S&P Global
Market Intelligence

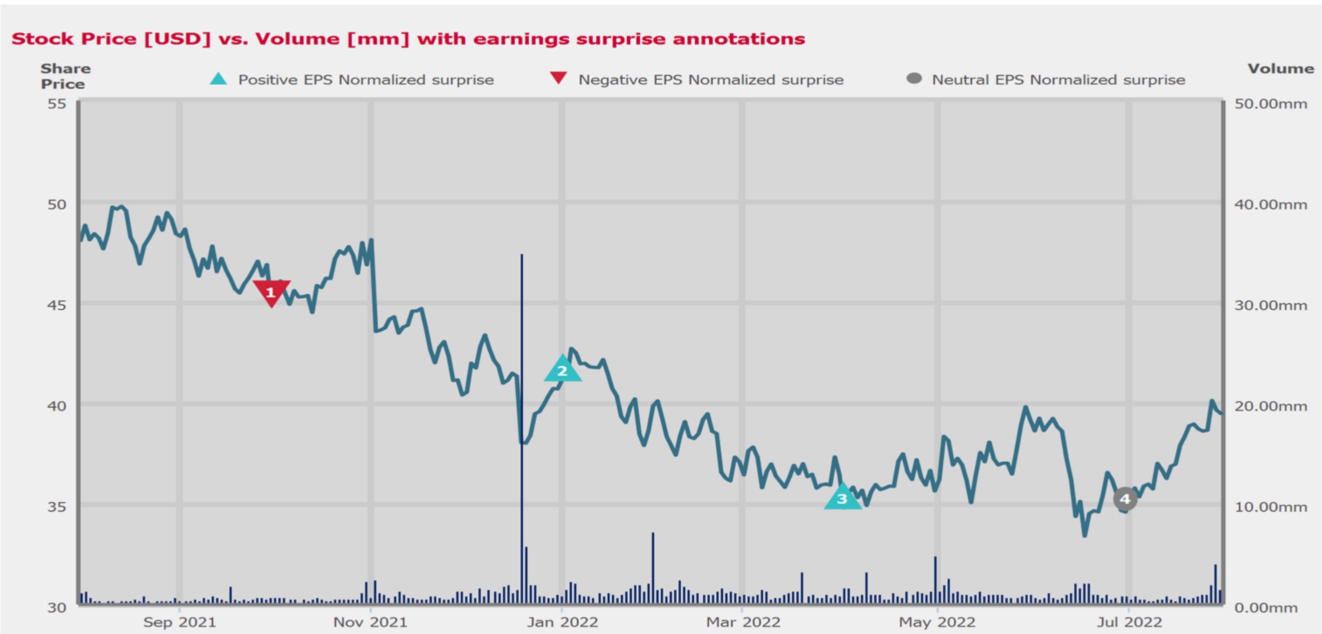
Leggett & Platt, Incorporated NYSE:LEG
FQ2 2022 Earnings Call Transcripts

Tuesday, August 02, 2022 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.70	0.70	0.00	0.70	2.72	NA
Revenue (mm)	1328.21	1334.20	0.45	1332.17	5297.53	NA

Currency: USD
Consensus as of Jul-07-2022 11:19 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	0.77	0.71	(7.79 %)
FQ4 2021	0.73	0.77	5.48 %
FQ1 2022	0.56	0.66	17.86 %
FQ2 2022	0.70	0.70	0.00 %

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Call Participants

EXECUTIVES

J. Mitchell Dolloff
CEO, President & Director

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

Jeffrey L. Tate
Executive VP & CFO

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 Leggett & Platt's Second Quarter 2022 Webcast & Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Susan McCoy, Vice President of Investor Relations for Leggett & Platt. Please go ahead.

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 Dolloff, President and CEO; Jeff Tate, Executive Vice President and CFO; Steve Henderson, Executive Vice President and President of the Specialized Products and Furniture, Flooring & Textile Products segments; Tyson Hagale, Senior Vice President and President of the Bedding Products segment; and Cassie Branscum, Senior Director of Investor Relations.

The agenda for our call this morning is as follows: Mitch will start with a summary of the main points we made in yesterday's press release and discuss operating results and demand trends. Jeff will cover financial details and address our outlook for 2022, 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 expressed 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 a 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 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

Thanks, Susan. Good morning, and thanks everybody for participating in our second quarter call. Our employees continue to drive strong results in the quarter despite ongoing macroeconomic, geopolitical and various in-market challenges.

Sales from continuing operations were a quarterly record of $1.33 billion. EBIT was $143 million and earnings per share was $0.70. Sales in the quarter were up 5% versus second quarter of 2021, reflecting our successful pass-through of significant inflation over the past several quarters, partially offset by lower volume and currency impact. EBIT decreased 17% versus second quarter 2021 and was down slightly versus second quarter 2021 adjusted EBIT.

Last year's second quarter EBIT included a $28 million gain from the sale of real estate associated with our exited fashion bed business. EBIT decreased slightly versus last year's adjusted EBIT primarily from volume declines and lower overhead absorption as production and inventory levels were adjusted to meet reduced demand, mostly in bedding. These decreases were largely offset by expanded metal margins in our Steel Rod business and pricing discipline in our Furniture, Flooring & Textiles Products segment.

EPS was $0.70, a 15% decrease versus second quarter 2021 and a 6% increase versus last year's adjusted EPS. We are lowering our full year guidance to reflect macroeconomic uncertainties, including impacts of inflation, tightening monetary policy and softening consumer demand continuing through the back half of the year. We expect solid demand in our industrial and automotive end markets to partially offset softer consumer markets.

Now I'll move on to the segments. Sales in our Bedding Products segment were up 1% versus second quarter of 2021. Raw material-related selling price increases, strong trade demand in Steel Rod and Drawn Wire and the addition of our

Kayfoam acquisition made in the second quarter of last year were largely offset by volume declines from soft demand in U.S. and European bedding markets.

Market demand was negatively impacted by higher energy costs and general inflation early in the quarter, but then remained relatively consistent. Mattress consumption has been on the leading edge of consumer spending activity and began to slow in the fourth quarter of last year, making year-over-year comparisons difficult. Sequentially, demand was down only slightly from the first quarter. Commodity costs seem to have stabilized, although at historically high levels.

Other manufacturing inputs, including energy, continued to increase during the quarter. We are carefully managing these costs and the impact to our business and our customers. Within our bedding businesses, the supply chain remains stable, and we are well protected against future disruptions.

We began to adjust production manufacturing cost and inventory in the fourth quarter of last year. Inventory levels have trended down since that time, and we will continue to monitor them closely while maintaining our ability to service customer requirements. We are well positioned to address further demand changes, whether up or down, and will respond quickly and responsibly. Provided no major changes in the macroeconomic backdrop, we expect demand in the segment for the back half of the year to remain consistent with levels seen in the first half of the year.

EBITDA margins in the segment were lower versus second quarter 2021 adjusted EBITDA margins, primarily from lower volume and lower overhead absorption as production and inventory levels were adjusted to meet reduced demand mostly offset by expanded metal margin in our Steel Rod business.

Sales in our Specialized Products segment increased 8% versus second quarter 2021 from strong volume growth in all 3 businesses. These volume gains were partially offset by currency impact. The industry forecast for global automotive production has stabilized since April.

The current forecast anticipates just under 5% growth in the major markets this year. Consumer demand remained strong and vehicle inventory remains at record low levels. As supply chains continue to stabilize, the industry should see improving production for the next several years. Industry forecasts now indicate recovery continuing through 2024.

In our Aerospace business, demand for fabricated duct assemblies remains at pre-pandemic levels, and we continue to see modest demand recovery for welded and seamless tube products. We expect continued recovery in 2022, and the industry is anticipated to return to 2019 demand levels in 2024. End market demand in hydraulic cylinders is strong and order backlogs in the industry are at record levels. However, labor availability and global supply chain constraints have hampered the ability of our OEM customers to ramp up production.

We're seeing some improvement in these areas, but it could be late 2022 or longer before industry backlogs normalize. We expect our sales in this business to continue to grow as OEM production increases. EBITDA margins in the segment declined primarily from higher raw material and transportation costs, labor inefficiencies and currency impact, partially offset by higher volume.

Sales in our Furniture, Flooring & Textile Products segment were up 10% versus second quarter 2021, primarily from raw material-related selling price increases and volume recovery in Work Furniture, partially offset by lower volume in Home Furniture, textiles and flooring.

In Home Furniture, mid- and upper level price point should remain relatively strong through the third quarter due to customer backlogs. However, backlogs are coming down due to consumer demand shifts and macroeconomic uncertainties. Demand at lower price points has continued to soften, negatively impacting our business in China. The Chinese market was also impacted by COVID-related lockdowns during the second quarter.

We expect Work Furniture sales to continue to grow from improving demand in the contract market as companies redesigned their footprints and invest in office space. However, demand for products sold for residential use is softening.

In textiles, we expect Geo Components to grow in 2022 as demand remains strong across both the civil construction and retail markets. In Flooring products, residential demand has softened with lower home improvement activity and hospitality demand remains well below pre-pandemic levels. EBITDA margins in the segment improved versus second quarter 2021, primarily from pricing discipline, partially offset by lower volume.

Before I turn the call over to Jeff, I'd like to thank our employees for once again delivering strong quarterly results. Your collective ingenuity, commitment and effort allows us to effectively navigate this dynamic operating environment.

Jeff, I'll hand it over to you.

Jeffrey L. Tate
Executive VP & CFO

Thank you, Mitch, and good morning, everyone. In the second quarter, we generated cash from operations of $90 million, up $49 million as compared to $41 million in the second quarter 2021, reflecting a much smaller use of cash for working capital. Working capital increased significantly last year due to restocking efforts following inventory depletion in 2020, but increased to a lesser extent this year as we continue to return to inventory levels more reflective of current demand.

We expect cash from operations of $550 million to $600 million in 2022 as last year's significant inflationary impact stabilized, and we continue to balance inventory levels. We ended the second quarter with adjusted working capital as a percentage of annualized sales of 15.7%. Our priorities for use of cash are unchanged. They include in order of priority funding organic growth, paying dividends, funding strategic acquisitions and share repurchases with available cash. Capital expenditures in the second quarter were $22 million.

In May, our Board of Directors increased the quarterly dividend to $0.44 per share, $0.02 or 5% higher than last year's second quarter dividend. At an annual indicated dividend of $1.76, the yield is 4.4% based upon Friday's closing price, one of the highest among the dividend kings.

With deleveraging we accomplished over the past few years, share repurchases have returned as one of our priorities for the use of cash. The level of repurchases will vary depending on various considerations including alternative uses of cash and the opportunity to repurchase shares at an attractive price. We took advantage of the lower share price during the second quarter and repurchased 1 million shares at an average price of $35.01 per share. Total repurchases for the quarter were $35 million. This brings year-to-date repurchases to 1.6 million shares or $57 million.

We ended the second quarter with net debt to trailing 12-month adjusted EBITDA of 2.39x. Our strong financial base gives us flexibility when making capital and investment decisions. We remain focused on cash generation while maintaining our balance sheet strength and deploying capital in a balanced and disciplined manner that positions us to capture near- and long-term growth opportunities, both organically and through strategic acquisitions.

Now moving to guidance. As Mitch stated earlier, we are lowering our full year guidance for both sales and earnings per share. 2022 sales are now expected to be $5.2 billion to $5.4 billion or up 2% to 6% over 2021. Guidance reflects volume down low to mid-single digits, with the Bedding Products segment down low double digits, Specialized Products segment up low double digits and Furniture, Flooring & Textile Products roughly flat.

The guidance also reflects continued inflationary impact primarily from raw material-related price increases including those implemented as we move through 2021. The guidance assumes negative currency impact and acquisitions in 2021 should add 1% to sales growth, but will be mostly offset by small divestitures.

2022 earnings per share are now expected to be in the range of $2.65 to $2.80. The decrease versus prior guidance primarily reflects lower expected volume in consumer end markets partially offset by continuing strength in industrial and automotive markets as well as metal margin expansion in our Steel Rod business.

Based upon this guidance framework, our 2022 full year EBIT margin range should be 10.5% to 10.7%. Earnings per share guidance assumes a full year effective tax rate of 23%, depreciation and amortization to approximate $200 million, net interest expense of approximately $80 million and fully diluted shares of $137 million. For the full year 2022, we expect capital expenditures of approximately $130 million, and dividends should approximate $230 million.

In closing, Leggett remains well positioned, both competitively and financially, to capitalize on long-term growth opportunities in our various end markets. Our enduring fundamentals give us confidence in our ability to continue creating long-term value for our shareholders.

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

Susan R. McCoy
Senior Vice President of Investor Relations

Thanks, Jeff. That concludes our prepared remarks. We thank you for your attention, and we'll be glad to answer your questions.

Operator, we're ready to begin the Q&A session.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Bobby Griffin with Raymond James.

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

Good morning everybody and thank you for taking my questions. So first, Mitch, I want to first start off on Specialized Products segment really a 2-part question. I mean, one, we saw you guys pick up the volumes pretty notably in for the full year. So maybe just unpack what areas of that business are coming in stronger than expected and kind of what's -- a little bit more detail on what's going on in those end markets?

And then secondly, just what's the pathway back for margins to return to kind of the mid-teens in that segment that we're used to seeing? Is there a path back there or structurally something changed within the business is that it's going to need to be a little bit lower margin business going forward?

J. Mitchell Dolloff
CEO, President & Director

Yes. Bobby, and thanks for participating today. I appreciate the good question. So I think a couple of things here. I'll take your questions in order. First, the volume up from the prior guidance, why? I think it's really just more confidence in the actual improvement of production across all 3 of those businesses. We've seen significant improvement in aerospace and hydraulic cylinders, although that's still somewhat impacted by the OEM's ability to navigate labor and chip issues, but we have seen increased production over the last several months.

And then similar in automotive as well, where while they're not getting all of the chips that are needed to enhance production there, it has become more stable. And so that production schedules are way less dynamic than they were probably last year. And so we continue to see some improvement there.

I think in automotive, the projection for the major markets is second half production up about 11% versus the first half. So all of those things kind of holding up are what really gave us the confidence to increase our guidance around the volume there.

And then your questions around the margins is also a good one. So I do think that we have a path forward to those mid-teens kind of margins again. I think a few things, dynamics are in play there. First, all 3 of those businesses were the most impacted at different times, but as the pandemic hit. And in 2020, we saw the volumes there just declined very, very significantly. And this is I think old news, right?

Everybody knows that it's been a really struggle for those industries to regain their traction. But as I just said, they're starting to now. So we certainly have the impacts from lower volume, which is significant lower overhead recovery. And then just some of the inefficiencies as the production schedules, as I said, are so dynamic.

The other element that is critical, and we talked about this on the call last quarter that it started more significantly to impact us in Automotive is the impact of commodity inflation. It's less of a commodity business than if you think about the steel products in bedding or home furniture or things like that. So it's normally not much of an issue.

But over time, over the course of this dynamic last year or 2, there have been inflationary impacts that had built up, whether it's around resins or steel impacts or just other raw materials, transportation that had built up, and we talked about it last quarter to become relatively significant for the business. And we've made really material progress, I would say, in the cost recovery starting in the second quarter. And I would expect that to continue sequentially as we go through the year.

One thing to note is that pricing in Automotive is very, very different than any other of our businesses, maybe similar to Aerospace. But that the industry generally works on fixed pricing with cost downs over the life of a program. So prices typically don't go up and down throughout the life of a program unless there is some really significant event, like we've seen over the last couple of years, really the last year.

And so it takes time for enough pressure to build through the supply chain that the OEMs are then sort of forced to concede price changes. So it's tough to predict exactly the timing. It's not as simple as industries were built to have these kind of pricing fluctuations. So we have seen that momentum build and start to see actual tangible benefits of that in the second quarter.

Again, tough to predict exactly the timing, but we do expect to continue to make significant progress over the second half of the year. And that recovery to take the form of a number of items. It could be actual price changes. It could be delay in cost downs. It could be some engineering changes or even one-off payments, but we do feel confident that the ball is rolling now. We're starting to see the results and that will continue.

The second area that you talked about -- Bobby, just one more thing real quick. Last time, we talked about some operational issues that we're having in one of our facilities in the U.S. We've also made substantial progress there in that plant. Inventory positions are improved. The premium -- resulting premium freight is going down and our excess labor costs are going down. Not done, still work to do, but making progress.

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

Very good. I appreciate that details. That was very helpful. And then I guess, secondly, just as a follow-up maybe on the commodity or steel side of the business. We have started to recently see some of the steel commodities roll over. Has that -- has the spread or the metal margins changed at all with the recent kind of reduction in some of the steel indexes? And it's been a very long time since we've kind of seen steel deflation in the last couple of years have been inflation. How do you think the business will respond to potential deflation of steel products similar to the history we're used to seeing with Leggett when they see deflation?

J. Mitchell Dolloff
CEO, President & Director

Yes. Great question, Bobby. I'll take the easy part and then hand it over to Tyson. But on the -- on the steel side, think about the separation between where we're using flat products in Home Furniture, and we have seen some reduction there, and teams are managing that very, very well, managing our inventory and also managing our pricing.

A little bit different on the rod side with increased other input costs there. So Tyson, I'll hand it over to you on that one.

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

Sure. Yes. And it is a little bit of a complicated story, but you're right, Bobby. Even recently, we have started to see some softening in rod pricing, but to a lesser extent than we've even seen some changes in scrap, Mitch started to hint at it. But I think some of that is just general industrial demand has remained relatively strong for steel products and then also some of the conversion costs that have increased pretty substantially, that I don't think get quite as much notice.

But energy, just general utility usage, consumables that go into it, have also, I think, helped support some of the higher pricing. But we have seen it start to stabilize and all start to come down a bit. We've been monitoring that closely on the way up and also will do the same as things decrease. And we have also a large part of our steel-based business that's contractual. So we'll obviously see those things pass through as necessary.

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

I appreciate the details. Best of luck here in the second half.

Operator

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

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

Thank you, good morning everyone. My first question is talking a little bit about the consumer perhaps. You mentioned in your comments, Mitch, that you have seen bedding demand stabilize in this quarter, you expect it to hold flat. Can you talk in general just about the state of the consumer, the health of the consumer that you're hearing from your customers? And perhaps with that, any commentary on elasticity of demand that you're seeing in bedding, especially as you're continuing to put price in to offset those inflationary pressures.

J. Mitchell Dolloff
CEO, President & Director

Yes, sure. I'll take a shot at that, and thanks Susan for the good question. I think it's tough to predict, but I think the fact that we've seen demand being pretty stable is probably a good thing, right? It's tough in this type of inflationary environment with monetary policy tightening and all of the other economic disorders that are out there. So I think that led to the step down.

But I think that if we can see that inflation is starting to stabilize and then starting to gently come down. I really don't see it just dropping off very swiftly. But if it starts to stabilize, I think that we will see that consumer hold in there for us at least at decent levels.

And then depending upon what happens going forward, if we are able to avoid a super recessionary cycle, I think that we should be in pretty good shape. But we've certainly been planning in all of our businesses for this kind of uncertainty and really starting last year to make sure we're managing inventory closely that we're managing our variable costs and our production levels, so that we are really ready to move either way. If it gets a little bit softer to be able to take a step back and control our costs or to be able to respond very quickly if we're able to see pickup.

So I think that's the really big question that's out there for the world, right, is what's going to happen with consumer demand and inflation out there. But I'm relatively optimistic with the trends that we're seeing. But Tyson, what are you hearing?

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

Very similar, Mitch. We've shared that we felt some of the slowdown earlier than a lot of others when it started happening in the fourth quarter of last year. Both, I think, from the lower-end price points slowing first, but then also as it moved into some mid and even to a lesser extent, some of the higher price points as we move through the early part of this year.

And also not just from the impacts of inflation, other things but consumers shifting to spending on services, travel and some other areas like that, like Mitch said, what gives us confidence even as we watch consumer sentiment be at low levels, is that we've seen some step downs over the course of the last 9 months or so, but it's been really consistent, especially as we move through the second quarter.

One thing I think we'll be watching closely as we've watched some of the retail activity is just especially consumers on the lower end and how they react to the continued inflation or even prices staying at high levels. But overall, I think we feel pretty confident just in some consistency as we get into the back half of the year.

J. Mitchell Dolloff
CEO, President & Director

Tyson, maybe I'll add, I think in the longer term, right, in the bedding side, really historically don't see multiyear downward trends, that's something that would be outside of the norm of what we see. And even if we think about the housing market softening a little bit, even in places like our Home Furniture business, for example, maybe less impacted consumer sentiment and people even if -- with all of the home traffic that has happened over the last couple of years, probably some return to that repurchasing cycle there. I will say that we've been more -- seeing more negative impact on the Home Furniture side, particularly at the low end recently.

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

Okay. That's all very helpful color. And following up, obviously, the macro environment has shifted in the quarter. There's a lot of debate about where we sort of from a broader perspective there. But as you think about the business, Mitch, how are you preparing for a shift in the macro landscape? What is the playbook that you'll go to if we do see things deteriorate more than where we currently are at? And what are you watching in order to determine what needs to happen to the business to protect it in a weaker macro?

J. Mitchell Dolloff
CEO, President & Director

Great question, Susan. Thank you. And I guess we've kind of been through a similar type of circumstance before when we were in 2020 with the downturn after the onset of the pandemic. So I think that we've learned some new skills that we certainly haven't forgotten then.

But first off, I would say, I expect that we'll benefit from our portfolio diversity, right? We're seeing stronger demand hold up in our industrial and automotive businesses compared to our more consumer-facing businesses. So I do think that, that will continue to hold up. But we also regardless be able to continue aligning our variable costs and our inventories to demand. I think the good news there, as I mentioned on the call that we've been doing this since we first started to see demand slowing a little bit in the fourth quarter of last year in Bedding, as well as across our other businesses. It's something, frankly, that we talk about on a regular basis across all of our businesses.

In this environment, since we're well positioned, we're already -- we're not scrambling to catch up with what's happening in the macroeconomic circumstances. We continue to drive strong free cash flow. We have really strong liquidity. So we'll be able to benefit from those things as well.

In 2020, we cut about $90 million of cost, mainly overhead costs. And I never thought about that as something that was temporary that we would take those costs out and we would bring them back. But I did think about it as that we would make investments for our future. And we have been doing that.

And I think that our portfolio diversity and our strong cash flow and liquidity will allow us to continue to make those investments. So we'll have more capacity to implement those activities if demand is slower and we'll benefit from the improved efficiencies, the capabilities and be ready to take advantage of stronger demand when those conditions improve.

If it's worse than that, then we'll take those actions, and we'll go back to more radical cost cutting. But I really think that we're well positioned to be able to invest in our future and really benefit from the recovery as we come out of the cycle.

Operator

[Operator Instructions] Our next question comes from the line of Keith Hughes with Truist Securities.

Keith Brian Hughes
Truist Securities, Inc., Research Division

First question on one of the earlier comments you talked about metal margins, I think they are particularly ticking down a little bit and we make sure I heard that right. And kind of what have you assumed in the guidance for the second half of the year on those margins?

J. Mitchell Dolloff
CEO, President & Director

Tyson, do you want to take that one?

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

Sure. And Keith, just to clear that up, what I was suggesting was that we're seeing some softening in rod pricing. But overall, I think we've seen -- and actually, maybe take a quick step back. In the second quarter, metal margins actually expanded a bit beyond our expectations and some of the drivers there that kind of caught us a little bit by surprise, but invasion of Ukraine had an impact on scrap pricing as an input, people were trying to scramble around to find scrap, which drove up the demand for scrap supply. We also saw a sharp increase in energy costs and then just general steel demand all put to some higher metal margin expansion in the second quarter.

In the third quarter, we've seen rods start to soften a bit, scrap as well as some of those things have backed off. But generally, we would still see overall metal margins being relatively consistent in the third quarter. And right now, we're expecting some modest compression as we get into the fourth quarter just with overall supply and demand. But at this point, it's still tough to predict, but we would then -- I think for the full year, we'd still be up year-over-year.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Okay. And in the prepared comments, you talked about textiles and flooring, kind of it seems like you made in different directions right now. Just relative side, kind of lump those together in the 10-K. Can you just talk about how -- what those 2 represent as a percentage of the FFT segment?

J. Mitchell Dolloff
CEO, President & Director

Let me see here. If I could think about it that...

Keith Brian Hughes
Truist Securities, Inc., Research Division

[indiscernible] .

J. Mitchell Dolloff
CEO, President & Director

Yes. Okay. And Steve, chime in, if you have that handy. I think that textiles is about 35% or so of the business -- of the segment -- is that about right, Steve?

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

Yes, textile is about 35%, flooring, probably about 25%.

J. Mitchell Dolloff
CEO, President & Director

Yes. About 20%.

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

20%. Yes.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Okay. And then I guess final question. You had the compression in specialized that you discussed earlier on the call, the kind of lag on pricing there. Would we continue to see similar types of margin compression based on your revenue guidance for the next couple of quarters? Or will that start to narrow as you get at least some more price?

J. Mitchell Dolloff
CEO, President & Director

Yes. Great question, and Steve chime in here. But I think that we expect to see sequential improvement in the margins and specialized as we move through the back half of the year. We -- as I said, we've made progress on passing through some of the inflationary impacts in Automotive and the increase in volume will help us there. We have had a bit of a hit from exchange rates impacting margins, but we do expect to see meaningful improvement in the back half.

Operator

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

Peter Jacob Keith
Piper Sandler & Co., Research Division

I did want to focus this morning on the bedding business. And I guess I'm just looking at the volume trends with the steady declines. My calculation that volumes are down about 22% on a 3-year basis. And so I know we're waiting for macro headwinds to abate and it's really anyone's guess to when that happens. So I wanted to ask what are sort of the strategic initiatives to really get the bedding volumes going and to put yourself in a position to be taking market share?

J. Mitchell Dolloff
CEO, President & Director

Yes, Peter, great question. Tyson, I'll let you see that one.

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

Sure thing. Peter. So I'll put it into some short, medium and long-term buckets for you. In the short term, it's been a chaotic 2.5 years that we've been dealing with, with customers, supply chain high and low levels of demand, but our teams are working really hard on evaluating near-term opportunities with our customers. What can we do and what makes sense. And there are things out there even in a slow environment that -- where we think we can provide some value to our customers.

We are carefully balancing the economics of those opportunities, also kind of as we look at the risk and economics of those. But we do expect to start to see some of the benefits even now and through the back half of the year. So we do see some opportunities for improvement there even in the short run.

In the medium term, it's a tough time to do this, but we do have customers that are interested in new product developments, both from a VA/VE standpoint and just differentiation, and we have some new things that we're working on with customers right now. But those will take some time to gain steam and actually gain a foothold in the market. So that would be more of a medium-term initiative.

And over the longer term, we've been pretty public about our investments in bedding and you kind of see where we've been heading, with our investments at ECS, Kayfoam, also within our Adjustable Bed business, we've been investing in areas where we feel like we can increase our addressable market size. And although we're pretty specific about our position as a supply chain partner, also gives us still opportunities in segments of the market to increase our content as well. We've also continued to invest in our ability to supply our customers in our core components business. We're in a good place there as well. So we've been investing even as we've gone through the downturn and listing ourselves through the long run of being in a better place to grow again.

Peter Jacob Keith
Piper Sandler & Co., Research Division

Okay. And then, we talk about the weak economy, but one area that does seem to be getting weaker for the foreseeable future is housing. And I guess I want to understand your views on housing and its impact on your guidance as home sales are slowing quite a bit here. Seems like it could have a further negative impact on bedding and furniture or flooring, some various segments. So is that something that you're contemplating as you look out over the next 6 to 12 months?

J. Mitchell Dolloff
CEO, President & Director

Yes, I think so. I think it's tough to predict exactly, Peter. But I mean as we said, that's really the take on our guidance was understanding that there is this macroeconomic uncertainty out there, including the housing market and likely to have some impact. We think that consumer sentiment and other factors have a bigger impact and that there's even with housing movement helps us and last over some period of time. But I think that we've factored in at least what we anticipate as the impact there.

Operator

Our next question is a follow-up from the line of Susan Maklari with Goldman Sachs.

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

My first question is, we've talked a lot about the supply chains and production as it relates to auto within specialized. But can you talk a little bit about the improvements? Or how you're thinking about the improvements coming through in aero as well as in hydraulic cylinders? I mean obviously, in Aerospace, one of the big OEMs just got approval to start shipping one of their products. Are you seeing that there is some increase there, some improvements that are coming through? And how are you thinking about that flowing in and contributing to that margin improvement in the back half and into '23?

J. Mitchell Dolloff
CEO, President & Director

Yes, great question, Susan. Thank you. Steve, I'll let you take that one, but I think it's a positive outlook for us.

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

Yes. Yes, Aerospace demand growth is tracking pretty much as we expected as the industry continues to recover. And as Mitch said, that will hit 2019 levels and about 2024. Aircraft, the backlogs are near their peak levels at this point. So the demand is there. We saw year-on-year sequential volume growth in Q2. We expect that to continue going forward.

As Mitch also mentioned the assembly business has recovered quite quickly. And now we're starting to see that happen for the tubing side of the business. And as that demand returns to the industry is starting to see some of the same things we saw in our Automotive, orders being pulled forward, expedited delivery short lead times becoming the norms. We're also starting to see some extended lead times for raw materials, and we're taking that into consideration. So our team is doing a really good job of dealing with that situation as it goes forward.

And hydraulics, the end market for forklifts remains strong, particularly in North America, that market is sitting about 22 months of backlog. We're also seeing that reflected in our orders, which we think positions the business well for the second half of the year. That is the script. The OEMs don't backtrack on their production capabilities.

J. Mitchell Dolloff
CEO, President & Director

Sorry, Susan. I'm just going to say, Steve, when you say in both of those businesses, we likely to see a little bit of hiccups as the production ramps up, but are really much more confident in that production ramp-up taking place and improving as we go in the back half.

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

Yes, certainly.

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

Okay. That's very helpful. And the other thing that I want to go back to is the inflation question. We talked a lot about the metal margins. But can you talk to what you're seeing in terms of the inflationary pressures on perhaps ECS things that go back more to those oil sort of supply chains in there. One, what is the availability of a lot of those key inputs? And two, what are you seeing in terms of the input cost side?

J. Mitchell Dolloff
CEO, President & Director

Yes. Another great question. Tyson, do you want to take that one?

J. Tyson Hagale
Senior VP & President of Bedding Products Segment

Yes, Susan. So from a supply standpoint at this point, things are good. We've gotten hesitant to say all clear and never a problem, but we've really been in a stable place in terms of the supply chain there for a while and feel good about it. And we've taken some actions even beyond just our typical market supply that gives us some options to give us back up and insurance with storage tanks and things that would allow us to stay covered even if there was a short-term supply constraint.

In terms of pricing, you're right, energy costs have had an impact, but we feel like where prices have been or our costs. They've been relatively stable. And so I think as demand overall in the chemical market has softened, the energy costs have probably kept some of the pricing more stable. But it's similar to some other things we've seen. We haven't seen an increasing trend overall with chemical prices that have been more stable.

Susan Marie Maklari

Goldman Sachs Group, Inc., Research Division

Okay. Okay. That's helpful. I'm going to squeeze one more in here. And maybe this one is more for Jeff. I'd be remiss if I didn't mention the $35 million of buybacks that you did this quarter, can you talk a little bit about what drove that decision? How you're thinking about the willingness to continue to buy back the stock going forward? And perhaps with that, anything that you'd like to share with us in terms of a target for leverage or just the overall sort of capital structure of the business?

Jeffrey L. Tate
Executive VP & CFO

Great. Susan, and thank you for noticing the $35 million of repurchases there. I think it's important to start with the tremendous progress that the team has made around our deleveraging efforts over the past few years since the ECS acquisition, because I think that really has positioned us well as we think about our overall capital allocation strategy. Our priorities still remain funding organic growth, maintaining the flexibility around our strategic growth opportunities around M&A and supporting our dividend.

But as we've made that deleveraging progress, we well positioned ourselves now to be more active from a share repurchase perspective. And we were much more aggressive in the second quarter because of where we saw our share price during the period. But if you look year-to-date, we've repurchased 1.6 million shares and allocate about $57 million in that regard.

As we look towards the future, Susan, we're going to continue to evaluate our share repurchases in the context of our other investment opportunities, while at the same time, monitoring our cash flow from operations. So it's one of those things we'll evaluate each and every quarter and compare it to our other opportunities that we have as we think about investments.

In terms of your second question around our leverage target, I think it's important there to think about the view that we have around an ideal target range for net debt to EBITDA, which for us is to maintain a capital structure that we feel that allows us to do a couple of things. One is to pursue strategic growth opportunities. Another is around returning cash to our shareholders. And then thirdly, ensuring that we can maintain a solid investment-grade profile.

If you rewind back to 2019 at the time of the ECS acquisition, that was the last time we stated publicly a target from a leverage standpoint of 2.5x on a total debt basis to EBITDA. Fast forward to May of 2020, we amended our covenant in our revolving credit facility to go from a total debt to a net debt metric. And then in September of '21, we successfully amended our facility again and retained the net debt covenant as well from a metric standpoint with a maximum leverage of 3.5x.

Now we haven't formally updated what we feel is a leverage target moving forward. But it's safe to assume, Susan, that it will be something below -- well below a net debt of 2.5x basis.

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

Okay. Great. I appreciate all the color today and good luck with the second half.

Operator

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

Susan R. McCoy
Senior Vice President of Investor Relations

Thank you for joining us today. We'll speak to you again on November 1 when we report third quarter results. As always, if you have questions, please contact us using the information in yesterday's press release. Hope everybody has a good day. Thanks.

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