Leggett & Platt, Incorporated NYSE:LEG
FQ3 2022 Earnings Call Transcripts

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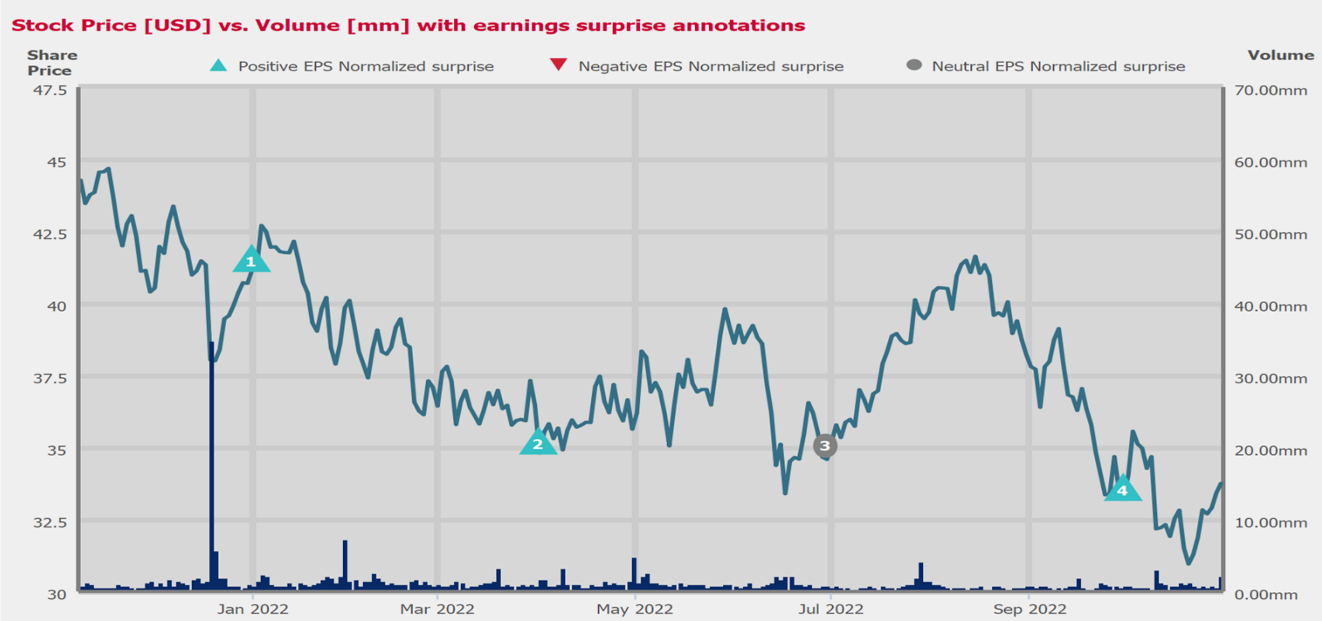
S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.50	0.52	▲4.00	0.52	2.37	NA
Revenue (mm)	1234.75	1294.40	▲4.83	1261.88	5153.15	NA

Currency: USD
Consensus as of Oct-12-2022 5:35 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	0.73	0.77	▲5.48 %
FQ1 2022	0.56	0.66	▲17.86 %
FQ2 2022	0.70	0.70	0.00 %
FQ3 2022	0.50	0.52	▲4.00 %

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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
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ANALYSTS

Keith Brian Hughes
Truist Securities, Inc., Research Division

Peter Jacob Keith
Piper Sandler & Co., Research Division

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

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

Presentation

Operator

Greetings, and welcome to the Leggett & Platt Third Quarter 2022 Webcast and Earnings Conference Call. [Operator Instructions] At this time, I will now introduce your host, Susan McCoy, Vice President of Investor Relations. Thank you. Ms. McCoy, you may now begin.

Susan R. McCoy
Senior Vice President of Investor Relations

Good morning, and thank you for taking part in Leggett & Platt's Third 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 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 IR.

The agenda for our call this morning is as follows: Mitch will start with a summary of the main points we made in yesterday's press release and discuss operating results and demand trends. Jeff will cover our financial details and address our outlook for the remainder of 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 in the sections in our most recent 10-K and subsequent 10-Q entitled Risk Factors and Forward-Looking Statements.

I'll now turn the call over to Mitch.

J. Mitchell Dolloff
CEO, President & Director

Good morning, and thank you for participating in our third quarter call. The current global economic environment and its impact on the consumer negatively impacted our third quarter results. Sales were $1.29 billion, EBIT was $113 million and earnings per share was $0.52.

Sales in the quarter were down 2% versus third quarter 2021, primarily from lower volume and currency impact, partially offset by raw material-related price increases. The volume decline was driven by continued demand softness in residential end markets, partially offset by growth in automotive and industrial end markets.

EBIT decreased 21% versus third quarter 2021, primarily from lower volume, lower overhead absorption from reduced production and operational inefficiencies in specialty foam, partially offset by metal margin expansion. Earnings per share decreased 27% versus third quarter 2021.

We lowered our full year guidance on October 10 to reflect lower demand levels in the increasingly challenging macroeconomic environment. Third quarter earnings per share were slightly better than expected, primarily due to incentive compensation adjustments. At the midpoint of guidance, fourth quarter is now expected to be slightly lower than the third quarter, primarily due to further reductions in steel rod production in response to the slowing steel market.

We completed 2 acquisitions in August and 1 in October. In late August, we acquired Pacoma Hydraulic Technology, a leading global manufacturer of hydraulic cylinders, primarily for the heavy construction equipment industry. With sales of approximately $65 million in 2021 and operations in Germany, China and the U.S., Pacoma is the next step in executing our strategy to pursue profitable growth in the engineered hydraulics component industry.

In August, we also acquired a small textiles business that converts and distributes construction fabrics for the furniture and bedding industries. In early October, we acquired a small Canadian-based distributor of products used for erosion control, storm water management and various other applications. We welcome the employees from all 3 businesses to Leggett & Platt.

Now moving on to the segments. Sales in our Bedding Products segment were down 12% versus third quarter of 2021. Volume declines from soft demand in U.S. and European bedding markets, along with currency impacts, were partially offset by raw material-related selling price increases and trade sales growth in our Steel Rod and Drawn Wire businesses. Demand in the U.S. bedding market was fairly stable versus second quarter, but remains at relatively weak levels as macroeconomic impacts on consumer spending persist.

Our Specialty Foam business has experienced larger demand impacts as a result of previous pandemic-related supply issues and channel-specific pressures. Demand in European bedding has declined more significantly amid geopolitical disruptions, the ensuing energy crisis and the related impact on consumer spending. Commodity costs have been more stable, although at historically high levels. Other manufacturing inputs, including energy costs, continue to increase. We are carefully managing these costs and the impact to our business and customers. We are reducing inventory across the segment to levels needed to support demand while maintaining focus on our ability to service customer requirements.

Sequential softening in trade demand for steel rod drove third quarter steel inventory levels higher. Given the bedding demand environment and the slowing steel market, we are cutting production days in our Steel Rod business during the fourth quarter to reduce those inventories. EBITDA margins in the segment were lower versus third quarter 2021, primarily from lower volume and lower overhead absorption as production levels were adjusted to meet reduced demand and operational inefficiencies in Specialty Foam, which are being addressed by continuing integration work. These decreases were partially offset by expanded metal margins in our Steel Rod business.

Sales in our Specialized Products segment increased 24% versus third quarter 2021 from strong volume growth in all 3 businesses, raw material-related price increases and to Pacoma acquisition in late August. These improvements were partially offset by currency impact.

While improving year-over-year, automotive industry production forecasts remain dynamic as supply chain and geopolitical impacts bring continued volatility. The current industry forecast for global production shows just over 5% growth in the major markets this year, reflecting relative strength in North America and China and weakness in Europe. Consumer demand remains strong, and vehicle inventories, while continuing to recover, still remain at record low levels. As supply chains continue to stabilize, industry production should further improve.

In our Aerospace business, demand also is improving. However, raw material and labor shortages are creating some volatility across the industry. End-market demand in hydraulic cylinders is strong, and order backlogs in both the material handling and heavy construction equipment market segments remain at elevated levels. Our OEM customers generally are seeing some improvement in production levels. However, elevated order backlogs are expected to remain into 2023.

While EBITDA margins decreased, EBITDA dollars increased primarily from higher volume, partially offset by currency impact, higher raw material cost and labor inefficiencies. Cost recovery is improving in automotive, but at a slower rate than expected.

Sales in our Furniture, Flooring & Textile Products segment were flat with third quarter 2021 as raw material-related selling price increases and higher volume in Geo Components and Work Furniture were offset by lower volume in home furniture, flooring and fabric converting and currency impact.

Home furniture demand has softened significantly in the last few months, particularly at mid- to lower price points with slower consumer demand in excess inventory at retail. This is also impacting volume in fabric converting. Work Furniture sales continued to grow in the third quarter, largely from improved contract demand. However, overall order rates are beginning to soften, reflecting the economic uncertainties.

In Flooring Products, residential demand has softened modestly with lower home improvement activity. Hospitality demand is slowly improving but remains well below pre-pandemic levels. Geo Component demand remained solid, particularly in the civil construction market and, to a somewhat lesser extent, in retail. EBITDA margins in the segment decreased versus third quarter 2021, primarily from lower volume, partially offset by pricing discipline.

We continue to focus on the things we can control and are taking actions to mitigate the impact of this challenging environment by aligning cost production levels and inventory with demand. We also are evaluating near-term opportunities with our customers and are working with them on new product developments. And we are continuing to build out our existing businesses through acquisitions.

Our strong balance sheet and cash flow give us confidence in our ability to navigate challenging markets while investing in long-term opportunities.

Finally, I would like to thank our employees for your dedication, commitment and strength. Your collaboration and agility enables us to rapidly assess and respond to dynamic circumstances in our various end markets around the world. Your efforts are very much appreciated.

I'll now turn the call over to Jeff.

Jeffrey L. Tate
Executive VP & CFO

Thank you, Mitch, and good morning, everyone. In the third quarter, we generated cash from operations of $65 million, up $15 million as compared to $50 million in third quarter 2021, reflecting a much smaller use of cash for working capital, partially offset by lower earnings. Working capital increased significantly last year due to restocking efforts following the inventory depletion in 2020, but increased to a lesser extent this year as we continued to return to inventory levels more reflective of current demand. This improvement was partially offset by a decrease in accounts payable as purchases slowed due to lower volume and our efforts to reduce inventory levels.

We ended the third quarter with adjusted working capital as a percentage of annualized sales of 16.6%. 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 third quarter were $25 million.

In August, our Board of Directors declared a quarterly dividend of $0.44 per share, $0.02 or 5% higher than last year's third quarter dividend. At an annual indicated dividend of $1.76, the yield is 5.3% based upon Friday's closing price, one of the highest among the dividend kings.

We used $63 million during the third quarter for 2 acquisitions, a hydraulic cylinders business and a textile business that Mitch previously mentioned. With the deleveraging we accomplished over the past few years, share repurchases have returned as one of our priorities for use of cash. The level of repurchases will vary depending on various considerations, including alternative uses of cash and opportunities to repurchase shares at an attractive price.

During the third quarter, we repurchased 90,000 shares at an average price of $38.42 per share, for a total of $3 million. This brings year-to-date repurchases to 1.7 million shares or $60 million. During the quarter, we used our commercial paper program to repay $300 million of 3.4% 10-year bonds that matured in August. We ended the third quarter with net debt to trailing 12-month adjusted EBITDA of 2.63x and total liquidity of $1 billion. 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. On October 10, we lowered our full year guidance for sales, earnings per share and cash from operations. 2022 sales are now expected to be $5.1 billion to $5.2 billion, roughly flat to up 2% over 2021. Guidance reflects volume down high single digits with the Bedding Products segment down mid-teens; Specialized Products segment up low double digits; and Furniture, Flooring and Textile Products down low single digits. The guidance also assumes raw material-related price increases net of currency impact to mostly offset volume declines. And acquisitions, net of small divestitures should add 1% to sales growth.

2022 earnings per share are now expected to be in the range of $2.30 to $2.45. The decrease versus second quarter guidance primarily reflects lower expected volume, reduced production, slower-than-anticipated cost recovery in automotive and operational inefficiencies in Specialty Foam.

Based upon this guidance framework, our 2022 full year EBIT margin range should be 9.5% to 10%. Earnings per share guidance assumes a full year effective tax rate of 23%, depreciation and amortization to approximate $180 million, net interest expense of approximately $80 million and fully diluted shares of 137 million.

Cash from operations is now expected to be $400 million to $450 million for the year. This is below second quarter guidance, primarily due to lower expected earnings and higher expected working capital as we continue to balance inventory levels. For the full year 2022, we expect capital expenditures of approximately $115 million and dividends of approximately $230 million.

In closing, Leggett & Platt remains well positioned to navigate the challenging economic environment and capitalize on long-term 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
Thank you, 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] And our first question is from the line of Susan Maklari with Goldman Sachs.

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

My first question is focusing a little bit on some of those inefficiencies that you're seeing in the specialized foam segment of Bedding. Can you talk a bit about the efforts that you're undertaking there to move past some of them? And any thoughts on the time line and how that could come together over the next couple of quarters?

J. Mitchell Dolloff
CEO, President & Director

Yes. Great question, Susan. Tyson, I'll pass that over to you. You're deeply involved in that.

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

Sure. Good morning, Susan. You'll recall when Leggett acquired ECS, it was 4 companies that were being brought together, and that was in 2019. So our integration efforts were underway and then really had to be paused once we entered the pandemic. The biggest headwind, of course, we have is demand, and we've documented those that channel of the bedding market has been more challenged than the rest due to the customer acquisition costs and a bit of a shift away from direct-to-consumer back to brick-and-mortar over the last 12 months or so. But specifically, during the pandemic, like everybody else, we were really struggling with labor and also had a difficult time obtaining chemicals. And our priority really became to service as much business as we possibly could during that time. And frankly, we developed some production inefficiencies during that time with those efforts, primarily that's around our labor usage and efficiency and then also our material scrap.

And while business has been slow, we are working through those issues. We've invested in our equipment and automation. We're also working to stabilize our labor force and improving our processes and controls around material. We're already making some progress. It is going to take us a bit of time. I would say it will take us into next year to really get our footing underneath us there. But the good news is these are fixable problems. These aren't things that are out of our control, and we can definitely address them and already have those underway.

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

Okay. That's very helpful color. And then perhaps shifting to the Specialized segment, you obviously saw a really nice lift in those automotive volumes, actually, the volumes across all 3 of those businesses this quarter. Can you just talk a little bit about the outlook there? And how you're thinking about the rate of production in those 3 businesses? And perhaps with that, too, any commentary on how you're thinking of the pricing piece of that, the ability to catch up on some of the inflation that you've been hit with?

J. Mitchell Dolloff
CEO, President & Director

Sure, Susan. There's a lot to unpack there. So I'll dive in a little bit, and then Steve, I'll turn it over to you. But from an auto side, I think we continue to see production increase as chip shortages start to soften a little bit, but it's still relatively volatile, but improving. I will remind you that the third quarter of last year was really the lowest point of production for the industry overall. So that big 25%-or-so increase year-over-year was a bit -- is a bit of an outlier. But we do expect continued sequential improvement across the industry and in our business as well. So the industry forecast for the fourth quarter is up about 5% or 6% year-over-year, and I think it's about the same sequentially. So we would see that growth as well.

We continue to make progress on the cost recovery in automotive, but it's taking a little bit longer than expected. The industry, as I've commented before, just works on fixed pricing with cost downs over the life of those programs. So it really takes enough time for pressure to mount up across the supply chain that OEMs are really forced to concede on the price changes. And that is taking place, but it's a really complicated process that takes quite a bit of time.

So again, making progress, confident in our ability to continue to make that progress, but it will probably take us through this year and maybe into even the first quarter or so. But hard to predict that, which is part of what changed from our previous guidance.

And remind you that those -- that recoveries could take multiple forms, whether it's just price changes or one-off payments or value engineering or delayed cost down. So I think that for us, the outlook for the automotive industry remains very strong, might be a little bit dynamic as we navigate the geopolitical or macroeconomic times that are out there. But the backlog in demand is there. The inventories remain at very low levels and the average age of vehicles is also extended. So I think there's a long-term tailwind there for us to benefit from.

Also very positive dynamics in aerospace and in hydraulic cylinders, probably even stronger growth there in the near term. But Steve, I'll turn it over to you to add more comments there.

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

All right, Mitch, thank you. Good morning, Susan. So I'll start maybe with aerospace, up 26%. So demand is improving, and that's really being driven still by the single-aisle planes. Consumer travel is at or exceeding numbers prior to the pandemic. Fuel costs are driving the need for more efficient planes. And really, the challenges and cost of making the planes airworthy after sitting 3 years is a challenge. So that's really what's driving the growth. And as a result, Teel, which is the company that forecasts in that industry, they've reduced 2022 slightly to about 82% of 2018 levels, but have increased the 2023 forecast by 8%, so basically offsetting the '22 reduction and getting to 100% of 2018. So pretty significant forecast to increase.

Airbus is recovering faster than Boeing, which you probably have heard. So as that demand is improving, raw material and labor shortages are creating a little bit of volatility across that industry, somewhat similar to what we've seen in automotive, but very, very positive as we work through that.

You mentioned pricing, purchase price cost changes. We're largely able to pass those on to our customers. And then in the hydraulic cylinders area, as Mitch mentioned, the industry backlogs are at high levels for both material handling and heavy construction. And we'll probably do that well into 2023.

Some of our customers like Caterpillar significantly beat their third quarter earnings and said demand remains healthy across most of their end markets during the quarter. So that's a positive for us.

And then I would be remiss if I didn't talk a little bit about the acquisition, Pacoma that we made in late August, which fits really well with our hydraulic strategy for technologies and as well as the macro trends towards emission reduction and autonomous equipment in that area. They're a leading manufacturer of hydraulic cylinders that primarily sort of the heavy construction equipment industry such as like large excavators and wheel loaders, operations in Germany and China and distribution in the U.S. and have '21 sales of about $65 million. So it represents our next step to pursue profitable growth in the engineered hydraulic components space; increases our participation in industrial markets, which is also very positive; brings some scale and now the total business to be around $200 million. And that group has been able to largely pass pricing on as necessary as well. So pretty exciting things going on in that business unit.

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

Great. That was a great overview. And I'll get back in the queue.

Operator

Our next question is from the line of Bobby Griffin with Raymond James.

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

First one for me is just kind of the earnings power of the business in today's economic environment. I mean, clearly, tough to predict what's going to happen going forward. So when we look at the back half year of 2022 and kind of take that, imply it's going to earn maybe $1, $1 or $2, and we annualize that out. Is the right way for us to think about that in today's economic environment, it's a $2 to $2.05 earnings business? In order for that to grow, we need the economic environment to improve? Or are there some other levers that you would tell us to keep in mind as we're thinking about the underlying earnings power of this business in 2023?

J. Mitchell Dolloff

CEO, President & Director

Yes. Great question, Bobby. And I'll make some initial comments, and Jeff, maybe ask you to jump in as well with some of the maybe financial details. But Bobby, I think it's undoubtedly a dynamic environment has been for quite a while. We all know that. Tyson talked about some of the improvement efforts that we have underway at ECS. Yes, we mentioned the cost recovery that we're making in automotive, also improving some of the operational execution there. But beyond that, I think that there is more that we can do to control that business -- those businesses.

I mean, first off, you see the stronger performance in the industrial markets and automotive. So we expect that to continue to benefit from the diversity of our portfolio. We've also seen, while maybe a little bit lower in some of the Furniture, Flooring & Textiles business is still relatively stable.

But beyond that, we can move to really balance our variable cost structure and inventories with demand. We've been doing that, I think, very actively. But we can also really actively assess our fixed cost across the whole business and our corporate structure.

You remember that in 2020, we reduced fixed costs by about $90 million and kept most of that in place. And we could -- I think to me, that's a really valuable lesson, and that we continue to really eliminate lower value historical fixed cost to support investments that we need to drive key capabilities and infrastructure in our business to prepare us for the future. So I think that we'll continue to do that. I know that we'll continue to do that and to help us benefit in the future at both the business unit level and the corporate level.

I also think, as we mentioned, that portfolio diversity, our strong cash flow will allow us to continue to make those investments. So I think it's dynamics. We're not just content with sitting here waiting for the economy to improve. We're very focused on continuing to grow and improve our capabilities and across our businesses and prioritize the opportunities that these volatile times present for us. Jeff, turn it over to you. Anything you would add from a more financial perspective?

Jeffrey L. Tate
Executive VP & CFO

I think you covered it well, Mitch. And good morning, Bobby. I think the things that we definitely want to emphasize here is that as we look at the agility and the flexibility that we have around a number of those levers that Mitch just mentioned, we'll continue to take action on those because we've already started to execute on a number of those actions internally, and we'll continue to move forward in that regard. And Bobby, you know our company well. In challenging times, we continue to have very strong cash flow generation as we work through some of that demand softness and really manage our working capital extremely well as we go through quarter-to-quarter dynamics.

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

That's helpful. And I guess 2 quick follow-up questions for me on both bedding-related. One, if we're looking at the volumes here implied for the year, I think it does imply a modest acceleration in 4Q bedding volumes. Is that correct? And maybe unpack that if that's the case? And then secondly, can you just give a little bit more detail on the integration of ECS? Is it new systems, combining manufacturing plants, adding a new manufacturing plant somewhere? Just anything there about what type of integration is taking place.

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

Sure, Bobby. So on your first question around demand, we've seen things remain relatively stable, fairly stable still at weak levels. And into the fourth quarter, I think we'd see things remaining pretty consistent with the third quarter. Remember, we started to see the slowdown last year, late third quarter, early fourth quarter. So our comparison is a little different than the rest of the market. But generally, right now, we're still planning on things to remain pretty consistent.

At ECS, with the integration work, we are working on new IT systems, trying to bring that business more together and having better visibility into our data inventory, et cetera. It's not a combination of plants. It's more around our equipment; our automation, like I mentioned; and just our processes and controls that we generally use to manage our other business like our U.S. Spring business.

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

Thank you. I appreciate. Best of luck here on the fourth quarter and into 2023.

J. Mitchell Dolloff
CEO, President & Director

Thank you, Bobby.

Operator

[Operator Instructions]

The next question comes from the line of Keith Hughes with Truist.

Keith Brian Hughes
Truist Securities, Inc., Research Division

You referred in the prepared comments to building inventory in the steel markets and cutting production as a result of that. Is there any indication that's affecting the metal margin? I know it was a positive in the third quarter. Is that going to turn around given that dynamic in the fourth and into next year?

J. Mitchell Dolloff
CEO, President & Director

Yes. Great question, Keith. Thanks. Tyson, I'll let you handle that one as well.

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

Sure. Keith, so it's not so much about the metal margin. Actually, I think we'd say -- although we've seen some softening in rod pricing of late, we've also seen some declines in scrap, but rod pricing not declining as much as scrap. And I think that's attributable to just the conversion cost and the increase that we've seen. And the market has seen utilities, the consumables and everything goes into producing steel.

We have seen sequentially softening in our trade rod business, and that's really where we've seen some of our inventories increased. And that's why we're being proactive in trying to take some days out, kind of just looking at what we've seen in the fourth quarter and making sure we don't build steel inventory. And it might be a bit confusing. Normally, I don't think that the business is quite this dynamic. But when you look at the mix of our business in steel, probably the bigger impact has been of late, our mix has been more towards billets. So more of a semi-finished steel product and getting into full rod. And while that helps us cover overhead costs in the melt shop, it doesn't provide the same type of profits that we get from either internal rod production or selling rod to the trade.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Okay. And the volume in rod was up really big in the third quarter. Is that a decision to sell more into the trade because you just didn't need as much given what's going on in the mattress industry? Is that the right interpretation of that number?

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

Yes, year-over-year, it is a lower utilization for internal rod production, but really the bigger volume impact that you're seeing there is the large increase in billet sales rather than even trade rod.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Okay. Okay. And if we switch over to bedding real quick. The adjustable number year-over-year decelerated into the third quarter, in terms of units, had been up slightly in the first half of the year, down 22% here in the third. Can you talk about what happened and what the outlook on adjustables are?

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

Adjustables held up better than our direct mattress-related businesses over the last 3 quarters or so. But we did see, as you noted, some slowdown in the third quarter. And it's mostly as things had held up, it's been just where we've been partnered with our customers. We have seen some more supply chain-related impacts in the third quarter and some slowdown in consumer activity around adjustables. I think as we kind of look forward, we'd probably see more consistency there, some improvement as some of those things get better. But it's getting more in line with what we've seen the rest of our mattress-related business.

J. Mitchell Dolloff
CEO, President & Director

And maybe just to clarify, from a supply chain standpoint, I think our team it's been tough, but they've been navigating, and it's more impacts for the rest of the chain.

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

Right.

Operator

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

Peter Jacob Keith
Piper Sandler & Co., Research Division

The first question I just had was on your U.S. Spring business. And I think we and others have historically have thought about the U.S. Spring businesses like having a very dominant position. But just looking now that the sales on a 3-year basis are down negative, has the competitive landscape with Spring's changed at all, whether it's from increased imports or maybe some other domestic production?

J. Mitchell Dolloff
CEO, President & Director

Good morning, Peter. Yes, thanks. That's a good question. I mean I think the answer is to some degree, yes, as we've gone through the dynamic situation over the last few years. But I would say that not really meaningfully, and I think that it's stabilizing to a large degree. But Tyson, let me turn it over to you for more detail.

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

Sure. That's right. Recently, I think it has stabilized. We certainly saw impacts that we've talked about during the pandemic, from when we had customers on allocations and really just did not have production available for the market demand and did see impacts for our customers having to go find import sources and did see some pick up in some merchant and maker-user activity in the U.S.

Recently, we have seen importers as spring activity decline even more than the market in our estimation year-over-year, down more than 30% in imported activity. I think another thing for us to keep in mind is what we sell is a little different now in our U.S. Spring business. We do focus more on content with some of our products and especially in Comfort Core than historically we've done as well. So while the unit picture has been changing our content, it is also a little different.

J. Mitchell Dolloff
CEO, President & Director

Yes. I'd add to that, just maybe the credit profile out there, we're very cognizant of not only the profitability of the business but making sure that we're able to get paid.

Peter Jacob Keith
Piper Sandler & Co., Research Division

Okay. All right. How about -- if we just now pivot over to the European side, which obviously remains very dynamic, maybe if you could just talk a little bit more of what you're seeing there. Has it gotten weaker sequentially kind of month-over-month? And is there any difference between kind of higher-end or lower-end bedding as you're seeing in Europe today?

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

Sure. I'll jump in on that one, too, Peter. So yes, we would see that the European business is facing more challenges than we are here in the U.S. Over the last couple of years, things have tracked pretty closely between the European market and here in the U.S., but just with what's been happening with energy cost, availability, the impact to consumers. We have seen things slow down more of late in our European activity. It is a little bit mixed between some of our finished product activity there with KayFoam and our innerspring business. But generally, yes, we feel like it is being impacted more than the U.S.

On your question, just generally about high end versus low end, we feel like that's still been a pretty consistent trend over time, but the high end being impacted a little less or less than the low end. That's where we've seen the slowdown have the biggest effect.

J. Mitchell Dolloff
CEO, President & Director

And you mentioned this, but just to emphasize some of the energy issues and the impact of that in chemical production and chemical supply, right? And that's somewhat of a challenge there is also -- and also impacting pricing in the U.S., right, where, albeit a softer market, the exports to some of those chemicals is holding pricing up.

Operator

At this time, there are no further questions. I would like to turn the floor back over to Susan McCoy for closing comments.

Susan R. McCoy
Senior Vice President of Investor Relations

Thank you for joining us today. We will speak to you again on February 7 after we report fourth quarter results. If you have questions, please contact us using the information in yesterday's press release. Thank you.

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