily from higher inventory to support sales growth in new programs, increased accounts receivable and the inflation impact on both inventory and accounts receivables. We ended the quarter with adjusted working capital as a percentage of sales at 11.8%. We expect our full year operating cash to approximate $450 million as uses of cash for the full year, capital expenditures should approximate $160 million and dividends should require about $185 million.

In May, we increased the quarterly dividend by $0.02 to $0.36 per share, a 5.9% increase versus the second quarter of 2016. The dividend payout, as a percentage of adjusted earnings, is within our targeted range of 50% to 60%. And we continue to expect future dividend growth to approximate earnings growth. At yesterday's closing price of $51.79 (sic) [$51.83], the current yield is 2.8%, which is one of the higher yields among the 51 companies that comprise the S&P 500's Dividend Aristocrats.

During the second quarter, we repurchased 200,000 shares of our stock and issued 200,000 shares, largely for employee benefit plans and option exercises. For the full year, we currently expect to repurchase around 3 million shares and issue approximately 1.5 million, primarily for employee benefit plans.

As always, our top priorities for use of cash are organic growth, dividends and strategic acquisitions. After funding these priorities, if there are still cash available, we generally intend to repurchase stock rather than repay debt early or stockpile cash. We have a standing authorization from the board to repurchase up to 10 million shares each year. However, no specific repurchase commitment or timetable has been established.

Our financial base remains very strong. We ended the second quarter with net debt to net capital of 39%. Due to the high end of our long-standing target range of 30% to 40%, reflecting working capital investment and our typically large first quarter stock repurchases. We also monitor debt-to-EBITDA and ended the quarter with debt at 2x our trailing 12-months adjusted EBITDA.

We assess our overall performance by comparing our total shareholder return to that of companies on a rolling 3-year basis. Our target is to achieve TSR in the top 1/3 of the S&P 500 over the long-term, which we believe will require an average TSR of 11% to 14% per year. For the 3-year period that will end on December 31, 2017, we have so far generated compound annual TSR of 11% per year. That performance places us within the top 39% of the S&P 500. As we announced yesterday, we've lowered our sales guidance for 2017. Full year sales are now anticipated to be $3.9 billion to $4.0 billion or up 4% to 7% versus 2016.

We expect low to mid-single-digit volume growth from strength in Automotive, Adjustable Bed, International Spring, Work Furniture and Geo Components. Raw material-related price increases should also add to sales growth. The sales impact from divestitures completed during 2016 should be largely offset by acquisitions in 2017. We are narrowing our 2017 EPS guidance, and now expect full year earnings from continuing operations of $2.55 to $2.65 per share versus our prior range of $2.55 to $2.75, thereby, lowering the midpoint of our guidance by $0.05 to $2.60.

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

David M. DeSonier - *Leggett & Platt, Incorporated - SVP of Strategy & IR*

That concludes our prepared remarks. We thank you for your attention, and we would be glad to answer your questions. (Operator Instructions) Rob, we are ready to begin the Q&A.

QUESTIONS AND ANSWERS

Operator

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

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

So for my first question, can we talk a little bit about the bedding market? Maybe how things trended during the quarter? It sounds like Memorial Day maybe was a little softer than what had been expected. And how that industry sort of positioned as we think about the back half of the year?

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

Susan, this is Perry Davis. Yes. As far as the pace during the quarter, we saw our shipments of product weaken kind of as the quarter went along. June was a particularly tough month. Obviously, overall, unit shipment's down 8%. Comfort Core, our category that has, over the last 3 to 4 years, grown significantly, down 2%. So as a percentage of what we're shipping, it's still a relatively high percentage and growing. I think in the quarter, we shipped -- 36% of our shipments were in the Comfort Core category. But again, we saw that the quarter get tougher as it went along. Now I would add to that though, in looking at the last 3 weeks during July now, we're encouraged by some stronger year-on-year numbers that we've seen. So hopefully, we'll begin to see a little bit of the turmoil that's affected the industry over the first half of the year begin to settle out. And hopefully, with all the 4 placements in place now that we can see a more normalized business rate as we go into the third quarter.

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

Okay. That's helpful. And then just thinking about the inflation that came through during the quarter. It sounds like you've got the price increases in place to sort of offset that. But how are you thinking about steel prices as we go forward? And maybe how that could impact the results?

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

Yes. Well, wish we had a longer-term vision, obviously. That's always the case with steel commodities. But right now, it looks like things are relatively stable. We anticipate scrap rod pricing to be relatively stable, at least, through August. As you are aware, there are numerous things that have been going on behind the scenes in the steel market with the potential for the 232 action by the President. There is an ongoing anti-dumping case against 10 geographies that we will see commerce review in August. So there's some uncertainty out there. The 232 action now looks like it's been delayed on into the first part of next year. So I don't really know what the effects of that will eventually be. But it looks like as of now, that's kind of been set back on the back burner a little bit. The dumping case, if it should go through, I think there's a reasonable chance of going forward. If we see scrap fall slightly, we would probably see rod not move. If scrap goes up, I believe, we'll see rod go up. Probably give a little bit more leverage to those rod producers in the marketplace.

Operator

Our next question is from the line of Robert Majek with CJS.

Robert S. Majek - *CJS Securities, Inc. - Research Analyst*

Just on your operating cash flow guidance that remains unchanged at $450 million or so. Was there previously a cushion built in? Or are there some other offsetting factors at play here?

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

Robert, this is Matt. I mean, the operating cash flow now as of -- for the full year approximately $450 million is really representing a little bit higher investment in working capital than we would have anticipated through the first half of this year. Again, something we're excited about doing because those are supporting organic growth opportunities. But nonetheless, our DSO is out a little bit longer than what we would have thought and our inventories are just a tad longer. So we feel very good about where our operating cash flow, obviously, is positioned, and again, where

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that cash has been going. You will also notice, just relative to uses of cash, we bought back most of the shares already this year. We're earmarking about 3 million for the full pace of 2017 in order, about 2.4 million thereabouts as we sit here today. So no surprises in the operating cash flow story except that, again, working capital is a bit higher right now, but we'll make sure that's managed well.

Operator

Our next question comes from the line of Budd Bugatch with Raymond James.

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

This is Bobby filling in for Budd. I just want to follow up back on Susan's questions about bedding. Really, just looking at the delta between U.S. Spring component dollars and in innerspring units. And it narrowed this quarter in 2Q versus 1Q, which is a little bit surprising to me given all the content gains. So I was hoping to maybe just get an update on how the content gains are progressing? And kind of what we should think about with that delta moving forward?

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

Yes, Bobby, I think the content gains that we talked about in the past with our Quantum Edge products and with those upholstery layer pocket spring products, those things, we haven't changed any of our modeling around that. Those things are all good and will add content as time goes along. Really, one of the things we didn't anticipate so much is just the general challenge in overall unit volume. And as I said, as we ended the quarter on a kind of a weak note, that's been our challenge. The -- I think we'll begin to see with a little bit of a pickup, and again, some finalization of some flooring on some of these products that now we'll begin to enjoy those content gains. But they are masked by the overall macro demand environment right now.

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

Okay. Is the challenge inside the industry, is it facing more on kind of lower promotional price units? Is it pretty broad-based? I'm just trying to get a sense if some of the customers that might have more content being added to their units are struggling a little bit more than maybe the lower price you don't have as much as the new technology that we saw in Las Vegas?

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

It's generally pretty much across the board right now. I can't say that there's one particular category such as premium or mid-line or there is -- the pain has been a little bit spread across the board. There is no doubt that with what's happened over the last few months within the industry and the turmoil and the remixing of the ingredients, it's not helped the situation. Now we talked about last quarter the fact that increased promotional activity, in general, should be good for us. And we believe it is and will be. But I don't believe it's been able, to this point, to offset the overall macro demand environment. As we go forward, and that promotional activity stays at the pace it is or possibly even picks up as we get towards the Labor Day weekend selling period, I think we'll begin to see the effects of that. There's no question our demand and the demand of our customers and retailers is directly correlated to the amount of promotional activity that goes on.

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

Let me help a little bit in that. You noticed, while it was probably a little subtle that our call on CapEx forecast for the full year moved from $150 million to $160 million. There were -- - there are 3 drivers of that. One is continued automotive awards, so that's gobbling up a little bit more of the CapEx than we expected. Some of it is continued growth in our International Springs, primarily Europe. But the third kind of leg of that stool is the continued penetration of both Quantum Edge and microcoils. So the adoption of that product category by a broader subset of U.S.-based

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manufacturers continues to grow. So to your question that it was just, then to Perry's point, it was just a bizarrely odd, unpredictable, nobody could have predicted the disruption in the bedding market in the second quarter. That, in no way, mitigates our long-term enthusiasm for content gains.

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

Okay, okay. That's helpful. And that's actually a good segue to my last question about Automotive. I appreciate the extra detail there. But just -- Mitch, can you maybe provide us a couple of examples or help us think about some of the growth investments? Is it new technology or a kind of new product offerings or anything like that?

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

I think it's both. We think about our products very much as technology. The drive in the industry towards increased comfort content or convenience features coupled with lightweighting, which means smaller space, lower-weight products. All that drives significant technology change for us. We think that's a very good thing. That's what we hang our hat on to win. So it's some investment around headcount both at the engineering level, at the plant level, as new programs ramp up. Some investment in equipment, some investment in actual plant capacity in terms of building. So that's really what drives it.

Operator

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

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

Karl, I wanted to get your big-picture perspective here. You're halfway through the year, but what's your view on the global consumer spending environment? And are there any pockets of strength or weakness that would stand out to you at this point?

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

Peter, that's interesting as I kind of deconstruct the first half, which obviously, done a lot of them in this last week. I tend to think of the negatives and not the positives. But there are a lot of positives out there. Mitch's commentary around global auto build. There's a lot of conversation, a lot of the U.S. investment community. Too much focus is on U.S. demand where we're so well positioned around the globe. We've seen significant auto demand recovery in Europe and forecast that going forward along with the Asian build. The commentary around the global innerspring business. There is strength in Europe, that's significant. But also South America and Mexico, we've had significant market share gains there as well. So there's pockets of demand. From a U.S. perspective, that's probably the most disappointing consumer market. And it wasn't just bedding. You saw it in our Fashion Bed business, which is highly correlated to the dysfunction in U.S. retail. But the rest of the globe seems to be performing more fully in this recovery postrecession in the U.S. right now. I don't know if it's just a step-function change. The external dataflow tells us that things should be better than it is at the point of sale.

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

Okay. That's interesting. And maybe just a follow-on. So with the reduction of the sales growth outlook of 1%, what area of the business are you guys revising down the most?

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

It's recognition of the soft bedding environment in the second quarter. And actually, the first quarter was a little disappointing in U.S. bedding as well. So that would be the primary driver. Concerns about machinery has been soft, albeit small. CVP certainly is underperformed. The bedding -- U.S. bedding weakness has a high correlation to the softness in our industrial materials demand. While you heard us speak to the pricing power there, my goodness, we could sure use more tons. So it's really U.S.-focused.

Operator

Our next question is from the line of Keith Hughes with SunTrust.

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

Questions in the Specialized segments. In the slides, you talk about part of the reason for the margin decline being costs associated with growth. Is that kind of the ramp up of costs associated with some of these automotive awards you talked about in the CapEx? Or are there other things going on?

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

This is Mitch. Yes, if you think about it, the award cycle for automotive, we win a program a couple of years ahead of the start of production. We have to get production equipment ready. We have to sample off of the live tools. So we have a lot of costs ahead of the actual zero production. And then when it starts the production, it doesn't start up at full volume. It starts at lower volume and ramps up over time. So you have sort of this constant cycle of programs ramping up and ramping down. But so in this case, we have significant investment in people, in plant, in overhead for some large new programs that aren't ramped up to full volume. So that's really had a little bit of disparity between the timing of the investment and getting up to full sales volume.

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

And when will those go into production or show up in sales and margin or things like that?

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

Yes, it's hard to say that. I mean, it's sort of this constant cycle. It's just that we tend to have a few large ones that are ramping up now. So it gets a little bit lumpy is a way to think about it, right? We may -- we have to have some building expansion. Or we have to do -- have significant capital equipment or people expansion as volumes ramp up. So it's kind of part of a normal cycle. It just tends to be a little bit lumpy. So we have added capacity today that will smooth out over the coming year.

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

And that's your segment with margins being down. You don't exactly have a customer base who loves to hear about price increases. Is that something you can offset some of the inflation in the second half of this year?

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

In the Specialized segment, no, not really. We signed up for fixed pricing. We think our debt margin profile is still very strong in the long term.

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Operator

Our next question is coming from the line of Spencer Joyce with Hilliard Lyons.

Spencer Everett Joyce - *Hilliard Lyons, Research Division - Analyst for Natural Gas and Water Utilities*

Just a quick one for me. Perhaps you could update us a little bit on the M&A pipeline? I know we saw a nice little deal in Q1 that's, by my math, turned out pretty well so far. Just any broader kind of macro updates there and maybe if we should be modeling anything into the cash flow for the back half of this year.

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

Yes. Spencer, for a model perspective, we've said, based on the last 3 years, assume about 2% top line growth from M&A going forward that we're pretty much there with what we've done in the first quarter. But I will say the pipeline is more robust than at any time that I can remember. Our corporate development people have been extremely busy. So there's a lot of opportunities that we continue to make our way through. Obviously, we'll only make acquisitions that are strategic and add value. So we continue to be very disciplined in our analysis. But yes, I would think that there would be more acquisition activity in the future than there has been in the last couple of years. But the timing of acquisitions is a game that we can't play. There's a lot of analysis.

Spencer Everett Joyce - *Hilliard Lyons, Research Division - Analyst for Natural Gas and Water Utilities*

Absolutely, well understood and that's very helpful. Perhaps if I could just pivot very quickly to the bedding environment. Can you just talk for a second or 2 about what gives you some confidence that the weaker sales that we saw in the first half is really just an anomaly for the industry and not the results of any kind of competitors or any kind of industry permanent dislocations there?

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

I think part of it is an anomaly. The demand environment, as Karl said, is not where we thought it would be just a few months ago. And based on some of the macro factors we see, it's hard to understand why other than a lot of the disruption. There are a lot of talks still about the bed-in-the-box phenomena. We are -- that is an area of growth in the business, I believe that is having some effect on retail. But from our standpoint, it's not something that we are overly concerned about because we participate in that. And we have, recently, in fact, just the last few weeks, seen some indications of the folks that are participating in that market trending towards hybrid-type products. An awful lot of interest right now in hybrid products and there will be introductions happening over the next several months that would bear that out. So from the standpoint of a component supplier to that industry, we're not concerned about that detracting from our business. I would say when you look at our foundation pieces, which were off during the quarter, our boxspring pieces, some of that is being -- while the macro environment has its effect, some of that is being affected by a continuing market share gain in adjustable foundations. And so that's a switch out. And that switch out for us, obviously, is overall a good thing.

Operator

The next question is from the line of Herb Hardt with Monness, Crespi, Hardt.

Herbert Arthur Hardt - *Monness, Crespi, Hardt & Co., Inc., Research Division - Director of Research*

You folks have been pretty successful with the acquisitions, as mentioned earlier. Are there any new areas you're thinking about?

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

Herb, you've heard our commentary on the analysis that we've done on styles of competition or areas of competitive advantage. And we continue to do that analysis, analyze markets that may be more attractive to us as new growth platforms. Much like the analysis we did on Aerospace that's now 5 years ago. It's hard to believe. So yes, there's areas that we continue to look at that we think that we can add value. But it's too early to call any of them out.

Operator

The next question is from the line of Justin Bergner with Gabelli.

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

I want to address the change in the operating margin guidance and just try and clarify if that is mix-driven, sort of price raw material cost timing or P&L investments-related to auto CapEx?

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

Actually, Justin, it's a combination of all of those things. It's recognition that the first half was softer than we expected. So it's lack of unit growth. So that's part of it and associated overhead recovery that comes with it. I don't think it's pricing to a great degree. It's a recognition that there are some imputed costs as we grow programs, though it's little bits of all of those things.

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

Okay. But I guess if we adjust for the sort of lower tax rate, the negative leverage on the 1% volume seems larger than what would be normal. So I'm trying to sort of understand beyond the volume deleverage what might be at play.

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

Boy, it's not like I said it's not any one thing that stands out. It's just looking at our forecast and giving a best swing from a guidance perspective and then doing the result in math.

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

Okay. But there's no mix issue -- material mix issue at play?

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

Not significantly. Mix always changes, ebbs and flows. But no significant customer loss or program loss or market sector change. So it's mixed shifts or little ancillary adjustments but nothing of substance.

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

Okay. And then on the cash flow guidance. I guess you're taking up your CapEx $10 million, you're claiming working capital might be a little bit more negative in the year than you thought. So -- and then, of course, earnings is slightly lower. So what's allowing you to keep operating cash flow guidance intact? Is there a cash tax impact that's going to benefit you that wasn't part of earlier guidance or something else?

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

No. Good question, Justin. So we're guiding now on cash flow to be approximately $450 million. In the first half of the year, we estimate should exceed $450 million. So really it's just the working capital component really that is a little bit difficult to predict just because of the pieces involved there, whether it's inventory, what's happening in that asset category, accounts receivable, obviously, and offset by payables. It is very clear, as you know, in our seasonality that in the third and fourth quarter, particularly, the fourth quarter is a significant time frame where we generate cash coming out of working capital. So if you look at the first 6 months of this year and having had working capital collectively bracketed about $110 million on our operating cash flow, that's higher than what we would have expected, probably about $30 million higher than what we would have expected at this point in time. But then again, as we go to the back half of the year, we expect that to be a positive number bringing down that full year impact. And just my opinion, but I think, certainly, there's a bias that we'll do better than approximately $450 million, but we'll see. Again, some things in that mix that are a bit harder to predict. But I would again, reiterate, just like Karl did on the capital spending side, that these dollars we feel really good about where they're going because they're underpinning our organic growth game plan in many of our business units.

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

Okay. It's just still hard for me to sort of reconcile the $10 million higher CapEx, I guess, $7 million lower net income and, call it, I don't know, maybe $10 million higher working capital to a relatively unchanged operating cash flow guide. I mean is there some offset I'm missing?

David M. DeSonier - *Leggett & Platt, Incorporated - SVP of Strategy & IR*

No. We changed the verbiage. Last quarter, we would've said in excess of $450 million. And today, we're saying approximately $450 million. So it did come down. It's not discrete numbers that we posted, but the way we speak to it has changed.

Operator

Our next question is from the line of Dillard Watt of Stifel.

Dillard Watt - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Mitch, any change on the spread you expect on global auto unit growth versus what you're going to recognize? You talked a little bit about new program wins. But of course, I know you have things rolling off. So any change over the next 12 or 18 months or even further out I guess?

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

Yes, no. Thanks for the question. No change in our long-term outlook. We've said consistently we -- our goal is to grow 1,000 basis points over the market. We continue to do that, and we see, still believe in our ability to do that going forward. As Karl mentioned, a lot of discussion around declined unit volume year-over-year in North America, we're still performing very well in North America as well as the rest of the world. So we remain very positive.

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Dillard Watt - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Sort of still a low single-digit global production forecast?

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

Yes, that's right. We look at IHS vehicle production forecast. And so when we kind of break it up into the developed markets, U.S., Europe, China, Japan, South Korea and we see that at about 1.7%, both for 2017, and if you look at, say, at '16 to 2020 CAGR, right around that 1.5 or so percent. And then we'd see a little bit faster growth in the emerging markets, which typically have less content than the developed markets, but still is an opportunity and it's very much a global business for us. So that would bring global growth to up maybe 1% to 2.5%. So yes, we think that's the right -- somewhere around 2% is probably the right way to think about it.

Dillard Watt - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Okay. And staying in that segment. A couple of quarters ago, I know there was some -- I guess the market share loss in the aero business, and I think that improved in the first quarter and is looking pretty good here in the second. Is that all sort of back on track? And did you have to -- I know pricing was a component of that in the fourth quarter when you -- when it slowed down. So are we operating it at maybe a little bit lower of the products margin there or where do we stand?

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

That's a good question. Thanks. I think that it is -- we are in better position than we were in the fourth quarter. It's very business-specific. So our seamless tube business is doing very well. Our fabricated tube business is doing very well. We had more trouble with our welded tube business in the U.S. in the fourth quarter. I think we've got that stabilized today. We have had, in some cases where we had too aggressive margin expectations to correct those but it's not really very broad-based. So it's -- I think we've done a good job to stop the share loss and to get some of that product back. So I don't see any major change going forward.

Dillard Watt - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Okay. And then finally, on Adjustables. I know in the first quarter, we talked about some program wins that went in earlier than you expected. Obviously, a very strong number here in the second quarter, which is sort of disconnected from what the overall market is doing. I'm sure it's due to program wins. But does that kind of slow down meaningfully in the second half just to -- as you get all those stuff shipped out in the first?

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

No, it does not. We expect the rest of the year to continue to be very strong for us in Adjustable Beds.

Dillard Watt - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

And in that -- you talked about margin -- I'm sorry, mix, being a margin drag. Is that partially due to some of the, I guess, more entry level of price points products that are shipping out here more recently as the high-end stuff is a little bit more penetrated?

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

It's not really an Adjustable Bed issue. It's more of an impact from our Fashion Bed business where we had significantly less sales of our sort of core bedding support business there. So from a -- it's true that we see average unit selling prices decrease at retail for Adjustable Bed base, but our guys have done a really good job of keeping up from that -- with that on the cost side and the development side.

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Operator

At this time, I'd like to turn the floor back to management for closing remarks.

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

We'll just say, thank you. We appreciate your time, and we will talk to you again next quarter.

Operator

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

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