

Leggett & Platt, Incorporated NYSE:LEG

FQ2 2024 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.30	0.29	▼ (3.33 %)	0.32	1.11	NA
Revenue (mm)	1134.14	1128.60	▼ (0.49 %)	1123.41	4433.64	NA

Currency: USD

Consensus as of Jul-16-2024 11:05 AM GMT



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Call Participants

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Presentation

Operator

Greetings, and welcome to the Leggett & Platt Second Quarter 2024 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Cassie Branscum, Vice President of Investor Relations. Thank you. Please go ahead.

Cassie J. Branscum

Vice President of Investor Relations

Good morning, and welcome to Leggett & Platt's Second Quarter 2024 Earnings Call. With me on the call today are Karl Glassman, CEO; and Ben Burns, CFO; Tyson Hagale, President of the Bedding Products segment; Sam Smith, President of the Furniture, Flooring & Textile Products segment; and Kolina Talbert, Manager of Investor Relations.

The agenda for our call this morning is as follows: Karl will discuss our current priorities and demand trends. Ben will cover our operating results and additional financial details, including a restructuring update and address our revised outlook for 2024, and the group will answer any questions you've.

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 will be available on the Investor Relations section of our website. We posted to the IR section of our website yesterday's press release and a set of slides that contain summary financial information, along with segment details and a restructuring update. Those documents supplement the information we discuss on this call, including non-GAAP reconciliations.

Remarks today concerning future expectations, events, objectives, strategies, trends or results constitute forward-looking statements. Actual results or events may differ materially due to a number of risks and uncertainties, and the company undertakes no obligation to update or revise these statements. For a summary of these risk factors and additional information, please refer to yesterday's press release and the sections in our most recent 10-K and subsequent 10-Q entitled Risk Factors and Forward-Looking Statements.

I'll now turn the call over to Karl.

Karl G. Glassman

President, CEO & Chairman

Good morning, and thank you for joining our call today. Upon returning to the CEO role in late May, I hit the ground running and have spent a significant amount of time with our team focusing on both our near-term initiatives and longer-term outlook.

My priorities are centered around transparent communication with internal and external stakeholders, identifying opportunities for quick wins to drive improved profitability and empowering our people to tackle those projects, ensuring there are clear time lines and accountability for activities underway and acting with a sense of urgency across the business.

I'm also focused on ensuring that we've a strong team to help move the business forward. And on that note, I'm pleased to share that Cassie has decided to stay with the company and will continue to lead our IR function. Furthermore, I'd like to welcome Sam Smith, President of the Furniture, Flooring & Textiles Products segment to the call today. Sam is joining us to participate in Q&A and will be a regular participant on these calls going forward.

Sam joined Leggett 10 years ago and has held several operational roles of increasing responsibility within our Home Furniture business. He has already spent a tremendous amount of time collaborating with the management teams of each business within the segment as well as assisting me with operational efficiency improvements in the Specialized Products segment.

I want to emphasize that the strategic priorities discussed on last quarter's earnings call will remain our near to midterm priorities. As a reminder, those priorities are: strengthening our balance sheet and liquidity, improving margins by optimizing operations and our general and administrative cost structure and positioning the company for profitable growth opportunities.

As you know, last quarter, we announced the decision to reduce our dividend. Although it was a difficult decision, management and the Board of Directors unanimously agreed that it was the right course of action. We remain committed to maintaining our long-held financial strength, and the dividend reduction will help solidify our foundation.

Shareholder returns also remain an important long-term capital allocation priority. While our near-term focus is on paying down debt and continuing to invest in our businesses, in the future, we expect to more frequently utilize share repurchases to return capital to shareholders. We continue to work toward improved profitability through execution of our restructuring plan and other operational improvement initiatives.

The restructuring plan is on track, and some elements of the plan are progressing ahead of schedule and exceeding expectations. In Bedding Products, we expect restructuring activities within U.S. Spring to be complete by year-end. Through the first half, we've shifted the majority of our innerspring volume into our 4 larger remaining spring production facilities.

In early third quarter, we completed the transition of all innerspring production. The team has done a fantastic job working with our customers to ensure that there are no disruptions during this process, and we now anticipate minimal sales attrition within U.S. Spring. We're also seeing improved efficiency flow through our remaining innerspring facilities earlier than expected and anticipate that future improvements in demand will drive incremental efficiency gains.

Restructuring activities within Specialty Foam are well underway. We've closed 1 small operation and 2 additional facility consolidations are in process and should be complete by year-end. Internationally, we've substantially completed downsizing our Chinese innerspring operation. We still anticipate that all Bedding restructuring actions will be complete by the end of 2025.

In the Furniture, Flooring & Textile Products segment, restructuring initiatives are also on track. Our Home Furniture restructuring activity is essentially complete, and we expect to complete Phase 1 of our Flooring products restructuring by the end of the year. Our second phase of restructuring activity in Flooring products will ramp up in the first half of 2025.

As we continue to drive operational improvements across the company, we've identified and initiated a small restructuring opportunity within our Specialized Products segment. Our Hydraulic Cylinders team is working to increase profitability through manufacturing optimization and operating efficiency improvements. We previously shared that we're initiating a review of our general and administrative cost structure and we remain optimistic about the potential returns from this activity.

In the second quarter, we completed a thorough analysis of the G&A structure across our business units and corporate shared services. Now, our teams are working to identify the greatest opportunities for improvement, design necessary organizational changes and organized projects to further streamline processes and resources. Looking ahead, we remain committed to long-term investment in our key business, including Bedding, Automotive and Geo Components.

We're confident that our refocused Bedding strategy, which leverages our innerspring and Specialty Foam innovation to target growth in higher-valued, semi-finished and finished products, is the right path forward. Our Automotive business remains healthy and has further growth potential in both comfort and convenience products such as motors and actuators and we expect to capture additional growth opportunities in our Geo Components business as we expand our product lines and geographic footprint.

Additionally, we're currently conducting a strategic review of our diverse portfolio, asking ourselves if we're the rightful owner of each business and how each one fits into our long-term vision. As we work through our restructuring plan and operational improvement initiatives, including our G&A analysis, and we make progress in our portfolio review, a sharper view of our future is emerging.

We'll continue gaining visibility in the coming quarters, and we'll share additional details as work continues. We also anticipate sharing an updated and comprehensive long-term vision, including financial targets mid next year. We fully expect that the future of Leggett & Platt will be more focused and more profitable.

To our employees, thank you for your hard work and perseverance. Your efforts are positioning our company for long-term success.

Now turning to demand trends in our key markets. Our second quarter 2024 sales and adjusted earnings were lower than anticipated at the beginning of the quarter. Excluding increased inventory write-downs and reserves and higher bad debt expense, we'd have outperformed our adjusted earnings expectations. We now expect 2024 full year sales to be lower than originally estimated due to softer industry demand in multiple end markets and continued raw material deflation.

Demand in our residential end markets remains weak as consumers continue to delay big-ticket discretionary purchases. Additionally, many bedding and furniture industry participants are financially stressed amid a third year of low demand. Against a backdrop of diminished consumer demand, mattresses imported from 12 countries and dumped into the U.S. market by foreign producers have further harmed domestic manufacturers. We believe the domestic industry deserves a level playing field and we're pleased with the determinations that both the United States Department of Commerce and the United States International Trade Commission have recently made regarding the current mattress antidumping case.

Since May, the DOC has published final dumping rates for all 12 countries, ranging from 4.6% to triple digits. The ITC has finalized orders for 8 countries and final orders for the remaining 4 countries are expected in early September. We estimate U.S. mattress market consumption was down mid-single digits versus 2023 in both the second quarter and first half of this year.

While landed mattress import volumes have fallen year-to-date, inventory buildup from late last year is still likely being worked through. In the second half, we expect industry units will remain below 2023 levels, resulting in full year consumption down mid-single digits. We still expect our 2024 Bedding Products segment's volume to be down high single digits due to company-specific factors, including the loss of a customer in Specialty Foam and restructuring-related sales attrition.

Higher-than-expected trade rod sales for non-bedding applications are expected to partially offset the impact of planned sales attrition. Excluding steel rod, Bedding Products sales directly related to the mattress industry are expected to be down low double digits.

The global automotive market is experiencing volatility, driven by several factors. While our products are utilized in both internal combustion engine and electric vehicles, geographic differences in the global shift to EVs has resulted in internal combustion engine programs running for longer than planned, leading to delayed program launches and time lines.

In Asia, the transition to electric vehicles has surged forward, while Europe is grappling with cost and affordability challenges. Meanwhile, North America remains indecisive. Additionally, the growth of new Chinese market entrants and increases in Chinese exports, particularly to Europe, is driving further market disruption. Europe has responded by introducing new tariffs, but is yet to be seen if this will slow the pace of Chinese imports.

Light vehicle production in major markets is expected to be down low single digits versus 2023. We expect our automotive business will be in line with global production versus our previous assumption of outperformance. This change is largely driven by unfavorable products mix related to the growth of the Chinese electric vehicles.

Finally, our Geo Components business has experienced sluggish project releases in the civil construction market and retail sales have recently been weaker than originally anticipated. We now expect both civil construction and retail full year sales volume to be down low single digits. While low volumes continue to be the most significant headwind to earnings, our initiatives to improve operating efficiency and maintain pricing discipline will drive margin recovery in the near term. With this foundation, we'll be well positioned to capture profitable growth opportunities as demand recovers.

I'll now turn the call over to Ben to review second quarter financial details, a restructuring update and our revised outlook for the year.

Benjamin M. Burns
Executive VP & CFO

Thank you, Karl, and good morning, everyone. Second quarter sales were \$1.1 billion, down 8% versus the second quarter of 2023 from volume declines, primarily in residential end markets and raw material-related selling price decreases.

Compared to second quarter 2023, sales in our Bedding Products segment decreased 13%. The loss of a customer within Specialty Foam, which we expected to impact the back half of 2024, actually began in the second quarter. Excluding this change, segment sales would have declined high single digits. Second quarter sales in Specialized Products were flat year-over-year, and sales in Furniture, Flooring & Textile Products were down 6%.

Second quarter EBIT was a loss of \$614 million, primarily from a \$675 million noncash goodwill impairment charge. In connection with the preparation of the second quarter 2024 financial statements, we performed an impairment analysis and concluded that an impairment existed as a result of the significant decline in stock price and current market conditions. Excluding the goodwill impairment charge and other items outlined in yesterday's press release, adjusted EBIT was \$71 million, down \$21 million versus second quarter 2023, primarily due to increased inventory write-downs and reserves, lower volume, raw material-related pricing adjustments and higher bad debt reserves partially offset by lower amortization expense, operational efficiency improvements and restructuring benefit.

Second quarter earnings per share were a loss of \$4.39. On an adjusted basis, second quarter EPS was \$0.29, a 24% decrease from second quarter 2023 adjusted EPS of \$0.38.

As always, we're focused on cash generation. In the near term, we're prioritizing debt reduction, while continuing to fund organic growth. Our long-term priorities for use of cash are funding organic growth, funding strategic acquisitions and returning cash to shareholders through dividends and share repurchases.

In the second quarter, operating cash flow was \$94 million, a decrease of \$17 million versus the second quarter 2023. This decrease was primarily driven by lower earnings, partially offset by working capital improvement. We ended the quarter with adjusted working capital as a percentage of annualized sales of 14.9% and an improvement of 30 basis points versus second quarter 2023. Cash from operations is still expected to be \$300 million to \$350 million in 2024. We ended the second quarter with total debt of \$2 billion, including \$208 million of commercial paper outstanding.

Net debt to trailing 12-month adjusted EBITDA was 3.83x at quarter end in line with our expectation of hitting peak leverage in the second quarter. As a reminder, our covenant calculation is more favorable than our publicly reported leverage ratio, and we remain comfortably below the 4x covenant leverage ratio. In the third quarter, we expect to begin progressing toward our long-term target of 2x as we use cash previously allocated for the dividend along with 2024 total anticipated proceeds of \$35 million to \$45 million from idle and restructuring-related real estate sales to accelerate debt reduction.

We still expect to predominantly use our commercial paper program to repay \$300 million of 3.8% 10-year notes maturing in November. Total liquidity was \$705 million at June 30, comprised of \$307 million of cash on hand and \$398 million in capacity remaining under our revolving credit facility.

As Karl mentioned earlier, our team is doing an excellent job executing the restructuring plan. With 6 months of activity now complete, we're providing an update on some of the financial metrics related to the plan.

We originally estimated that these initiatives will reduce sales by approximately \$100 million on an annualized run rate basis once fully implemented in late 2025. We now expect less impact and estimate that sales attrition will be approximately \$80 million on an annualized run rate basis after all initiatives are complete.

For 2024, we're revising our sales attrition estimate from \$40 million to \$25 million, with \$3 million of sales attrition realized in the second quarter. Real estate sales associated with the restructuring plan are also going well. Previously, we assumed that we'd generate up to \$10 million in cash from restructuring related real estate sales in 2024 with an additional \$50 million to \$80 million generated in 2025.

We still expect total proceeds of \$60 million to \$80 million, but now believe properties will sell sooner than originally anticipated and expect proceeds of \$15 million to \$25 million in 2024 and the balance in 2025. Restructuring costs during the quarter were \$11 million, comprised of \$9 million in cash costs and \$2 million in noncash costs. The plan remains on track from a cost perspective, and there are no changes to our total estimate or timing of costs.

In the second quarter, we realized \$3 million of EBIT benefit related to the restructuring plan and now expect approximately \$10 million to \$15 million of EBIT benefit to be realized in 2024 versus our initial estimate of \$5 million to \$10 million as benefits are flowing through earlier than expected. We still believe total annualized EBIT benefit of \$40 million to \$50 million will be realized once initiatives are fully implemented in late 2025.

We're lowering our 2024 sales guidance and narrowing our adjusted EPS guidance range, resulting in a slightly lower midpoint. This change reflects the impacts of lower volume, increased inventory write-downs and reserves and higher bad debt reserves, partially offset by continued strong execution of the restructuring plan, operational efficiency improvements and pricing discipline.

2024 sales are now expected to be \$4.3 billion to \$4.5 billion or down 5% to 9% versus 2023 compared to our prior guidance of \$4.35 billion to \$4.65 billion. The decrease versus our prior guidance reflects lower expected volumes across our segments and deflationary pressure. Volume is expected to be down low to mid-single digits with volume at the midpoint down high single digits in Bedding Products, flat in Specialized Products and down low single digits in Furniture, Flooring and Textile Products. Deflation and currency combined are expected to reduce sales low single digits.

2024 earnings per share are expected to be a loss of \$3.43 to a loss of \$3.58 versus our prior guidance of \$0.95 to \$1.25, including the impact of the noncash goodwill impairment charge, restructuring charges, real estate gains and certain other costs outlined in yesterday's press release.

Full year adjusted earnings per share are expected to be \$1.10 to \$1.25 versus our prior guidance of \$1.05 to \$1.35. As a result, our 2024 full year adjusted EBIT margin range is expected to be 6.5% to 6.9% versus our prior guidance of 6.4% to 7.2%.

Our teams are diligently working each day to improve profitability through our strategic initiatives and effective cost management, and we're beginning to see the benefits of these efforts. We look forward to updating you with further progress on this work in the coming quarters.

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

Cassie J. Branscum

Vice President of Investor Relations

Thank you, Ben. Operator, we're ready to begin Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question today is coming from Susan Maklari of Goldman Sachs.

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

Welcome back, Karl.

Karl G. Glassman
President, CEO & Chairman

Thank you. I think it's good to be back. But it's good to speak to you anyway.

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

It's good to be back. It's good to have you back. We're happy to hear you on these calls again. You did a really good job, I think, of talking us through a lot of the focus areas and the things that are happening at Leggett. As you've stepped back into this role, can you talk about what your clear priorities are at this point? How you're thinking about the positioning of the business and the things that you're especially focused on as you think about the next several quarters?

Karl G. Glassman
President, CEO & Chairman

Yes. It's really to be incredibly transparent with you, the investment community and with our employees that we're in a tough environment and transparency is always important, but probably never more important than it is now. It's also to have just kind of quick wins to continue to do the blocking and tackling that's required to improve our profitability. And at the same time, just empowering our people to make decisions to know that they're supported and that we're all in this together.

At the same time, we're establishing really a sense of accountability and urgency that maybe was lacking that's really important. We're also -- I can't be more pleased with where the restructuring plan is. Staying focused on the restructuring plan is really important. Tyson and his team have done a terrific job with what really is a heavy lift to get through the first phase of that in U.S. Spring as quickly as they've is truly remarkable when you think about the size and scope of those activities. So staying involved in that analysis and kind of talking through Phase 2 at the same time, always, always prioritizing customer relationships and product innovation.

The stickiness of our relationship with our customers is really important to us. And the responsibility that they kind of share with us for innovation going forward. So we spend a lot of time on that. We're also spending a lot of time kind of dealing with what does Leggett look like 5 years from now? What's our positioning? What -- it's really a portfolio management review in terms of what businesses should we be in. And then at the same time, trying to accelerate profitable growth in the businesses that we remain in and balancing that.

So there's more to come. There's been a lot of work, really good work done there. But I couldn't be more pleased with how the team is interacting and kind of rising to the occasion. It's typical Leggett style. But thanks for the question, Susan. I'm sorry, I was so long-winded, but there's a lot going on.

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

No, that was a good answer, and it's great to hear how things are coming together. Very encouraging. And maybe shifting to Bedding more specifically. You mentioned that there's been some moving parts in there. Of course, there was a loss of the customer in the Specialized Foam piece. Maybe can you talk a bit about the new products and some of the other efforts that Leggett's going through to help revitalize and regain share with some of your existing customers. What those mean for those Bedding volumes and maybe especially within that Specialized Foam piece? And how should we think about the mix shift overall and how that perhaps going to come together over time as some of these things gain momentum?

Karl G. Glassman
President, CEO & Chairman

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Well, you're a master at asking a complex question. So therefore, I'm a master at handing it off. So I ask Tyson to answer that question. But Susan, before I do, you know and many of the listeners know that I've been around the bedding industry, literally all my life. And the changes that the industry is going through right now are remarkable. They're unprecedented. I'll tell you, in retrospect, 2008 through 2010 was easy to manage through compared to what the team is managing through right now in terms of the rate of change. So with all of that said, Tyson please try to unravel that giant ball.

J. Tyson Hagale

Executive VP & President of Bedding Products

Sure. Thanks, Karl. I appreciate the question. Let me go through a few things with you. I'll start by saying our development teams are extremely busy right now working with several of our critical customers on innovation projects. And it's really true across the segment, but really most specifically with our spring group and a high percentage of our resources are spending time working on projects that are committed to launch and their high volume and long-term opportunities. So they're really critical for both us and our partners.

And really, this is -- like Karl said, this is a really critical service and function in how we work together with our customers. We depend on one another. And so this is a really encouraging thing. Despite the current challenges like Karl just outlined, this is a really encouraging sign for us and getting through these projects is really critical. And it is a really tough market.

And the second thing would be, it's always competitive. Right now, it's extremely competitive. And we're not ignoring any opportunities that we've even in the short term to work with customers on opportunities that make sense for us and for them. And we've talked a little bit in some of the past calls about some of our innovation that helps us in this category, our Eco-Base and automated foam encased ComfortCore Core unit production. And these are both really labor and manufacturing efficient projects. And so these are some tools that we've that we can work with our customers even in a really tough environment to help them and gives us a chance to regain some market share. So those are really, really important things for us in the short term as well.

And then I'll say ECS, you mentioned that, and you can see in the second quarter, we did have an earlier than expected loss of a customer. But without that, we did have some volume improvement year-over-year, and we've seen this for the last several quarters. And it's the result of a lot of hard work from our commercial teams at ECS and diversifying the customer base, selling accessories, components and finished mattress projects, specifically with some private label customers. So we've been seeing the benefits grow through a lot of that effort. And we'll see some more of that in the back half of the year. We have some more things in the pipeline.

With that said, we've a lot of work to do there. And there will be some ups and downs when we're in the middle of restructuring that also impacts Specialty Foam. So there will be some things that come and go, but we're working hard on it and feel good about the progress we're making.

And I'd also add, as part of Specialty Foam, our Peterson chemical team has been really, really busy with some development projects as well. And they've a couple of products that they've been sharing with -- at some of the recent trade shows that they're excited about, our customers are excited about. So that's a good progress as well. So I guess to tie all of that together, I know that's a long answer, not all of this will benefit us overnight, but I think it's really exciting and encouraging that even in a challenging market that our customers are working with us on some new developments and things that will pay some long-term dividends for us and them.

Susan Marie Maklari

Goldman Sachs Group, Inc., Research Division

Okay. That's great color. And then I just want to get one more in because I think this was a bright spot in the quarter, and I want to make sure we touch on it, and it's FF&T. They had a very nice margin. They came in about 80 basis points ahead of where we were. Their margin was up year-over-year, and that was even with those volumes down a bit in there. Can you just talk about the success that they're seeing and the ability to continue to execute at that level even with this tough demand environment?

Karl G. Glassman

President, CEO & Chairman

Yes, Sam, why don't you appreciate the -- really the accolades. Sam and his team are doing a great job. Those businesses are really well managed. But Sam, if you'd, why don't you respond?

Sam Smith

Senior VP & President of Furniture Flooring & Textiles Products

Sure, Karl. Thanks for the question, Susan. Really appreciate it. So first off, let me just say that we've got some great teams and some great leaders across these businesses. They've always been good, but over the last 4 years, with the wild spikes and the drops that we've seen in volume, commodity costs, freight rates, manufacturing costs, all these things have taught us really to be even better leaders.

For example, we learned how to very quickly analyze where we're from a cost of margin perspective. We learned to really anticipate where we believe volumes are going to go and where costs are going to go in the near term. We've learned how to make a really hard decision to mitigate some of the cost increases like the restructuring efforts that we're working through right now in Flooring and that we essentially finished in Home Furniture.

We've learned how to have some really difficult conversations with ourselves, with our customers and with our vendors. And as we've done all these hard things, I think our teams really gained a lot of confidence in themselves and in their abilities to kind of control what they could control and to really deliver on what they need to deliver on.

So I think these abilities and our growing confidence are really what's allowed us to deliver on this great, great pricing discipline that you see in a really tough environment. So bottom line, I think we're becoming more agile, more focused and really better overall business leaders.

So when volumes do start getting better, I think we're going to be able to use these skills and our confidence that we've learned to positively grow on the upside. I think it's too early to really speculate what that looks like from a magnitude perspective, but we're in a lot better position to handle the upside appropriately because handling the downside made us a lot better.

Operator

Next question is coming from Bobby Griffin of Raymond James.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

And Karl, good to talk to you again.

Karl G. Glassman

President, CEO & Chairman

Yes. It's same, goes both ways. Thanks, Bobby.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

And Cassie, thank you for all the details in the slides to you and IR team on the restructuring initiative. It's very helpful to kind of see that laid out visually. So I appreciate it.

Cassie J. Branscum

Vice President of Investor Relations

You're welcome.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

I guess first up for me, Karl, I was going to start maybe with the Auto business actually, a lot of different shifts kind of going on there between the adoption of EVs, maybe slower in some areas, faster in others, the Chinese entrants in the Europe. And I guess maybe there still is a debate on where inventory levels go in the U.S. from obviously the COVID impact. Can you just maybe unpack kind of those dynamics and how Leggett is positioned for those? And where is the opportunities or where might investments need to be?

Karl G. Glassman

President, CEO & Chairman

Yes, Bobby. Thanks for the question. Like many of our markets, global automotive is a bit of a challenge. As you said, the EV adoption is very different, depending on what region we operate in. And as you know, that's a very global business. Overall, it probably is good for us, but not so good from a total industry demand perspective in that the current IHS forecast shows global build in the major markets down 2%.

We think that it will probably be shifted down as a release again. There's probably more of a hockey stick in 4Q than as appropriate. We've readjusted our thinking, and that's embedded in our current guidance. Our teams are dealing with elongated programs on ICE vehicles in certain markets and acceleration of EV adoption in others. And I do want to make it clear that we do have content on the Chinese, BYD is the biggest, but there's a number of them that we certainly have content there.

When we take our sales forecast down, it's because the dollars of sales per each unit are less than originally anticipated in an EV model. But we take profitability down at a lesser rate because our profit margins on those legacy models, which are very heavy weighted to mechanical lumbers, where we've a very, very strong market position. So lesser selling price, higher profitability really in absolute dollars in many of those programs. So it's complicated.

As regards to inventories in the U.S., inventories are starting to grow. What's normal? I don't think post-COVID anyone really knows. The consumer has been trained to wait even longer for a vehicle. But at the same time, autos are -- I think, the average auto life in North America is 12.6 years. So that's at a historic high. So how that all sorts out? Really, at the end of the day, there's an affordability problem. Buying a new vehicle is hellaciously expensive. That's what's happening in Europe with the trade down to electrification, but with some of the Chinese upstarts is probably too strong, but it's really an affordability issue. I think that plays into our hands as well, as I said earlier. But we'll see how the whole thing unravels.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

Very good. I appreciate that. And then maybe one that kind of dovetails into the Bedding segment. But saw again, there's some metal margin compression. I'm just curious kind of the dynamics there. Just this in your view, a normalization, we had some really high spreads and we're just coming back to kind of what maybe is closer to normal? Or has there been some changes in either like the tariff protections or some of the dynamics that caused some imports to come in more than they typically would, anything there for us to think about?

Karl G. Glassman

President, CEO & Chairman

Yes, Tyson can clean me up. I think it's just a normalization. There's no change in import protection at all. It's just the shrinking of that spread is probably more driven by demand or lack of demand domestically across all markets, not -- obviously, not just Bedding and Furniture, but it's just a normalization.

J. Tyson Hagale

Executive VP & President of Bedding Products

Yes. I totally agree with Karl. Normalization, and Bobby, you probably remember we talked about it, there was at least compared to history an excessive difference between the U.S. steel market and Europe. And we saw some of that and adjusted prices accordingly in our businesses late last year. So we had already started seeing a lot of the price normalization kind of downstream through our businesses, but yes, I totally agree with Karl, just normalization of kind of coming off COVID and the pandemic impacts.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

Appreciate that. And then maybe, Karl, one more. Just on -- you talked a little bit on your prepared remarks this portfolio optimization. I just kind of wanted to ask in context of the hurdle rates or the hurdles to kind of get over the line on doing that, given where the macro is and where some of these end markets are just kind of what's the patience levels? Like how do you guys go about debating that? Because I do remember back, I guess this would have been in probably '13 or '14 maybe when you were a president, there was some good portfolio optimization that raised margins and had a nice impact on the P&L.

Karl G. Glassman

President, CEO & Chairman

Yes, Bobby, good question. We remember how to do it. There was Ryan Kleiboeker, who run strategy was certainly involved in -- at that time frame and helping through all of that. So we're -- what we're trying to do is forecast these businesses, we look at them today, but trying to forecast them 5 years out. And from a profitability perspective, from a growth potential and from a fit to Leggett perspective.

A lot of good work is done. I think that you should expect a smaller, more focused company in the future. By our history, we don't divulge any potential divestitures until we're under an LOI. So there's more to come, but there's a lot of activity.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

I appreciate it. Best of luck here, during the process and the rest of the year.

Karl G. Glassman

President, CEO & Chairman

Yes. Thank you, Bobby.

Operator

The next question is coming from Keith Hughes of Truist Securities.

Keith Brian Hughes

Truist Securities, Inc., Research Division

Building on that last answer, Karl, on some portfolio moves. Is that probably more likely to be seen in next year? Or do you think we could see something in the second half of this year, if in fact, that occur?

Karl G. Glassman

President, CEO & Chairman

I'd think probably early next year. It just takes a long time to get through some of these processes. Some of our businesses are very complex geographically, multiproduct. So yes, I'd say first half of next year.

Keith Brian Hughes

Truist Securities, Inc., Research Division

And very much like the one you went through in 2007, I've seen everything is on the table at this point.

Karl G. Glassman

President, CEO & Chairman

Everything is being evaluated. In the prepared comments, we continue to tell you the businesses that we're going to lean into, Bedding Automotive, Geo and I'd say all Textiles, there's some alternative markets and some of our other Textiles businesses that have significant growth. Those businesses are well managed. There are some other businesses that are core to the company that are really well managed, that are good performers, great cash generators. We need those businesses to be healthy going forward. So there's a balance of all of that. Really, the screen is fit, growth potential and our ability to execute in whatever those markets are.

Keith Brian Hughes

Truist Securities, Inc., Research Division

Okay. And on the quarter, to the question earlier, the volume was down a little bit, not that much in Furniture, Flooring & Textiles, particularly Furniture and Flooring. But the price was down a little bit. If you could talk about, is that just market pressure and pricing? Or is there some kind of portfolio change that's impacting price? Just what's the dynamics there?

Karl G. Glassman

President, CEO & Chairman

Oh boy, it's an interesting question, Keith, because pricing is all over the board. But generally, what's happening is prices are falling with commodity cost reductions, general comment across most of the portfolio. But I do need to call out a couple of businesses, aerospace and automotive. They had a hard time passing through cost inflation post pandemic and trying to deliver to the customer. So it's difficult in that time frame when they were having a hard time kind of meeting demand for them to pass through materials.

Now that they've both of those businesses have done a better job of being able to keep up with customer demand. They've gone back kind of retrospectively and increased some prices. So we've enhanced margins in both of those 2 businesses. But across the company, it's generally highly correlated to commodities being softer.

Keith Brian Hughes

Truist Securities, Inc., Research Division

Okay. And is that -- I assume that would be the Foam and Home Furniture, is that what you're referring to?

Karl G. Glassman

President, CEO & Chairman

Yes. It's a little bit of Bedding year-on-year. A little bit of Textiles. Yes.

Operator

[Operator Instructions] The next question is coming from Peter Keith of Piper Sandler.

Peter Jacob Keith

Piper Sandler & Co., Research Division

And Karl, again, for me, nice to hear your voice. So I think in some ways, you already answered this question to Susan's question around your areas of focus. But I wanted to look at it from the other angle. As you've come in, what do you think have been the biggest challenges and issues against Leggett & Platt in recent years when you've been away from the company?

Karl G. Glassman

President, CEO & Chairman

Yes. That's an interesting question because I haven't really been away, staying involved certainly with relationships. But I think it's continuing to be transparent, and having a sense of urgency and an ability to make decisions. I think those are kind of the key areas of focus. And it's a tough environment, not laying blame on anybody. I mean, it's a tough, tough environment that our teams are operating in. Sometimes, it's tough to be able to just kind of stand back and see the forest from the trees. And -- so I think that's it as much as anything, Peter.

Our people have been working in a tough, tough environment. There's is no question in my mind that the bedding industry is probably no longer in recession, but is in depression. That's been unprecedented. The last 3 years have been a challenge with a whipsaw effect of post-pandemic demand and then the fall off right after that. So the whipsaw effect has been tough. So I think it's just dealing with the issues at hand and then trying to guide from a future perspective.

Peter Jacob Keith

Piper Sandler & Co., Research Division

Okay. And then I know people always respect your opinion on bedding. And I guess what are you seeing? I think you talked about, I think it was mid-single-digit unit declines. Has there been -- I guess, throughout Q2, do you think it got better, did it get worse? And anything you're seeing with the industry so far in Q3?

Karl G. Glassman

President, CEO & Chairman

I think sequentially, first quarter, second quarter was kind of more of the same. What's changed from our last call is we'd have had a -- probably a more aggressive positive tone on units in the back half of this year. I think the industry has come to the realization that there -- it's tough, and it's going to continue to be tough. So nothing's really changed. We tease each other about this phrase that the industry uses about bouncing along the bottom. And it kind of feels that way.

Based on history, election years are not very favorable to the bedding industry. Advertising, the cost of advertising, availability of advertising is really difficult and trying to get -- keep the consumer's attention at a time when there are some affordability issues. So yes, that's why we've kind of changed our update to the back half to say that we expect full year to be soft -- down mid-single digits, acknowledging that the comps get a little bit easier in the back half.

Peter Jacob Keith

Piper Sandler & Co., Research Division

Okay. And also, I want to ask a follow-up on metal margin. So it sounds like that's seeing a little more pressure now than what you thought a couple of months ago. Is there any way to quantify that -- the metal margin impact to the guidance? And then where is your metal margin today versus 2019?

Karl G. Glassman

President, CEO & Chairman

Compared to 2019, certainly -- yes, I'd say it's higher than 2019. And as regards to metal margin compression imputed in the guidance, it's not that significant. But no, we don't decompartmentalize to that degree.

Peter Jacob Keith

Piper Sandler & Co., Research Division

Okay. Fair enough. Lastly on the Automotive. So calling out some of the headwinds around the disruption from Chinese entrants and, I guess, various demand dynamics on EVs. As you think about those, they do seem maybe a little bit more structural in terms and not transitory. Do you think about those as being more challenges to sales or margins for the Specialized segment or perhaps both?

Karl G. Glassman

President, CEO & Chairman

I agree that they're probably not transitory, and it really does go back to car affordability, auto affordability issues. It's interesting, this is a North American statistic. And remember that our Automotive business is very much a global business. But small car sold at a faster rate so far this year than any time in recent history. And I think that's not a consumer preference change. That's purely an affordability or lack of affordability issue. So it is more of a pressure on top line and bottom line for sure.

Our Automotive teams continue to do a terrific job of executing. And as I said earlier, we're really well placed on some of those. We're well placed across the whole value chain. But because of the maturity of the smaller vehicles, then the kind of lack of, I guess, the top line, as I said it more fluently, the first time I said it. The top line is going to be less, but the bottom line is on a percentage basis, absolutely on an absolute dollar basis, probably better just because of the maturity of those programs and our competitive market position with those programs.

Operator

The next question is a follow-up coming from Susan Maklari of Goldman Sachs.

Susan Marie Maklari

Goldman Sachs Group, Inc., Research Division

I just have 2 more for you, Karl. One is....

Karl G. Glassman

President, CEO & Chairman

I'm trying to get Ben in this conversation.

Susan Marie Maklari

Goldman Sachs Group, Inc., Research Division

Okay. Well, we can get Ben -- we'll ask Ben one too. We'll get Ben in it.

Karl G. Glassman

President, CEO & Chairman

Good. Good. Thank you. He's anxious.

Susan Marie Maklari

Goldman Sachs Group, Inc., Research Division

Yes. Okay. Okay. Well, we'll definitely do that. There's plenty. There's plenty we can ask Ben. But first, one of the things I wanted to follow up on is, you mentioned the impact of the election being an election year on demand for bedding. How do you think about the health of the consumer today, I guess, broadly speaking? And the impact that this macro uncertainty and perhaps the increased political uncertainty, too, in the last couple of weeks is adding to their willingness or their ability to go out and make these bigger ticket purchases.

Karl G. Glassman

President, CEO & Chairman

It's a concern. The news of yesterday on job formations isn't positive. Some of the -- yes, I'm certainly not an economist, but some believing that we're heading into recession. The health of the consumer is weak. As you know, certainly on the premium side of bedding, a lot of those purchases are financed.

We -- economists speak of the K-shaped recovery and the top leg of the K seems to be softening. The ultra premium seems to, for the first time post pandemic feeling a little bit of softness that we can see as a read-through some of our customers. So said differently,

until the Fed makes a rate adjustment, I don't think that anything really changes. That -- you know what drives bedding and that's household formation, household changes and consumer confidence. And none of that happens until the Fed moves.

Susan Marie Maklari

Goldman Sachs Group, Inc., Research Division

Okay. Okay. And then maybe following up on that, too. You've been working through this restructuring plan with a lot of macro headwinds coming at you. If the Fed does start to move in the back half of this year, how do you think about what having macro tailwind could mean for the business? And how do you think about -- we talk a lot about that in relation to the consumer, but could it also help some of those industrial businesses as well?

Karl G. Glassman

President, CEO & Chairman

Absolutely. Volume is always a good thing. That's really what's happening now. And to Sam's very appropriate comments a little bit ago that you put some volume through these assets now, what Tyson and the team has done in Bedding. I'll tell you what. We all know what volume does through the spring plants. It gets really good, really, really quick. And many of our businesses have the same characteristics. So volume would be welcomed and is needed at this point.

Susan Marie Maklari

Goldman Sachs Group, Inc., Research Division

Yes. Okay. All right. And now we'll ask Ben question.

Benjamin M. Burns

Executive VP & CFO

I appreciate it.

Susan Marie Maklari

Goldman Sachs Group, Inc., Research Division

Okay. There we go. Okay. Ben, you actually saw a nice improvement in the working capital despite everything that's going on this quarter. Can you just talk a little bit about the sources of that and how you think about continuing to be able to get some benefits in there even if things stay tough?

Benjamin M. Burns

Executive VP & CFO

Yes. Sure, Susan. I think most of the benefit really comes from bringing our inventories down. We've been doing that nicely for a while now. Our teams are really focused on that and doing a good job. And it has provided some improvement. I think as we go through the back half of the year, we don't expect a whole lot more. We've done a good job. But I'd think working capital benefits us slightly, our earnings will drive the majority of the cash flow. And we really, as we've talked about, will use that to help start reducing debt.

One thing I'd also -- I'd point out that we did reduce debt, \$73 million in the second quarter, which was nice. And we haven't seen the free up of the cash yet from the debt -- I'm sorry, the dividend reduction, that really will start to make an impact in the third quarter, even though we declared the dividend lower in the second quarter. We paid the first quarter dividend in second quarter. So from a cash perspective, that was still a little bit higher burden, obviously.

And then the last thing I'd mention is our teams have done a really great job of monetizing some of these real estate properties. So in the first half of the year, we generated \$18 million of proceeds from real estate properties that were not related to the real estate -- or I'm sorry, the restructuring project. But in the back half of the year, we're seeing where we can accelerate some of the restructuring-related real estate properties and generate \$15 million to \$25 million in proceeds there. So we feel good about our cash generation and these real estate sales as we start to make progress now in the back half on that debt reduction.

Susan Marie Maklari

Goldman Sachs Group, Inc., Research Division

Yes. Okay. And following up on that, you actually maintained the operating cash flow guide at \$300 million to \$315 million, even with taking the guide down incrementally, talking about volumes being weak, all these headwinds that you're facing. Can you talk about the ability to maintain that? And what's going into that?

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Benjamin M. Burns

Executive VP & CFO

Yes. I think there's a couple of things there, and we talked about them here -- just here recently. The ability for our business is to really start seeing the benefit of the restructuring being able to efficiently move volume through the business, I think, will be a big thing. And then we've a really big focus on working capital. Like I said, we've had a good focus on that, but we'll continue to do that, and we'll continue to challenge ourselves to utilize that to drive cash as well.

Susan Marie Maklari

Goldman Sachs Group, Inc., Research Division

Yes. Okay. All right. Well, I'll end it there and good luck, guys.

Karl G. Glassman

President, CEO & Chairman

Thank you, Susan.

Benjamin M. Burns

Executive VP & CFO

Thanks, Susan.

Operator

Thank you. At this time, I'd like to turn the floor back over to Ms. Branscum for closing comments.

Cassie J. Branscum

Vice President of Investor Relations

Thank you for joining us today and your interest in Leggett & Platt. We'll talk to you next quarter. Have a great weekend.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines or log off the webcast at this time, and enjoy the rest of your day.

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