

# Company Update

## March 2017



LEG (NYSE)  
[www.leggett.com](http://www.leggett.com)

*Leggett & Platt*  
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## Forward Looking Statements

Statements in this presentation that are not historical in nature are “forward-looking.” These statements involve uncertainties and risks, including the company’s ability to achieve its longer-term operating targets and generate average annual TSR of 11%-14%, price and product competition from foreign and domestic competitors, the amount of share repurchases, changes in demand for the company’s products, cost and availability of raw materials and labor, fuel and energy costs, future growth of acquired companies, general economic conditions, possible goodwill or other asset impairment, foreign currency fluctuation, litigation risks, and other factors described in the company’s Form 10-K. Any forward-looking statement reflects only the company’s beliefs when the statement is made. Actual results could differ materially from expectations, and the company undertakes no duty to update these statements.

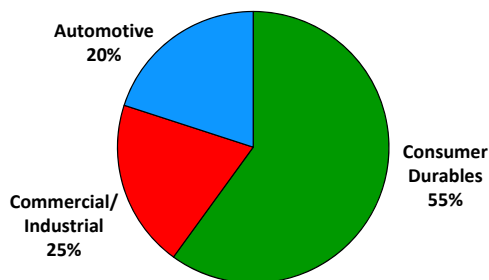
# TSR Focused Mid-Cap Manufacturer

- ❑ Targeting **Total Shareholder Return in top third** of S&P 500
- ❑ **~2.8%** dividend **yield**; 46 consecutive annual increases
- ❑ **Strong** balance sheet and cash flow
- ❑ **Leader** in most markets; few/no large competitors
- ❑ Poised for **continued growth**
  - Internal initiatives + market growth + bolt-on acquisitions
- ❑ Management has **“skin in the game”**
  - Significant stock owners; forego comp in exchange for shares
  - Incentive comp aligned with TSR focus

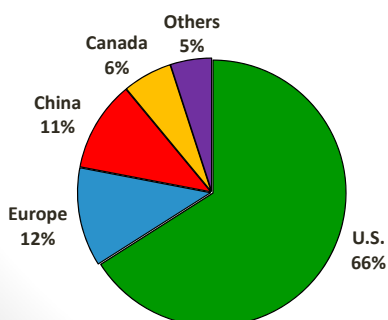
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## Our Markets

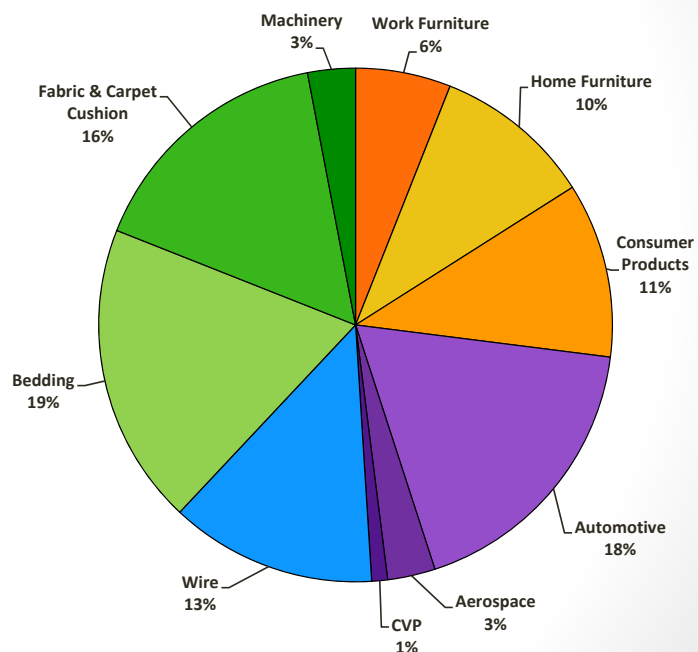
Macro Market Exposure



Geographic Split  
(based on production)



Product Mix  
% of 2017 est. total sales



4 segments; 10 groups  
(Chart organized on 2017 segment structure)

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# Strategy

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## TSR in Top Third of S&P 500

### Sources of TSR: Growth, Margin Improvement, Dividend Yield, and Share Buybacks

$$\text{Total Shareholder Return} = (\Delta \text{ Stock Price} + \text{Dividends}) / \text{Initial Price}$$

**Revenue Growth Target:** 6-9% annually

**Margin Improvement:** Growth in attractive markets, product development, cost savings, efficiency impr.

**Dividend Payout Target:** 50-60% of earnings

**Excess Cash Use:** Stock Buyback

# TSR Performance

	3-year CAGR				
	<u>12-15</u>	<u>13-16</u>	<u>14-17<sup>2</sup></u>	<u>16-19e<sup>4</sup></u>	<u>Target</u>
Revenue Change	5	3	2	8	6-9
<i>ex divestitures/deflation/currency</i>	7	7	6		
Margin Change	11	12	9	1	1
Change in Multiple	(2)	--	(5)	--	--
Dividend Yield	4	3	3	3	3
Stock Buyback	<u>2</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>
<b>Annual TSR</b>	<b>20</b>	<b>20</b>	<b>10</b>	<b>13</b>	<b>11-14</b>
<b>% Rank in S&amp;P 500<sup>1</sup></b>	<b>31%</b>	<b>11%</b>	<b>44%<sup>3</sup></b>		

<sup>1</sup> 1% is best.

<sup>2</sup> TSR estimate based on mid-point of 2017 guidance and assumes a \$52 year-end share price.

<sup>3</sup> Relative TSR performance through February 2017.

<sup>4</sup> TSR estimate based on 2019 operating targets.

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## Growth Framework

- ❑ Targeting 6-9% average annual revenue growth; organic + acquisition
- ❑ Three avenues of growth:
  1. **Recent Growth Sources** should continue for next few years
  2. Implementing a **Growth Identification Process** → to generate profitable growth initiatives in current markets
  3. Assessing our **Styles of Competition** → to identify longer-term opportunities in new attractive markets

**Enhancing framework for consistent, disciplined  
long-term profitable growth**

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# 1. Recent Growth Sources

- ❑ Organic growth from market growth + **Other Sources**
  - Unit volume +6% in 2014 & 2015; +2% in 2016
  - Guiding mid-single-digit unit growth in 2017
- ❑ **Other Sources** include:
  - Content gains in Automotive and Bedding
  - New programs in Adjustable Bed
- ❑ Program awards, customer focus, consumer preference trends provide visibility for next few years
- ❑ Acquisitions should also contribute to growth
  - Averaged ~2% acquisition growth over past 3 years

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# 2. Growth Identification Process

- ❑ Implementing **Growth Toolkit** to generate profitable growth initiatives in current markets
- ❑ Toolkit framework:
  1. Understand where we are starting and define attractive spaces for growth
  2. Identify specific opportunities within spaces of interest and prioritize based on value creation
  3. Determine action plans, including both **Organic** and **Acquisition** initiatives

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### 3. Styles of Competition

- ❑ Defines and measures **“fit”** based on fundamentals of where and how we currently compete
- ❑ Lens used longer term to identify, screen, and pursue opportunities across **more diverse spaces**
- ❑ Helps guide growth process in current markets
- ❑ Leggett’s predominant style is **Critical Components**
  - ~60% of sales; typically higher margins/returns
  - Majority of recent sales growth

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### Acquisition Criteria Unchanged

- ❑ Strategy: clear strategic rationale; sustainable competitive advantage; strong **“fit”** with L&P
- ❑ Financials: TSR accretive; IRR > 10%
- ❑ **New Platforms**: revenue > \$50m; strong management; subsequent growth opportunity
  - Mkt size > \$250m; growing > GDP
  - Industry EBIT margin approximates Leggett’s average
- ❑ **Add-on** businesses: revenue > \$15m; significant synergy; strategic fit in an existing BU

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# Sources of Margin Improvement

- ❑ Incremental **unit volume**
  - **25-35%** contribution margin in businesses with spare capacity
- ❑ **Portfolio management**
  - Continue to invest in our attractive businesses
  - Improve or exit low-margin operations
- ❑ **New products** with higher margins
- ❑ **Continuous improvement**
  - Management tools
  - Cost reduction, efficiency, etc.

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# Priorities for Use of Cash

1. Fund capital expenditures
  - Support organic growth in attractive businesses
2. Increase dividends
  - **46 year history** of dividend increases
    - Member of S&P Dividend Aristocrats
3. Fund selective growth (acquisitions, new growth platforms)
4. Excess cash (if any) used to repurchase stock

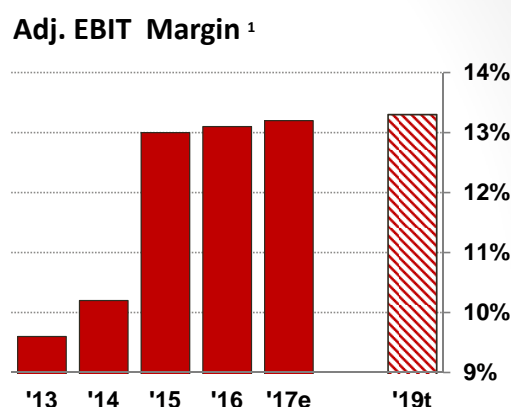
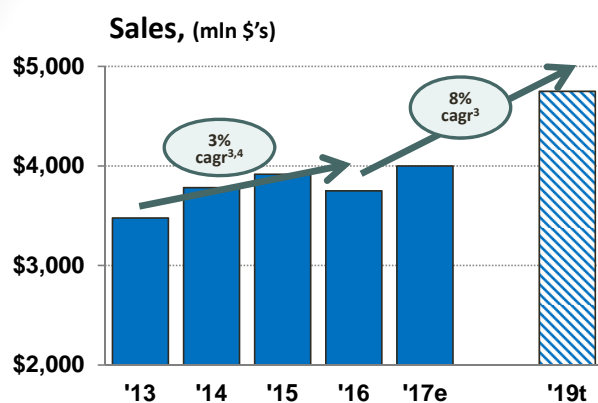
**Operating Cash has exceeded Dividends &  
Capital Expenditures every year for over 25 years**

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# 3-Year Targets and Capital Structure

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## 2019 Operating Targets



### □ Sales growth assumptions through 2019:

- Macro environment should support reasonable strength in market demand
- Sales should continue to benefit from content gains and new program awards
- Organic sales growth should be augmented by strategic acquisitions
- No significant impact from deflation, currency, or divestitures

<sup>1</sup> Amounts are from continuing operations and exclude unusual items. See appendix for non-GAAP reconciliations.

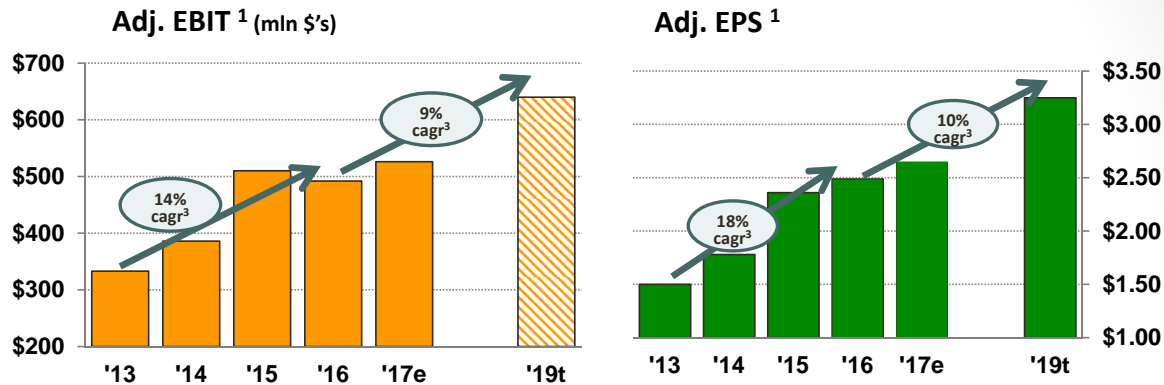
<sup>2</sup> 2017 estimates based on mid-point of guidance.

<sup>3</sup> CAGRs are 3-year.

<sup>4</sup> 7% growth from unit volume + acquisitions, offset 4% by divestitures, commodity deflation, and currency.



# 2019 Operating Targets



- 2019 EBIT is based on sales and margin targets
- 2019 EPS also assumes slight annual reduction in outstanding shares; no significant change in tax rate; slight increase in interest expense

<sup>1</sup> Amounts are from continuing operations and exclude unusual items. See appendix for non-GAAP reconciliations.

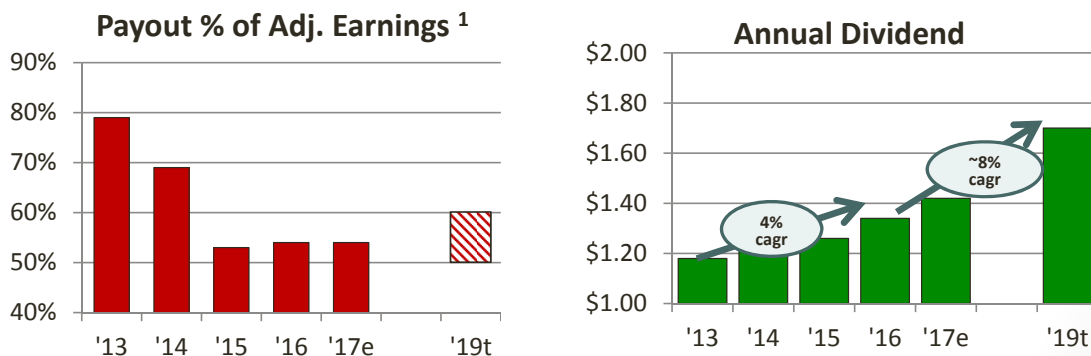
<sup>2</sup> 2017 estimates based on mid-point of guidance.

<sup>3</sup> CAGRs are 3-year.

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## Dividend Growth

- Dividend payout target is **50-60% of earnings**
- With recent earnings growth, now in payout target range
- Future dividend growth should approx earnings growth



<sup>1</sup> Earnings from continuing ops exclude unusual items. See appendix for non-GAAP reconciliations.

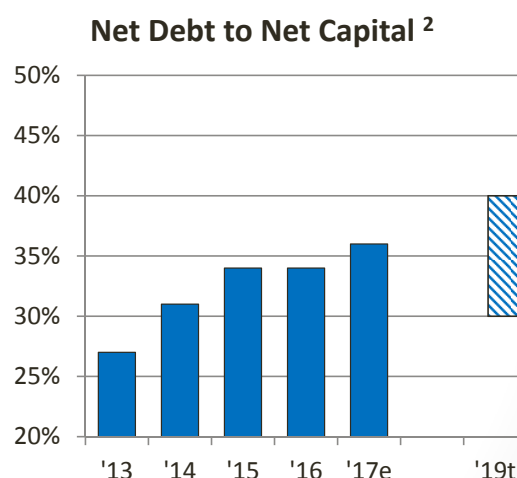
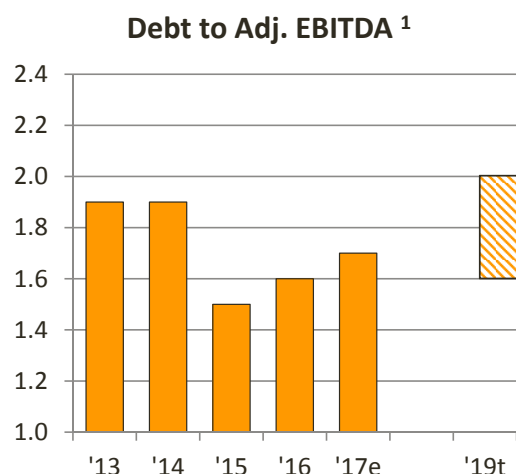
<sup>2</sup> 2017 estimates based on mid-point of guidance.

<sup>3</sup> 2019 dividend target based on combination of EPS target and target payout range.

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# Strong Balance Sheet

- Maintaining long-held priority on financial strength
- Flexibility to capture attractive investment opportunities



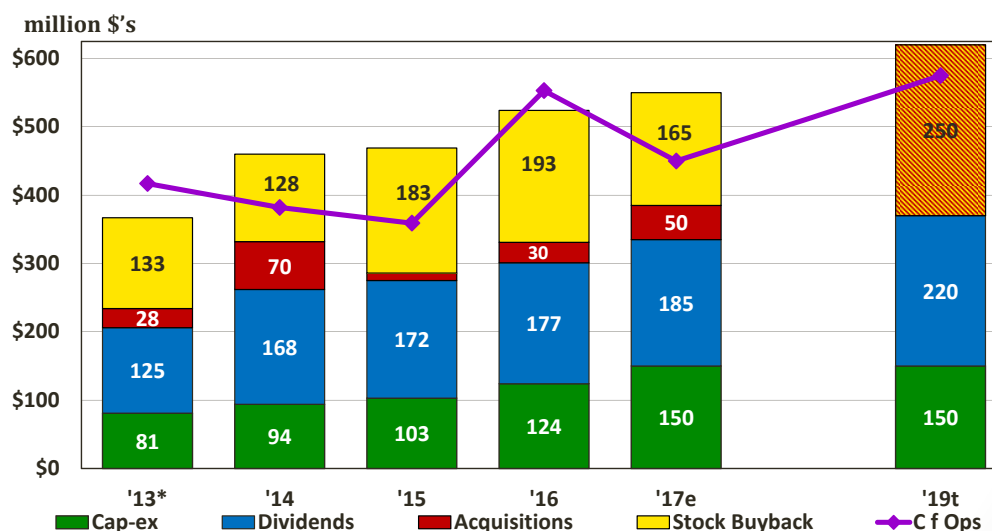
<sup>1</sup> EBITDA from continuing ops exclude unusual items. See appendix for non-GAAP reconciliations.

<sup>2</sup> See appendix for calculation of Net Debt to Net Capital.

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# Operating Cash & Uses

- Continued strong cash from operations
- Cash use consistent with stated priorities



\* 3 qtr dividends paid in 2013; accelerated the Jan-2013 dividend payment of \$41 million into Dec 2012 in anticipation of higher tax rates.

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# Current Topics



## 2016 Highlights

- ❑ Record adj. EPS<sup>1</sup> from cont. ops. of \$2.49, up 6% vs. 2015
- ❑ Sales from cont. ops. of \$3.75 billion, down 4% vs. 2015
  - Unit volume and acquisitions added 3% but were offset by divestitures, raw material deflation, and currency impact
- ❑ Adj. EBIT<sup>1</sup> margin up 10 bps, to 13.1%, vs. 13.0% in 2015
- ❑ Cash from operations was \$553 million
- ❑ Dividend payout of 54%; comfortably within 50-60% target range
- ❑ Net debt to net capital at 34% (target is 30-40%)
  - Debt to TTM EBITDA of 1.6x

<sup>1</sup> See appendix for non-GAAP reconciliations.

# 2017 Guidance (Issued 1/30/17; not updated since)

- ❑ **Continuing Ops** EPS of \$2.55-\$2.75
- ❑ Sales of \$3.95-\$4.05 billion
  - 5-8% growth versus 2016
  - Assumes mid-single-digit unit volume growth; commodity inflation should also add to sales growth
- ❑ Implied EBIT margin of 12.8% to 13.5%
- ❑ Operating cash should exceed \$450 million
- ❑ Cap-ex of ~\$150 million
- ❑ Tax rate of ~26%
- ❑ Diluted shares of ~138 million

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## Macro Indicators

- ❑ **Consumer confidence**
  - More crucial than home sales since majority (~2/3rds) of bedding/furniture purchases are replacement of existing product
  - “Large ticket” purchases that are deferrable
- ❑ Total **housing** turnover
  - Combination of **new and existing** home sales
- ❑ Employment levels
- ❑ Consumer discretionary income
- ❑ Interest rate levels

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# Key Take-Aways

- ❑ **TSR in top-third of S&P 500** remains key financial goal
- ❑ Enhancing framework for **profitable growth**
- ❑ Maintaining vigilant **capital discipline**
- ❑ **Dividend growth** remains a top priority
- ❑ **Excess cash** used for **stock buybacks**

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## FOR ADDITIONAL INFORMATION

ticker: LEG (NYSE)  
website: [www.leggett.com](http://www.leggett.com)  
email: [invest@leggett.com](mailto:invest@leggett.com)  
phone: (417) 358-8131

Find our Fact Book at [www.leggett.com](http://www.leggett.com).

Susan McCoy  
Wendy Watson  
Dave DeSonier

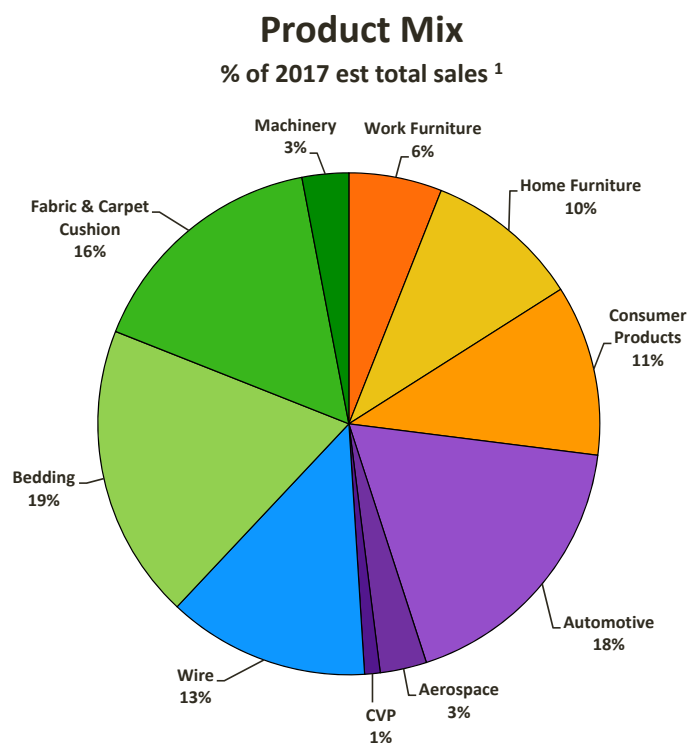
VP, Investor Relations  
Director, Investor Relations  
Sr VP, Corporate Strategy & IR

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# ADDITIONAL INFORMATION

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## Product Mix

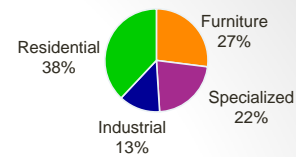


**4 segments; 10 groups; 17 business units**

<sup>1</sup> Segment structure changed effective January 1, 2017. Chart reflects revised structure.

# Segments

% of 2017 est total sales<sup>1</sup>



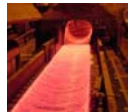
## Residential Products

- Bedding
  - Mattress springs
  - Foundations
- Fabric & Carpet Cushion
  - Textile converting
  - Carpet cushion
  - Geo components
- Machinery
  - Quilting and sewing machinery for bedding mfg.



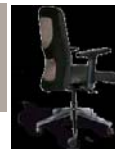
## Industrial Products

- Wire
  - Drawn steel wire
  - Steel rod
  - Wire products
  - Transportation



## Furniture Products

- Work Furniture
  - Chair controls, bases, frames
  - Private-label finished seating
- Home Furniture
  - Recliner mechanisms
  - Seating and sofa sleeper components
- Consumer Products
  - Adjustable beds
  - Fashion beds
  - Bed frames



## Specialized Products

- Automotive
  - Auto seat support and lumbar systems
  - Motors, actuators & cables
- Aerospace
  - Tubing
  - Fabricated tube components
- Commercial Vehicle Products
  - Service van interiors



<sup>1</sup>Segment structure changed effective January 1, 2017. Chart reflects revised structure.

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# Customers Include

## In North America:

Aaron's	Corsicana	Lowe's	Serta
Adient (JCI)	Haworth	Magna	Simmons
Airbus	Herman Miller	Mattress Firm	Steelcase
Ashley Furniture	HNI	Overhead Door	Tempur Sealy
Best Home Furniture	La-Z-Boy	Rooms-to-Go	Toyota Boshoku
Berkshire Hathaway	Lear	Sanyo	Walmart
Boeing	Lincoln Electric	Select Comfort	Wayfair

## In Europe and Asia:

Hilding Anders	Steinhoff	Hay	Dauphin
Silentnight Beds	Eurasia	Howe	Profim
Dreams	Kuka	Fritz Hansen	Faurecia
Nestledown	Natuzzi	Himolla	Volkswagen

**Diverse Customer Base – Low Concentration**

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# Cost Structure

## Cost of Goods Sold composition (approximate):

- ❑ 55% Materials, composed of:
  - Steel ~25% of RMs
  - Woven & non-woven fabrics ~15% of RMs
  - Foam scrap, fibers, chemicals ~10% of RMs
  - Titanium, nickel, stainless ~2% of RMs
  - Others, including sub-assemblies, hardware, components, finished products purchased for resale, etc. ~50% of RMs
- ❑ 20% Labor (includes all burden and overhead)
- ❑ 25% Other, composed of:
  - Depreciation, utilities, maintenance, supplies -- each ~3% of COGS
  - Shipping/transportation ~10% of COGS
  - Other also includes rent, insurance, property tax, etc.
- ❑ Costs are roughly 75% variable, 25% fixed
- ❑ \$100 million of incremental unit volume (produced utilizing spare capacity) yields ~\$25-\$35 million of additional EBIT

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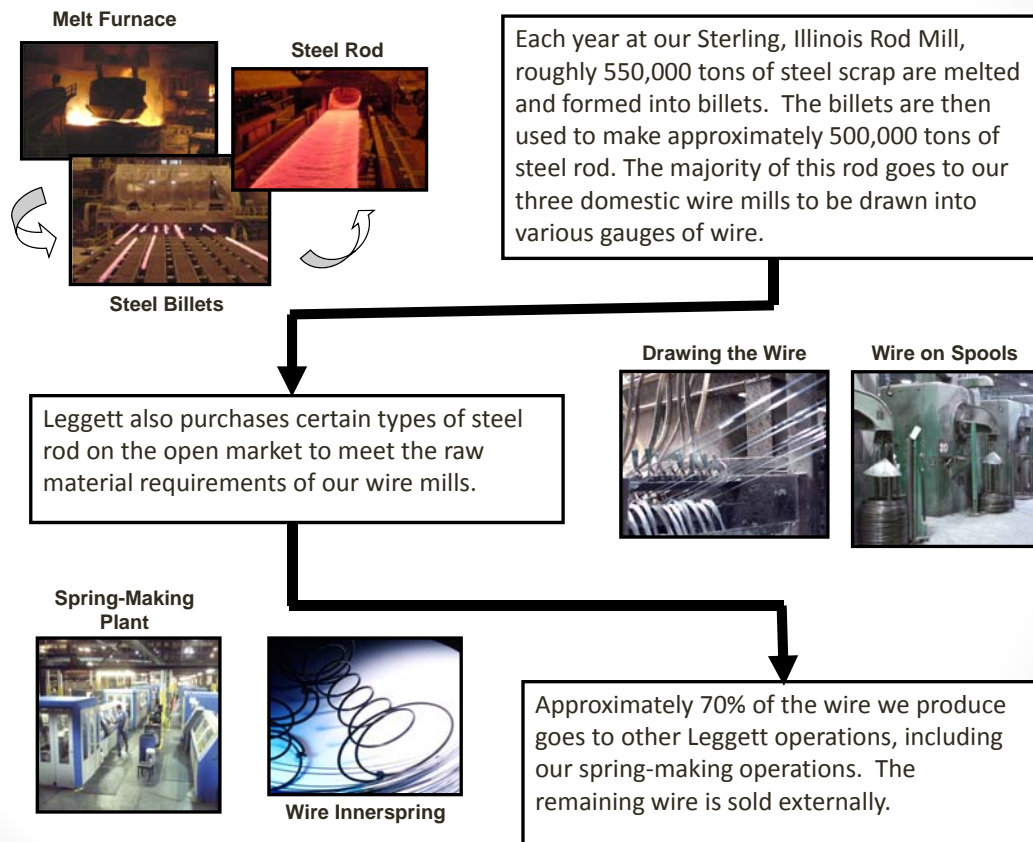
# Commodity Impact

- ❑ Primary commodity exposure is steel; ~25% of RM's
- ❑ Main categories are scrap, rod, and flat-rolled
  - Many grades of scrap, market data is generally available
  - Limited credible data to track moves in other types of steel
- ❑ Impact from inflation/deflation
  - Typically pass through and maintain/improve margin; lag is ~90 days
  - Majority of our customer pricing is negotiated vs contractual
  - Residential & Industrial segments are most impacted by steel
- ❑ LIFO accelerates inflation/deflation into COGS
- ❑ Changes in metal margin (mkt price for rod - mkt price for scrap) also impact earnings
  - Our scrap cost and rod pricing moves with the market; large swings cause Industrial segment earnings volatility

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# Vertical Integration in Steel



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## Strong Peer Group

### Diversified Manufacturers

w/ Ticker & Fortune 1000 Ranking (May 2016)

Leggett Ranking = 601

<b>CSL</b>	<b>Carlisle</b>	<b>639</b>	<b>ITW</b>	<b>Illinois Tool Works</b>	<b>211</b>
<b>DHR</b>	<b>Danaher</b>	<b>133</b>	<b>IR</b>	<b>Ingersoll Rand</b>	<b>n/a</b>
<b>DOV</b>	<b>Dover</b>	<b>377</b>	<b>MAS</b>	<b>Masco</b>	<b>345</b>
<b>ETN</b>	<b>Eaton Corp</b>	<b>n/a</b>	<b>PNR</b>	<b>Pentair</b>	<b>n/a</b>
<b>EMR</b>	<b>Emerson</b>	<b>128</b>	<b>PPG</b>	<b>PPG Industries</b>	<b>182</b>

### Characteristics of the Group

Multiple Business Segments  
 Sell Mainly to Other Manufacturers  
 Low Customer Concentration  
 Stamp, Cast, & Machine Materials  
 Moderate Labor & Capital Intensity

Primarily Manufacturers  
 In "Old Economy" Markets  
 Complex; Hard to Grasp  
 Old, Established Firms  
 Diverse Products

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- ❑ 7 Non-Management Directors (out of 9 total)
- ❑ Only Non-Mgmt Directors on Key Board Committees

## Non-Mgmt

		<u>Age</u>	<u>Joined</u>	<u>Position</u>	<u>Firm</u>
Robert Brunner	✧	59	2009	Retired EVP	ITW
Robert Culp	✧ ✧	70	2013	Chairman	Culp, Inc.
R. Ted Enloe †	✧ ✧ ✧	78	1969	Managing Partner	Balquita Partners
Manuel Fernandez	✧ ✧	70	2014	Managing Director	SI Ventures
Joe McClanathan	✧ ✧ ✧	64	2005	Retired President & CEO	Energizer Household Products
Judy Odom	✧ ✧ ✧	64	2002	Retired Chmn, CEO	Software Spectrum
Phoebe Wood	✧ ✧	63	2005	Principal	CompaniesWood

## Management

Karl Glassman	58	2002	President & CEO	Leggett & Platt
Matthew Flanigan	55	2010	EVP & CFO	Leggett & Platt

† Independent Board Chair

Committees: ✧ Audit ✧ Compensation ✧ Nominating & Corporate Governance

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# Compensation Rewards Strong Performance

- ❑ Annual Incentive
  - Based on current year **ROCE, free cash flow**, and individual goals
- ❑ Profitable Growth Incentive
  - Based on **revenue growth & EBITDA margin** over a 2-year period
  - Replaced annual option grants for **execs** beginning 2013
- ❑ Performance Stock Units
  - Based on 3-year **relative TSR performance** (vs. peer group of ~320 companies)
  - Initiated in 2008 to align with change in strategy
  - Payout based on sliding scale; significant portion of total comp for top execs
- ❑ Deferred Comp Program
  - Opportunity (in December) to **forego** a portion of next year's cash salary and bonus to **buy** stock units

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# STRATEGY

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## Strategic Shift Outlined in 2007

### What We Said:

**Goal = TSR in top third of S&P 500**

**Sources: Growth, Margin Improvement,  
Dividend Yield, and Share Buybacks**

#### **3 STEPS:**

- 1. FOCUS** by divesting low performing businesses
- 2. IMPROVE** margins & returns on assets we keep
- 3. GROW** revenue, long-term, at 4-5% annually

- ❑ Successfully executed **“Focus”** and **“Improve”**
- ❑ Now turning more attention to **Growth**

# TSR Targets & Performance

## 3-year CAGR

	<b>07-16 Target</b>	<b>12-15 Actual</b>	<b>13-16 Actual</b>	<b>Revised Target</b>
Revenue Change <i>ex divest/deflation/currency</i>	4-5	5 7	3 7	6-9
Margin Change	2-3	11	12	1
Change in Multiple	--	(2)	--	--
Dividend Yield	3-4	4	3	3
Stock Buyback	<u>2-4</u>	<u>2</u>	<u>2</u>	<u>1</u>
<b>Annual TSR</b>	<b>12-15</b>	<b>20</b>	<b>20</b>	<b>11-14</b>
<b>% Rank in S&amp;P 500 <sup>1</sup></b>		<b>31%</b>	<b>11%</b>	

<sup>1</sup> Goal is top-third of S&P 500. 1% is best.

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# Role-Based Portfolio Management

- ❑ Strategic Planning Process
  - Assess market attractiveness and Leggett's advantages
  - 3-year plan to achieve  $\geq 10\%$  TBR/year
  - Used to determine portfolio role
- ❑ Place each BU into Portfolio Role
  - Grow, core, fix, or divest
  - Different goals for each
    - Grow: profitable **Growth**
    - Core: maximize **Cash**
    - Fix: rapidly **Improve**
  - Allocate capital based on role

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# Criteria for Role Assignments

	<u>GROW</u>	<u>CORE</u>	<u>FIX / DIVEST</u>
1. COMPETITIVE POSITION	Advantaged	Solid, Stable	Tenuous or Disadvantaged
2. MARKET ATTRACTIVE?	Strong, Growing	Attractive, But With Lower Growth Potential	Poor Or Declining
3. FIT w/ LEGGETT	Strong	Strong	Limited
4. RETURN (ROGI)	Consistently > 12%	Stable, 9-12%	Erratic or < WACC
5. BU SIZE & MATERIALITY	Large, Significant	Large, Significant	Inconsequential, Distracting

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## Expectations by Portfolio Role

❑ All: Credible Path to  $\geq 10\%$  TBR Required, else Exit

❑ Grow: Provide Profitable **Growth**; Return > WACC

- Invest capital in competitively advantaged positions
- Identify major organic, M&A, or rollup investments

❑ Core: **Generate Cash**; Return  $\geq$  WACC

- Maintain stable, competitive positions to generate cash
- Aggressively improve EBITDA and free cash flow
- Profitably grow market share, but with minimal capex
- Enhance productivity; reduce costs, overhead, working capital

❑ Fix: **Rapidly** Restructure, else Exit

- Limited time to achieve return  $\geq$  WACC, else divest / liquidate

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# Critical Components Style Defined

		Dimension	Characteristic
Where we compete	Product / service / Solution	1. Role in value chain	<b>Translate RM or components</b> into critical component
		2. Functional role	<b>Functionally essential</b> to end product
		3. % of finished COGS	<b>&lt;25%</b> of finished COGS
	Industry Structure	4. Customer set	Concentrated in <b>few large customers</b>
		5. Competitive set	<b>Small private</b> companies w/ single focus
	Econ-omics	6. Gross margin	Earns <b>attractive returns</b> at ~20-30% GM
		7. Asset intensity	<b>Light manufacturing</b> ~2x asset turns
How we compete		8. Deep customer engagements	<b>Deep understanding of customer</b> design, production pain points, long-term relationships
		9. Collaborative design	<b>Co-design</b> products/components for <b>better functionality</b> and lower total cost
		10. Flexible mfg	<b>Long-run SKUs</b> that can be adjusted to deliver <b>custom specs</b> w/minimal additional capital
		11. Continuous cost improvement	<b>Continuous cost improvement</b> throughout life of long run-length SKUs

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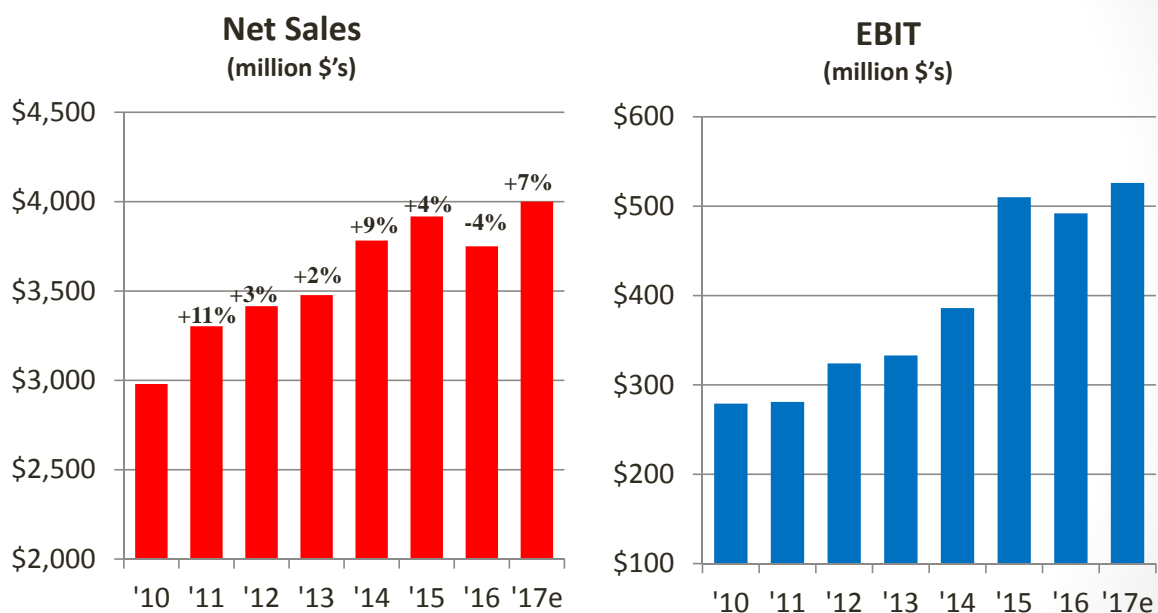
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# FINANCIAL INFORMATION

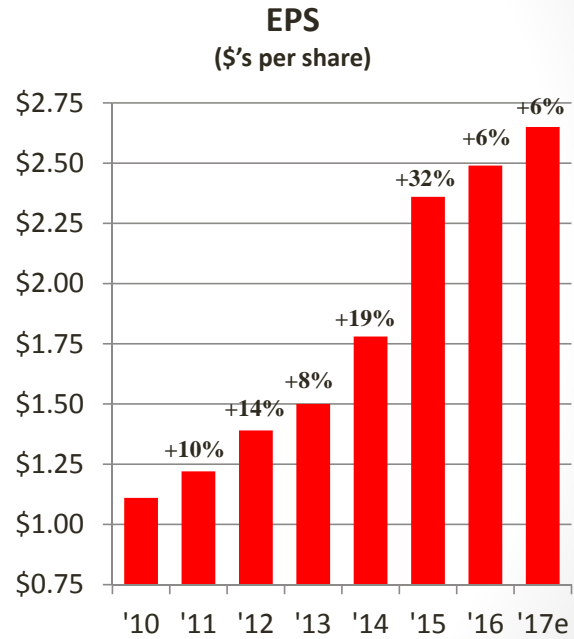
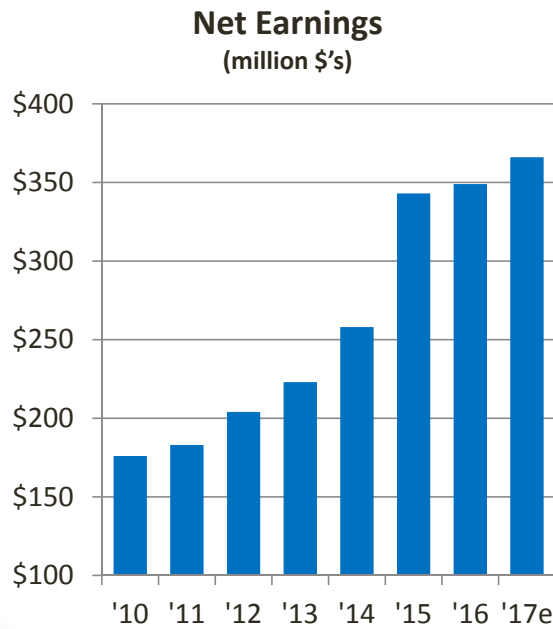
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## Sales and EBIT



- Amounts are from continuing operations and exclude unusual items. See appendix for non-GAAP recon.
- 2017 estimates are based on mid-point of guidance.

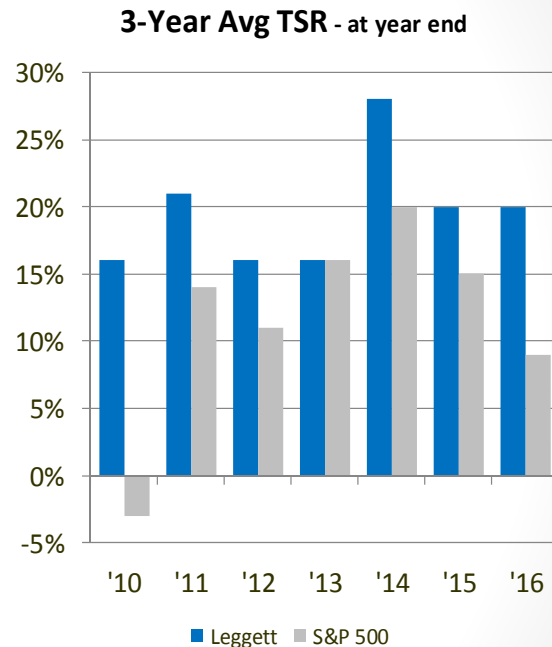
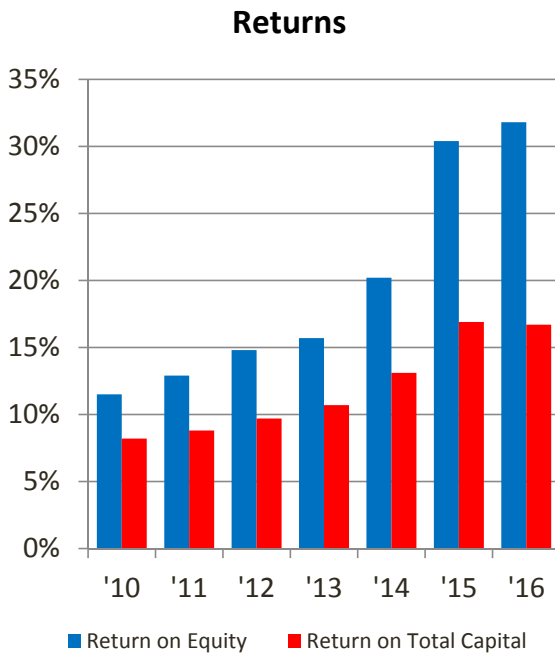
# Net Earnings and EPS



- Amounts are from continuing operations and exclude unusual items. See appendix for non-GAAP recon.
- 2017 estimates are based on mid-point of guidance.

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# Returns and TSR

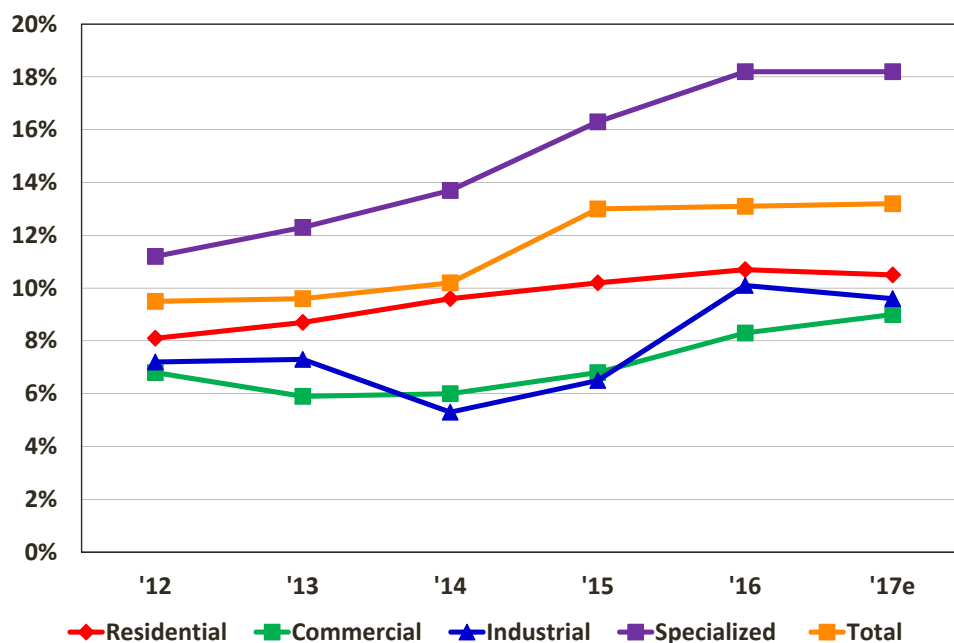


- See appendix for return calculations.
- TSR assuming dividends continually reinvested.

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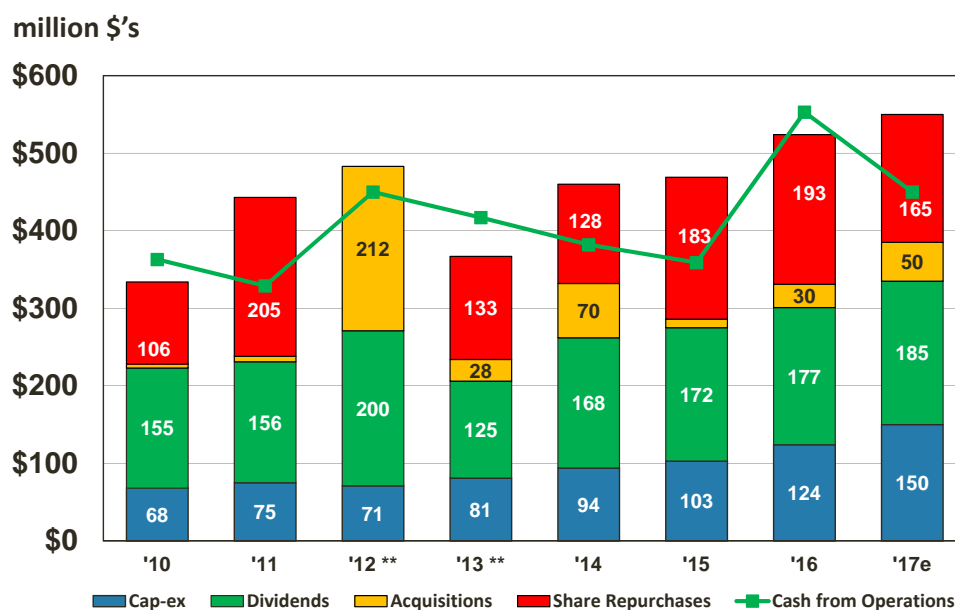
# Segment EBIT Margins



- Amounts exclude unusual items.
- 2017 estimates are based on mid-point of guidance.

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# Uses of Cash Flow



\*\* 3 qtr dividends paid in 2013; accelerated the Jan-2013 dividend payment of \$41 million into Dec 2012 in anticipation of higher tax rates.

Operating Cash > Capital expenditures + Dividends for over 25 years

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# Cash Flow Details

<u>\$'s in millions</u>	<u>'10</u>	<u>'11</u>	<u>'12</u>	<u>'13</u>	<u>'14</u>	<u>'15</u>	<u>'16</u>	<u>'17e<sup>1</sup></u>
Net Income	183	156	251	200	101	329	386	365
Deprec & Amort	123	117	116	123	118	113	115	115
Def Income Taxes	30	(1)	(22)	(33)	(40)	24	18	
Impairment & Other	22	54	17	83	124	19	(18)	
Working Capital	(17)	(14)	57	26	54	(171)	15	(60)
Other Non-Cash	<u>22</u>	<u>17</u>	<u>31</u>	<u>18</u>	<u>25</u>	<u>45</u>	<u>37</u>	<u>30</u>
<b>Cash from Operations</b>	<b>363</b>	<b>329</b>	<b>450</b>	<b>417</b>	<b>382</b>	<b>359</b>	<b>553</b>	<b>450</b>
<b>Uses of Cash</b>								
Capital Expenditures	(68)	(75)	(71)	(81)	(94)	(103)	(124)	(150)
Dividends **	(155)	(156)	(200)	(125)	(168)	(172)	(177)	(185)
Acquisitions	(5)	(7)	(212)	(28)	(70)	(11)	(30)	(50)
Share Repurchases	(106)	(205)	6	(133)	(128)	(183)	(193)	(165)

<sup>1</sup> 2017 estimated net income is based on mid-point of guidance.

\*\* 5 qtr dividends paid in 2012 and 3 qtr dividends paid in 2013; accelerated the Jan-2013 dividend payment of \$41 million into Dec-2012 in anticipation of higher tax rates.

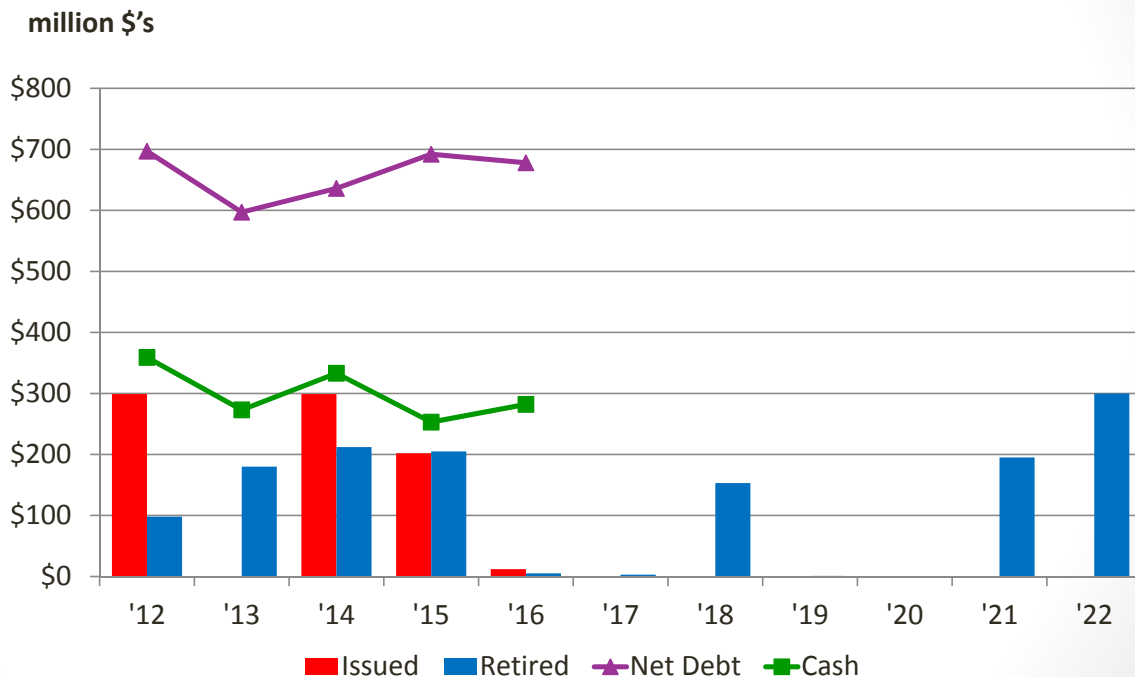
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## Debt Structure (at 12/31/16)

- ❑ \$960 million total debt
  - 3.7% avg. rate, 5.8 years avg. maturity
  - \$678 million net debt (\$960m debt less \$282m cash)
- ❑ \$554 million available commercial paper
  - Backed by \$750 million revolver
    - 14 participating banks
    - Matures in May 2021

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# Debt Issued and Retired



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## Financial Metrics Defined

### □ TSR: Total Shareholder Return

- Total benefit investor realizes from owning our stock
- $(\Delta \text{ stock price} + \text{dividends}) / \text{initial stock price}$

### □ ROCE: Return on Capital Employed

- Drives ~60-70% of annual bonus at operating level & corporate
- $\text{EBIT} / (\text{working capital (ex cash \& current debt)} + \text{net PP\&E})$

### □ FCF: Free Cash Flow

- Drives ~20-30% of annual bonus at operating level and corporate
- $\text{EBITDA} - \text{capex} \pm \Delta \text{ working capital (ex cash \& current debt)}$

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# Appendix

## Non-GAAP Reconciliations



### Non-GAAP Adjustments, Continuing Ops

(\$ millions, except EPS)	2011	2012	2013	2014	2015	2016
<b>Non-GAAP Adjustments (\$'s)</b>						
Customer bankruptcy	-	-	-	-	-	-
Divestiture note write-down	-	-	-	-	-	-
Restructuring-related charges	15	-	-	-	-	-
Impairment charges	-	-	67	-	6	4
Litigation accruals	-	-	-	54	6	-
Acq-related bargain purchase gain	-	-	(9)	-	-	-
Pension lump-sum buyout charge	-	-	-	-	12	-
Gain from sale of business	-	-	-	-	-	(27)
Litigation settlement gain	-	-	-	-	-	(7)
<b>Non-GAAP adjustments (pre-tax \$'s)</b>	<b>15</b>	<b>-</b>	<b>58</b>	<b>54</b>	<b>23</b>	<b>(30)</b>
Income tax impact	(5)	-	(21)	(21)	(9)	12
Unusual tax items	-	(27)	-	-	-	-
<b>Non-GAAP adjustments (after tax \$'s)</b>	<b>10</b>	<b>(27)</b>	<b>37</b>	<b>33</b>	<b>15</b>	<b>(18)</b>
Diluted shares outstanding	147.0	146.0	147.2	143.2	142.9	140.0
<b>EPS impact of non-GAAP adjustments</b>	<b>\$ .07</b>	<b>\$ (.18)</b>	<b>\$ .25</b>	<b>\$ .23</b>	<b>\$ .09</b>	<b>\$ (.13)</b>

# Reconciliation of Adj EBIT, Adj EBIT Margin, Adj Earnings, and Adj EPS

(\$ millions, except EPS)	2010	2011	2012	2013	2014	2015	2016
EBIT (continuing operations)	\$279	\$266	\$324	\$275	\$332	\$487	\$522
Non-GAAP adjustments, pre-tax <sup>1</sup>	-	15	-	58	54	23	(30)
<b>Adjusted EBIT (cont. operations)</b>	<b>\$279</b>	<b>\$281</b>	<b>\$324</b>	<b>\$333</b>	<b>\$386</b>	<b>\$510</b>	<b>\$492</b>
Net sales	\$2,980	\$3,303	\$3,415	\$3,477	\$3,782	\$3,917	\$3,750
<b>Adjusted EBIT margin</b>	<b>9.4%</b>	<b>8.5%</b>	<b>9.5%</b>	<b>9.6%</b>	<b>10.2%</b>	<b>13.0%</b>	<b>13.1%</b>
Earnings from cont. operations	\$176	\$173	\$231	\$186	\$225	\$328	\$367
Non-GAAP adjustments, after tax <sup>1</sup>	-	10	(27)	37	33	15	(18)
<b>Adj Earnings from cont. operations</b>	<b>\$176</b>	<b>\$183</b>	<b>\$204</b>	<b>\$223</b>	<b>\$258</b>	<b>\$343</b>	<b>\$349</b>
Diluted EPS from cont. operations	\$1.11	\$1.15	\$1.57	\$1.25	\$1.55	\$2.27	\$2.62
EPS impact from non-GAAP adjs <sup>1</sup>	-	.07	(.18)	.25	.23	.09	(.13)
<b>Adjusted EPS from cont. operations</b>	<b>\$1.11</b>	<b>\$1.22</b>	<b>\$1.39</b>	<b>\$1.50</b>	<b>\$1.78</b>	<b>\$2.36</b>	<b>\$2.49</b>

<sup>1</sup> See slide 56 for adjustment details.

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# Calculation of Return on Equity and Return on Total Capital

(\$ millions)	2010	2011	2012	2013	2014	2015	2016
<b>Return on Equity</b>							
Earnings from cont. operations	\$176	\$173	\$231	\$186	\$225	\$328	\$367
Non-GAAP adjustments, after tax <sup>1</sup>	-	10	(27)	37	33	15	(18)
Adj earnings from cont. operations	\$176	\$183	\$204	\$223	\$258	\$343	\$349
Avg shareholder equity	\$1,530	\$1,416	\$1,375	\$1,421	\$1,277	\$1,126	\$1,096
<b>Adj. Return on Avg. Equity</b>	<b>11.5%</b>	<b>12.9%</b>	<b>14.8%</b>	<b>15.7%</b>	<b>20.2%</b>	<b>30.4%</b>	<b>31.8%</b>
<b>Return on Total Capital</b>							
Adj earnings from cont. operations	\$176	\$183	\$204	\$223	\$258	\$343	\$349
Plus: After-tax interest expense	27	28	31	34	31	30	30
	\$203	\$211	\$235	\$257	\$289	\$373	\$379
Avg total capital <sup>2</sup>	\$2,481	\$2,402	\$2,424	\$2,398	\$2,210	\$2,204	\$2,270
<b>Adj. Return on Avg. Total Capital</b>	<b>8.2%</b>	<b>8.8%</b>	<b>9.7%</b>	<b>10.7%</b>	<b>13.1%</b>	<b>16.9%</b>	<b>16.7%</b>

<sup>1</sup> See slide 56 for adjustment details.

<sup>2</sup> Total capital = long-term debt + shareholder equity + d. taxes + other LT liabilities

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# Calculation of Dividend Payout % of Adjusted EPS

	2013	2014	2015	2016	2017e <sup>2</sup>
<b>Diluted EPS from cont. operations</b>	<b>\$1.25</b>	<b>\$1.55</b>	<b>\$2.27</b>	<b>\$2.62</b>	<b>\$2.65</b>
EPS impact from non-GAAP adjs <sup>1</sup>	.25	.23	.09	(.13)	--
<b>Adjusted EPS from cont. operations</b>	<b>\$1.50</b>	<b>\$1.78</b>	<b>\$2.36</b>	<b>\$2.49</b>	<b>\$2.65</b>
<b>Annual dividend per share</b>	<b>\$1.18</b>	<b>\$1.22</b>	<b>\$1.26</b>	<b>\$1.34</b>	<b>\$1.42</b>
<b>Dividend payout % of diluted EPS from continuing operations</b>	<b>94%</b>	<b>79%</b>	<b>56%</b>	<b>51%</b>	<b>54%</b>
<b>Dividend payout % of adjusted EPS</b>	<b>79%</b>	<b>69%</b>	<b>53%</b>	<b>54%</b>	<b>54%</b>

<sup>1</sup> See slide 56 for adjustment details.

<sup>2</sup> 2017 estimates are based on mid-point of guidance.

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# Calculation of Debt to Adjusted EBITDA

(\$ millions)	2013	2014	2015	2016	2017e <sup>3</sup>
<b>EBIT (cont. operations)</b>	<b>\$275</b>	<b>\$332</b>	<b>\$487</b>	<b>\$522</b>	<b>\$525</b>
Non-GAAP adjustments, pre-tax <sup>1</sup>	58	54	23	(30)	--
<b>Adjusted EBIT (cont. operations)</b>	<b>333</b>	<b>386</b>	<b>510</b>	<b>492</b>	<b>525</b>
Depreciation and amortization <sup>2</sup>	116	118	113	115	115
<b>Adjusted EBITDA</b>	<b>\$449</b>	<b>\$504</b>	<b>\$623</b>	<b>\$607</b>	<b>\$640</b>
<b>Total Debt (long-term + current)</b>	<b>\$866</b>	<b>\$964</b>	<b>\$945</b>	<b>\$960</b>	<b>\$1,100</b>
<b>Debt to Adjusted EBITDA</b>	<b>1.9</b>	<b>1.9</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>

<sup>1</sup> See slide 56 for adjustment details.

<sup>2</sup> D&A is from continuing operations.

<sup>3</sup> 2017 estimates are based on mid-point of guidance.

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# Calculation of Net Debt to Net Capital

Net Debt (\$ millions)	2013	2014	2015	2016	2017e <sup>1</sup>
Current Maturities of Long-Term Debt	\$181	\$202	\$3	\$4	\$150
Long-Term Debt	685	762	942	956	950
<b>Total Debt</b>	<b>866</b>	<b>964</b>	<b>945</b>	<b>960</b>	<b>1,100</b>
<u>Less:</u>					
Cash and Cash Equivalents	(273)	(333)	(253)	(282)	(325)
<b>Net Debt</b>	<b>\$593</b>	<b>\$631</b>	<b>\$692</b>	<b>\$678</b>	<b>\$775</b>
Net Capital (\$ millions)	2013	2014	2015	2016	2017e <sup>1</sup>
Long-Term Debt	\$685	\$762	\$942	\$956	\$950
<u>Plus:</u>					
Deferred Income Taxes	63	42	38	54	55
Other Long-Term Liabilities	128	185	185	173	175
Total Equity	1,399	1,155	1,098	1,094	1,150
<b>Total Capital</b>	<b>2,275</b>	<b>2,144</b>	<b>2,263</b>	<b>2,277</b>	<b>2,330</b>
<u>Add:</u>					
Current Maturities of Long-Term Debt	181	202	3	4	150
<u>Less:</u>					
Cash and Cash Equivalents	(273)	(333)	(253)	(282)	(325)
<b>Net Capital</b>	<b>\$2,183</b>	<b>\$2,013</b>	<b>\$2,013</b>	<b>\$1,999</b>	<b>\$2,155</b>
<b>Long-term Debt to Total Capital</b>	<b>30%</b>	<b>36%</b>	<b>42%</b>	<b>42%</b>	<b>41%</b>
<b>Net Debt to Net Capital</b>	<b>27%</b>	<b>31%</b>	<b>34%</b>	<b>34%</b>	<b>36%</b>

<sup>1</sup> 2017 estimates are based on mid-point of guidance.

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## Non-GAAP Financial Measures

While we report financial results in accordance with accounting principles generally accepted in the U.S. ("GAAP"), this presentation includes non-GAAP measures. These include **adjusted EBIT**, **adjusted EBIT margin**, **adjusted earnings**, and **adjusted EPS**. We believe these non-GAAP measures are useful to investors in that they assist investors' understanding of underlying operational profitability. Management uses these non-GAAP measures as supplemental information to assess the company's operational performance.

Other non-GAAP measures included in this presentation are **net debt**, **net capital**, and **adjusted EBITDA**. We believe the presentation of net debt to net capital provides investors a useful way to evaluate the company's debt leverage if we were to use cash to pay down debt. Our cash has fluctuated, sometimes significantly, from period to period. We use this ratio as supplemental information to track leverage trends across time periods with variable levels of cash. Because we may not be able to use our cash to reduce our debt on a dollar-for-dollar basis, the net debt to net capital ratio may have material limitations.

We also believe the presentation of debt to adjusted EBITDA provides investors a useful way to assess the time it would take the Company to pay off all of its debt, ignoring various factors including interest and taxes. Management uses this ratio as supplemental information to assess its ability to pay off its incurred debt.

The above non-GAAP measures may not be comparable to similarly titled measures used by other companies and should not be considered a substitute for, or more meaningful than, their GAAP counterparts.

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