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Leggett & Platt, Inc. (LEG)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Leggett & Platt's First Quarter 2021 Earnings Call and Webcast. At this time, all participants are on a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ms. Susan McCoy, Senior Vice President of Investor Relations. Thank you, Ms. McCoy. You may begin.

Susan R. McCov

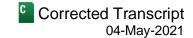
Senior Vice President, Investor Relations, Leggett & Platt, Inc.

Thanks, Donna. Good morning, and thank you for taking part in Leggett & Platt's first quarter conference call. We are conducting the call from different locations again this quarter. Please bear with us if you experience minor delays or mixed audio quality.

On the call today are Karl Glassman, Chairman and CEO; Mitch Dolloff, President and COO; Jeff Tate, Executive Vice President and CFO; Steve Henderson, EVP and President of the Specialized Products and Furniture, Flooring, & Textile Products segments; Cassie Branscum, Senior Director of IR; and Tarah Sherwood, Director of IR.

The agenda for our call this morning is as follows. Karl will start with the summary of the main points we made in yesterday's press release and comment on some recent activities. Mitch will discuss operating results and demand trends, and Jeff will cover financial details and address our updated outlook for 2021.

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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, Investor Relations 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.

As we reported yesterday, we changed the accounting methodology used for valuing our domestic steel-related inventories from LIFO to FIFO. The effects of the change in accounting methodology have been retrospectively applied to all prior periods presented in the press release and PowerPoint slides. Recast financial information for prior periods can be found in the Form 8-K we filed yesterday.

I need to remind you that remarks today concerning future expectations, events, objectives, strategies, trends or result constitute forward-looking statement. 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 entitled Risk Factors and Forward-Looking Statements.

I'll now turn the call over to Karl.

Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Good morning and thank you for joining us today. We had a very strong start to 2021. Yesterday, we reported first quarter sales increased 10% to \$1.15 billion. Organic sales grew 11% from a combination of raw material-related price increases, higher volume, and currency benefit. Volume grew 4% with continued strong demand in residential end markets, growth in automotive and modest recovery in hydraulic cylinders, partially offset by sales declines in aerospace. Divestitures, net of acquisitions, reduced sales 1%.

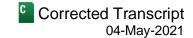
EBIT was a first quarter record of \$128 million. EBIT increased \$49 million in the quarter versus first quarter of 2020 primarily due to volume growth, lower fixed cost, and the non-recurrence of 2020's \$8 million impairment charge related to a note receivable and a \$4 million charge to write-off stock associated with a prior year divestiture. EBIT margin increased 360 basis points to 11.1%, and increased 240 basis points versus adjusted first quarter 2020 EBIT margin of 8.7%. First quarter EBITDA margin was 15.1% compared to 2020's first quarter adjusted EBITDA margin of 13.2%.

Earnings per share were a first quarter record of \$0.64. First quarter 2020 EPS was \$0.33, including a \$0.07 per share reduction from the non-reoccurring items mentioned. Excluding these charges, first quarter EPS increased \$0.24, or 60%, versus first quarter 2020 adjusted EPS of \$0.40.

These improvements occurred versus a first quarter of 2020 that was heavily impacted in the final two weeks by the effects of the COVID-19 pandemic. Compared to first quarter 2019, sales were down slightly, but EBIT margin and EPS improved significantly. We also reported yesterday that our board of directors increased our second quarter dividend to \$0.42 per share, a \$0.02 per share or 5% increase versus the first quarter of 2020. This marks our 50th year of consecutive annual dividend increases and places us among 31 other companies with at least 50 years of consecutive annual dividend increases known as Dividend Kings. At Friday's closing price of \$49.67, the current yield is 3.2%, which is one of the higher yields among the S&P 500 Dividend Aristocrats.

I also wanted to update you on some recent activities. In mid-April, we issued our inaugural Sustainability Report. We believe that reporting on environmental, social and governance issues is critical for our stakeholders growing

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need for information. And we are pleased to begin this vital initiative. We strive to advance sustainable solutions for our customers to achieve the highest standards of ethical conduct, to demonstrate strong environmental stewardship and safety performance, to enable a culture of inclusion, diversity and equity, and employee development at all levels of the company, and to embrace our supply chain responsibilities.

In late April, the US mattress industry's antidumping petition on imported mattresses from seven countries and countervailing duty petition on Chinese imported mattresses came to a successful conclusion, with the International Trade Commission making an affirmative final determination that the US mattress industry has been materially injured by these imported mattresses sold at prices that violate US trade laws.

With that, I'll turn the call over to Mitch.

J. Mitchell Dolloff

President, Chief Operating Officer, President-Bedding Products & Management Director, Leggett & Platt, Inc.

Thank you, Karl, and good morning, everyone. We're pleased with our first quarter operating performance despite some difficult supply chain disruptions. Many of these disruptions, notably in chemicals, semiconductors, labor and transportation, are ongoing and may create continued volatility in both supply and cost.

Demand for home-related products and autos remained strong and we are seeing modest recovery in hydraulic cylinders, work furniture and aerospace. Sales in our Bedding Products segment were up 9% versus the first quarter of 2020. Sales benefited from raw material-related selling price increases of 9% from steel – inflation in steel, chemicals and non-woven fabrics and positive currency impact of 1%.

Volume grew 2% from a strength in ECS, European Spring and US Spring. Prior year divestitures reduced sales by 3%. Overall mattress production in the industry was constrained throughout the quarter due to chemical shortages that restricted foam supply. Our supply of non-woven fabrics, additional staffing, and additional machine capacity allowed us to alleviate the backlog associated with our ComfortCore innersprings. In the first quarter, we added over half of our planned 25% capacity expansion through a combination of labor and additional production equipment. We will continue to add staffing and equipment as we move through the next two quarters.

Supply of the primary chemicals used in our specialty foam operations, TDI, MDI, and polyol, were significantly restricted by producers after severe winter storms in February. Supply improved through April and we expect to return to January allocation levels of roughly 75% by the end of May. We anticipate chemical allocations will continue to improve but may persist throughout the remainder of the year.

Sales in our Specialized Products segment increased 10% in the first quarter with 6% from currency benefit, 3% from volume growth, and 1% from acquisitions. Growth in automotive and hydraulic cylinders was partially offset by sales declines in aerospace. In our automotive business, volume for the quarter was up 14%. Industry production has been and continues to be impacted by semiconductor shortages. We anticipate these shortages to continue through the year.

End market demand in hydraulic cylinders began to improve in late 2020, and we expect that trend to continue throughout 2021. We expect the aerospace industry to remain challenged over the next few years given the disruption in air travel and resulting buildup of aircraft and supply chain inventories.

In our aerospace business, we've seen sequential sales improvement driven primarily by improved demand for fabricated duct assemblies where demand is near pre-COVID levels. Demand for welded and seamless tube products remains challenged as customers continue to deplete inventories.

Sales in our Furniture, Flooring, and Textile Products segment were up 12% in the first quarter, driven by 8% volume growth, raw material-related price increases of 3%, and a currency benefit of 1%. We continue to see strong demand in home furniture, geo components, and fabric converting. In flooring products, residential end market demand continues to be strong while hospitality demand remains low.

While recovery in work furniture lags the other businesses in the segment, sales continue to improve sequentially. The fixed cost actions we took last year reduced our first quarter costs by approximately \$20 million. As we move through the year, we will continue to focus on controlling our costs by keeping our variable cost structure aligned with demand levels and only adding fixed costs as necessary to support higher volumes and future growth opportunities.

I'll now turn the call over to Jeff.

Jeffrey L. Tate

Executive Vice President & Chief Financial Officer, Leggett & Platt, Inc.

Thank you, Mitch, and good morning, everyone. As we reported yesterday and as Susan mentioned in her opening remarks, during the first quarter, we changed accounting methodology for our domestic steel-related inventories, which represented roughly one-third of our total inventories at the end of 2020.

We transitioned from the last in, first out or LIFO cost method to the first in, first out or FIFO cost method. This change more closely resembles the physical flow of inventory, establishes a more consistent method of inventory valuation across our businesses and better aligns with how many of our diversified manufacturing peers report financial results. In addition, we believe this change will provide greater shareholder visibility into the company's year-to-year profitability.

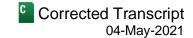
Over the past 15 years, LIFO has netted to only \$9 million of expense to the company. While this averages less than \$1 million annually, year-to-year changes have been significant at times. Changes in our portfolio and global growth have resulted in a smaller percentage of LIFO inventories over the last few years. We believe now is the right time to make this change due to the combination of last year's low ending LIFO inventory levels and historically low tax and interest rates.

As a result of this accounting change, we expect to make tax payments of approximately \$21 million based on current tax rates. The cash outlay will occur over the three-year period of 2021 through 2023 with approximately \$11 million of that to be paid in 2021.

Now, moving on to the first quarter performance. First quarter is typically our lowest cash flow quarter of the year with increased working capital, driven by the normal cadence of our business. Consistent with that pattern, cash from operations was a negative \$11 million in the first quarter, a decrease of \$21 million versus \$10 million in the same quarter of 2020.

Higher earnings were more than offset by planned working capital investments to replenish inventories in certain businesses and inflation in the cost of those inventories. We ended the quarter with adjusted working capital as a percentage of annualized sales at 12%. Our balance sheet remain strong. We ended the quarter with net debt to trailing 12-month EBITDA of 2.46 times. And \$1.4 billion of total liquidity. In addition, we brought back \$24 million of offshore cash during the quarter.

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As announced yesterday, we are increasing our 2021 sales and earnings per share guidance. 2021 sales are now expected to be \$4.8 billion to \$5 billion or up to 12% to 17% over 2020 resulting from mid- to high-single-digit volume growth, raw material-related price increases, and currency benefit. The increase versus prior guidance of \$4.6 billion to \$4.9 billion reflects a combination of higher raw material-related price increases and modestly higher volume growth.

We expect continued strong consumer demand for home-related products and global automotive along with improvements in supply chain constraints as we move through 2021. We also expect continued inflation in steel costs and recovery of those higher costs through selling price increases.

2021 earnings per share are now expected to be in the range of \$2.55 to \$2.75, primarily reflecting higher volume and higher metal margin. This guidance also assumes fixed cost savings as a result of actions taken in 2020 to be approximately \$70 million. Based upon this guidance framework, our 2021 full-year EBIT margin should be in the range of 11% to 11.5%.

Earnings per share guidance assumes a full-year effective tax rate of 23%, depreciation and amortization to approximate \$195 million, net interest expense of approximately \$75 million, and fully diluted shares of \$137 million. Additionally, we expect our full-year operating cash flow to approximate \$500 million, capital expenditures to approximate \$150 million, dividends of approximately \$220 million, and debt repayment of at least \$51 million.

In closing, our primary financial focus in 2021 remains on generating cash, maintaining discipline and capital allocation, and reducing debt. With the deleveraging progress made over the past year, we're in a strong position to capture both near- and long-term growth opportunities that add capabilities or products to our existing businesses.

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

Susan R. McCoy

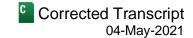
Senior Vice President, Investor Relations, Leggett & Platt, Inc.

Thanks, Jeff. That concludes our prepared remarks. We thank you for your attention, and we'll be glad to answer your questions. Karl will direct our question-and-answer session as the group answers your questions. Donna, we're ready to begin the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is coming from Bobby Griffin of Raymond James. Please go ahead. **Bobby Griffin** Analyst, Raymond James & Associates, Inc. Good morning, everybody. Thank you for taking my questions and hope everyone is doing well and staying safe. I guess first for me I just want to circle up and maybe clean up a little in our model on the accounting change. Jeff or Karl, can you guys tell us what the impact was to EBIT for the quarter? If you would have still been under LIFO, how would that impacted the quarter from an EBIT perspective? Karl G. Glassman Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc. Yeah. Good morning, Bobby. Jeffrev L. Tate Executive Vice President & Chief Financial Officer, Leggett & Platt, Inc. Sure. Karl G. Glassman Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc. Jeff, why don't you go ahead and answer that one if you would, please? Jeffrey L. Tate Executive Vice President & Chief Financial Officer, Leggett & Platt, Inc. Absolutely, Karl. Good morning, Bobby. Yes, Bobby, if we were still on LIFO, for the first quarter the approximate impact would have been \$5 million and on a full-year basis for 2021 we were projecting in the range of \$20 million. **Bobby Griffin** Analyst, Raymond James & Associates, Inc. Okay. And did that have – does that change have any impact on the guidance being raised or at that point does it just work its way through and it wouldn't have impacted the decision to take numbers up? Jeffrey L. Tate Executive Vice President & Chief Financial Officer, Leggett & Platt, Inc. No, Bobby, it did not have any impact on our guidance. If you recall, the initial guidance that we brought out in February did not include any LIFO impact associated with it at that time. And so, therefore, moving forward, the numbers that we've shared today also do not have an impact. **Bobby Griffin** Analyst, Raymond James & Associates, Inc.

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All right. Perfect. That's very helpful. And then I guess next for me maybe Mitch or Karl. Just I wanted to maybe connect a little bit of the US Spring sales up 2% versus some of the growth we've been seeing in the industry from some of the public peers and understanding that not everybody is public and that 2% number doesn't include inflation for you guys or price increases. But maybe can you guys walk us through kind of what you think the industry did and how your innerspring business performed in connecting those two aspects together?

Karl G. Glassman
Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Yeah, Bobby. As we said in our opening remarks, we're really pleased with the quarter. But in many respects it's a quarter of what could have been. And I mean that from the standpoint that you listen to what our public bedding and furniture customers have to say and many of them have talked about the significant backlogs that they have and diving down a little deeper that many of them were not operating their plants, in many cases only half time during the first quarter because of the lack of availability of foam chemicals. So, while we don't have a backlog per se from the standpoint that our customers only order from us when they need it, our customers' backlogs are extreme.

So, said differently, our 2% unit growth in US Spring would have been a lot higher if our customers had commodity foam availability. And even in home furniture, you saw the commentary there that home furniture grew really well. Most of that growth was not in the United States. So, the chemical constraints are not a problem in Asia or in Europe. So, you saw European Spring grow dramatically. So, since the quarter ended, we've seen a significant uplift in our US Spring shipments as foams become more available. And I know that I probably just stole most of Mitch's thunder, but Mitch do you have anything you want to add to that?

J. Mitchell Dolloff

President, Chief Operating Officer, President-Bedding Products & Management Director, Leggett & Platt, Inc.

Well, it's hard to follow that, Karl, but I'll do my best. And maybe just a couple of comments to add, and good morning, Bobby. So, Karl is absolutely right. When we saw the weather impacts in February from a US Spring standpoint, of course, that impacted our customers and we saw our demand declined pretty significantly. We took advantage of that time, however, to rebuild inventories. As you know, we'd been struggling to keep up before that. So, there was some positive news out of that.

And as we entered into April, we saw – started to see demand recover a bit. And we've continued to see that in the coming – in the past weeks. So, I think our customers are reporting that their backlogs are growing and expect their production to rebound in May and June as their foam situation improves.

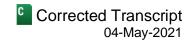
And I would add too, we were a bit better on the ComfortCore side and a bit lower on the open coil side. We've seen both of those recover as we come into the last few weeks. So, I think Karl is right. It was a bit of a struggle through the quarter but the outlook – currently, the consumer outlook is strong and I think our outlook is very strong as well.

Bobby Griffin

Analyst, Raymond James & Associates, Inc.

Thank you. And I guess the last thing for me here before I jump back in queue. I mean, Karl and Mitch, the flow-through of this business for the quarter was a lot stronger than really we've seen from Leggett in other inflationary times. So, can you maybe talk about some of the drivers of that? And is that, A, a function of the cost cuts or just better pricing realization in the businesses and anything around that? Because I think it was a 35% contribution margin here during this quarter, which we really don't see during inflationary times like this.

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Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Yeah. Bobby, I think that you really hit it. That it's a testimony to the good work that our teams have done in terms of cost savings and then with the recovery of demand, the disciplines around maintaining those cost inputs. So, our teams have done a wonderful job.

The other side of that is that we're more efficient probably in passing through commodity inflation now than we have in the past. ECS passes through pretty quickly and even on the US Spring side of it, only 60% of our business is protected by long-term supply agreements that have the 90-day lag. On the non-contract customers, we pass through it pretty quickly. So, in this time of hyperinflation, price recovery discipline or price pass-through efficiency has really been pretty high. So, it's a combination of all of those things.

And lastly, to Mitch's point, we're picking up some overhead recovery in our US Spring business as we're putting ourselves in a position where we are in a strong inventory position. So, all the stars aligned. We're really kind of dressed up and ready to go and really feel good about the future because of the strength of our customers' backlogs.

Bobby Griffin Analyst, Raymond James & Associates, Inc.	C
Thank you. Well, congrats on a strong quarter from a top line and operating perspective, and best of luck here the remainder of the year.	
Karl G. Glassman Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.	Д
Yeah. Thank you, Bobby.	
J. Mitchell Dolloff President, Chief Operating Officer, President-Bedding Products & Management Director, Leggett & Platt, Inc.	А
Thanks, Bobby.	
Operator: Thank you. Our next question is coming from Susan Maklari of Goldman	Sachs. Please go ahead.
Susan Maklari Analyst, Goldman Sachs & Co. LLC	Q
Thank you. Good morning. And let me add my congratulations to a great quarter.	
Karl G. Glassman Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.	Д
Thank you.	
Susan Maklari	

My first question is building on Bobby's question, can you talk to us a little bit about inflation, how that came together in the quarter? I know that in the guide, you kind of highlight better metal margins in there. Can you just give us some sense of what's going on there and how to think about the timing maybe as we move through the

Analyst, Goldman Sachs & Co. LLC

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year? And then especially relating that back to the pricing power that you have seen to-date, and how we should be thinking about price cost for this year?

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Karl G. Glassman Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.	A
Mitch, you want to try to unravel that?	
J. Mitchell Dolloff President, Chief Operating Officer, President-Bedding Products & Management Director, Leggett & Platt, Inc.	A
Yeah and feel free to	
Susan Maklari Analyst, Goldman Sachs & Co. LLC	Q
There's a lot there, I know.	
J. Mitchell Dolloff President, Chief Operating Officer, President-Bedding Products & Management Director, Leggett & Platt, Inc.	A
Yeah. Feel free to jump in, too, Karl. Yes. So, for sure, we've seen scrap inflation, ro increase in the spread. I think the Q1 average spread was about 550 versus 450 last prior year. So, I think that steel market demand is strong. We expect you can see the And as we just talked about, we've done a good job of passing that through. And of US Spring business is contractual, and we pass that through as well.	st year and 515 versus the at inflation hold for a while.
On the chemicals side, I think chemicals are up about 60% from Q1 of 2020. As Karpass that through more quickly and have been able to do so. The chemical supply remight see costs drop a little bit as supply improves, but I think they'll still be elevated think that we are in an inflationary environment, probably some ups and downs along anticipate that it all remain elevated here through most of the rest of the year.	emains constrained. I think we over the prior year. So, I
Susan Maklari Analyst, Goldman Sachs & Co. LLC	Q
Okay, but it sounds like from your commentary that you are capturing that price. And moving through the quarters, it seems like you are fairly caught up and, therefore, prespeaking in line. Is that the way to think about it?	
J. Mitchell Dolloff President, Chief Operating Officer, President-Bedding Products & Management Director, Leggett & Platt, Inc.	A
Susan, I think that's right. I think there's always a little bit of pass-through as we mov spring. But I think we are relatively current.	re through rod, wire and
Susan Maklari Analyst, Goldman Sachs & Co. LLC	Q

President, Chief Operating Officer, President-Bedding Products & Management Director, Leggett & Platt, Inc.

Okay. Okay. And then...

J. Mitchell Dolloff

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And I would add...

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Sorry. Go ahead, Mitch.

J. Mitchell Dolloff

President, Chief Operating Officer, President-Bedding Products & Management Director, Leggett & Platt, Inc.

Sorry, and I was just going to add, we talked about the US Spring side and ECS, but I think that also holds true with steel inflation through home furniture and other places where after – following our restructuring and exiting some business we're in a much better position to pass that along as well.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Yeah. I mean you're pricing power this quarter certainly speaks to your ability to realize that for sure. So, it's very well done. My next question is around thinking about the cadence of the margins. You had especially strong margins in Bedding and in Specialized, really across all three segments but those two especially. As we think about the normal seasonality in the business moving to second and third quarter and then even into fourth, can you talk to how you expect those margins to trend? And I guess especially considering that there's some pretty relatively speaking more difficult comps that you have in the back half of the year for some of these. What's your ability to kind of comp against those?

Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Susan?

Susan R. McCoy

Senior Vice President, Investor Relations, Leggett & Platt, Inc.

I'll take a shot at that to begin with and then Karl and Jeff and Mitch, correct me where you need to. But Susan, if you think about what we've said relative to volume, we expect that supply chains – the supply chain constraints to improve as we move through second and third quarters. Keep in mind that our fourth quarter is typically our lowest sales quarter. And if we look at the I think the pattern of sales versus 2019, I think you will see some similarities as we move through the year.

And so, thinking about margin progression, you need to bear in mind, I think, that cadence of sales and I assume a somewhat normal earnings leverage on those volume changes. And I'd say all together, our first half sales because of some of the – albeit less intense, but still ongoing pricing lag issues to – because of that first half margins would be expected to be somewhat lower than we would anticipate in the second half.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Okay. That's helpful. Thank you. Good luck with everything, guys.

Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Thanks, Susan.

Operator: Thank you. Our next question is coming from Keith Hughes of Truist Securities. Please go ahead.

Keith Hughes

Analyst, Truist Securities, Inc.

Thank you. My question is on automotives, had a strong volume in the quarter. I guess moving forward, are the numbers from automotives just going to be all over the place given some of the supply shortages and production things we hear about or are you going to see something more consistent given your position on the industry?

Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Yeah. Keith, good morning. Certainly, I want to give a shout out to our global automotive team. They've done an outstanding job dealing with many of the issues that you spoke of and the uncertainty, the supply chain challenges. But, Steve, if you would, why don't you wade into the answer.

Steven K. Henderson

Executive Vice President, President-Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.

Sure. Thanks, Karl. Good morning, Keith. Yes, I'd just like to echo your comments to the team, the auto team, Karl, they've done a – they've been at this for 15 months with more volatility than I've ever seen in my career and they're doing a great job of managing through it. So, thanks to them.

In terms of the end markets, we see the demand signals continuing to improve. There's a lot of economic indicators that are favorable. So, positive GDP, unemployment is improving, low interest rates are continuing, there's government stimulus in the US or auto-specific incentives in Europe and new home construction remains strong in North America and that drives truck sales. So, we're also seeing historically low inventory levels, particularly in North America. And as lockdowns are eased and travel picks up, we think the fleet segment will start to recover.

So, with China being up 75% in March, obviously, against an easy comp but 12 straight months of gain, that's positive. In March, the SAAR in North America was \$17 million, so that's the highest in three years. So, momentum is good. And then on the other side, the semiconductor shortages definitely have impacted us in Q1 and will for the rest of this year.

In terms of supply, our team has done a great job of keeping us whole. So, we have navigated through that to this point. So, we think we're okay going forward. But we know there's some challenges that could come there. But in terms of demand degradation, the industry thought the first quarter was the worst of it. And then, there was a fire in mid-March at the Renesas chip factory in Japan that tightened everything up even more, and added some of the Japanese OEMs to the list. They're back online in that facility and working to get back to full capacity. But that facility was really a part of the strategy to meet the MCU demand in the third quarter. So, that's going to push it out a bit.

So, at this point, we're expecting the second quarter to be at least as impacted as the first quarter with a little bit over 1.1 million units. And we could begin to see improvement in the second half of the year and get more towards supply demand balance in terms of the chips. And then, really the industry recovery can happen after that.

So, all of that said, it's still very challenging to get a clear picture and many of the things can impact the outlook. There's still resins and foam, and the recent weather conditions that are also impacting it. So, it's a I guess – the

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Ford CEO the other day called the situation opaque and I think we would agree with his commentary in that in that regard.

Keith Hughes

Analyst, Truist Securities, Inc.

Okay. Just shifting over to bedding, you talked a lot about the margins there and the metal margin specifically. Can you characterize is the rod spreads there, is that what drove a larger portion of the of the margin gain or is it more just the quick pass-through of these prices on to your finished goods, obviously, with your bedding customers?

Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Keith, it's a combination of the two. Industry, macro industry metal margins being wide is certainly a good thing for us. As we said, we expect that to continue because of really strong global steel demand and a lack of scrap availability. So, the steel manufacturers certainly have some – in their industry have some pricing power. So, we're pretty bullish going forward. And as we said, pass-through has been pretty quick to the – with the guardrails of our contracts. So, it's a combination of the two.

Keith Hughes

Analyst, Truist Securities, Inc.

Okay. And I think you'd said this earlier on your contracted customers at US Spring, what is the pass-through lag for those customers on inflation?

Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

60 to 90 days.

Keith Hughes

Analyst, Truist Securities, Inc.

60 to 90 days, okay. All right. Thank you very much.

Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Thank you, Keith.

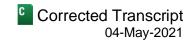
Operator: Thank you. [Operator Instructions] Our next question is coming from Peter Keith of Piper Sandler. Please go ahead.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

All right. Thank you. Good morning, everyone, and nice job on that Sustainability Report. Looks like a lot of hard effort went into that. I did also just want to follow up on bedding. And I guess what sort of struck Bobby and me by surprise here was the modeling off of 2019 and the adjusted numbers. So, bedding is still down on a two-year basis, but at the same time the margin expansion has been the strongest within bedding relative to the other two segments. So, could you just kind of help unpack that a little bit for us and understand what's driving margin in a period when the sales have been down for I guess the last two years?

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Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Down because of those industry foam supply constraints that we spoke of earlier, not a Leggett endemic issue at all. The reason that the margins are up is simply a better mix of product. As we've been telling you and the rest of the investment community that have an expectation that we'll index to higher quality, higher content product going forward. So, ComfortCore being 62% of total US sales. ComfortCore with Quantum Edge being greater than 50% of total ComfortCore. It's a content story. As Mitch said, ComfortCore up greater than units, open-coil being down. The continued strength in bed-in-a-box certainly helps our ComfortCore going forward, as hybrid applications expand. So, it's really a good story in bedding. Happy to hear that our customers have more availability of foam supply.

J. Mitchell Dolloff

President, Chief Operating Officer, President-Bedding Products & Management Director, Leggett & Platt, Inc.

Karl, and I would add, similar on the ECS side, right, with higher value products selling there as well.

Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Absolutely. And I apologize for overlooking that, Mitch. You're right. There's a much better mix at ECS, a higher percentage of mattresses versus commodity foam, as our teams do a really good job of applying the available chemicals to its greatest use.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Okay. That's a great answer. And I guess at your point earlier, it's nice to make this accounting change to get a better picture of the underlying margin trends. So, that's great to see. Maybe sticking on bedding, there's some questions I'm getting out there. Is it possible for you to quantify what you think the drag was in the quarter? Or what the backlog might be to you, that could show up in Q2?

Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Mitch, why don't you go ahead.

J. Mitchell Dolloff

 $\textit{President, Chief Operating Officer, President-Bedding Products \& Management Director, Leggett \& Platt, Inc. \\$

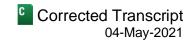
That is a tough one. As we've all said, we think that end consumer demand hasn't declined, right. It's still out there. We don't see that backlog directly and we haven't gotten very quantifiable insight into it. We do expect that we'll see our customers' production increase in May and June and we're prepared to support that. And hopefully, we all get back in line and start reducing those backlogs. But I think there will be, hopefully, a fairly meaningful increase, a bit of a surge here as – if chemicals support it.

Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

And the only point that we can direct you to is Sleep Number and Tempur Sealy have both recently reported. They both talked about record backlogs. Tempur Sealy at the Sealy level and Sleep Number as well. So, there's such a high correlation. So, we're confident that those backlogs are significant, but there are customers' backlogs. So, it's tough for us to quantify.

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Peter Jacob Keith

Analyst, Piper Sandler & Co.

Okay. Fair enough. One last question I had and maybe it'll be for Jeff is just on the leverage ratio. So, it's coming down at least in our model. It looks like you guys might be at 2 times by the end of the year. I guess does that seem like a reasonable target and, therefore, we could potentially start thinking about buyback resuming in 2022?

Jeffrey L. Tate

Executive Vice President & Chief Financial Officer, Leggett & Platt, Inc.

Good morning, Peter, and thanks for the question. Yeah. We're making tremendous progress as you noted in our deleveraging efforts, and you've seen that over the past year-and-a-half or so. And your projections around potentially where we could land at year end I would say is very realistic at this stage.

In terms of buybacks, we're going to stick with the priorities that we've set in terms of our uses of cash and how that plays out here in the near term in terms of funding our organic growth, continuing to be very focused on our dividend commitment, also continuing to – continue that deleveraging effort moving forward.

And then looking at M&A opportunities and we've been very clear that we will continue to look for those bolt-on small type of M&A targets that would be a good fit with our portfolio moving forward. And if there's additional cash after that, it would be used for buybacks. So, I would say, we're not at that stage right now to be in the near term, identifying buyback opportunities because we've got some other priorities that we are really focused on that I just mentioned.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Okay. That's very helpful. Thanks so much, everyone, and good luck.

Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Thank you.

Operator: Thank you. Our next question is coming from Susan Maklari of Goldman Sachs. Please go ahead.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Yeah. I have a follow-up question around, can you talk to what you're seeing in some of the non-residential parts of the business? It seems like we're starting to hear some improvement there. I know that in aerospace you also highlighted the fact that your assembly business was actually back at 2019 levels. Can you just give us some color on what you're seeing in that side of the business and maybe commenting on aero specifically. And how it seems like there's some divergence between assemblies relative to tubing in there.

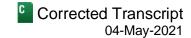
Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Yeah. Susan, thank you for the question and the opportunity to talk about some of our other businesses because there really are some good stories and good trends there. But, Steve, if you don't mind, why don't you kind of unpack them all while you hit aero?

the end customer than the tube sales.

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Steven K. Henderson

Executive Vice President, President-Specialized Products and Furniture, Flooring & Textile Products, Leggett & Platt, Inc.

Sure. Good morning, Susan. So, from an aerospace perspective, certainly, it's down 43% from a strong Q1 of 2020. But we have now seen two quarters of sequential sales growth. COVID hit this part of the portfolio a little bit later due to the extended supply chain that you are aware of. But the assembly portion of the business is closer to

So, those have recovered faster than the tube sales, which typically run through distribution. And those supply chains are being depleted right now and we expect at some point those will recover as the supply chain dries up, but we don't have very, very detailed understanding of what that is. But in general, the industry is recovering and it should pull that forward. And certainly, much of that is dependent on air traffic picking back up again and we're hoping, with vaccines, that that's going to happen sooner than later. But that said, the industry is still projected not to recover until 2023, something like that. So, it'll be a long road forward for that business. But in a good position to grow going forward.

Hydraulic cylinders, in that portfolio, up 2%. So, demand signals in that business are pretty short term in nature, but they're trending up steadily and modestly. Demand had been about 60% in late 2020. But like we said, orders have been picking up and our customers' expectations are that they will continue through the balance of the year. So, we're cautiously optimistic in that regard.

And then, shifting to the Furniture, Flooring & Textile segment, both geo components and converting are doing very well. And those teams pivoted to growing segments really, really quickly. Geo, the near-term outlook is pretty strong as projects that are funded continue around the US. Their project tracking pipeline remains strong. They had been negatively impacted by energy slowdowns. That's a pretty small part of the portfolio and that has been more than offset by the strength in the retail business, which is up. And they're still – they're dealing with many of the inflationary inputs that their other businesses are but are doing great job of getting the pricing that they need to offset that.

Fabric converting certainly benefiting from the core market rebound combined with medical infiltration. Bedding has been pretty strong for them and furniture and automotive activity is pretty close to pre-COVID levels. And that team has really done a great job of strategic aggressive purchases beyond what the competition has done. So, it's really a good news story. A little impacted by the foam shortages, which will probably start to ease as Mitch had mentioned from the bedding side of things. So, really good news story there.

Home furniture demand has been strong through the quarter. And as Karl said, Asia remains particularly strong. The order backlog is strong and customers are saying that will continue for the foreseeable future. And the team has been able to add some capacity to help work down that backlog. And we have the ability to add more if we need to depending on how long that lasts. There is a slight amount of foam impact in North America for that business, but not as bad as we had anticipated. So, that's positive.

And flooring, volumes are stable at a pretty good level. But at the past – as we've said in the past, still have limited visibility there. Residential demand rate remains strong and hospitality remains off with projects getting pushed further into 2021 and 2022. Inflation is being recovered with our pricing. And we believe the strong demand signals that we're seeing will lead us to believe that we can get the needed relief that we have there and all of the home building and other things that give us any kind of view into the future are still strong.

And finally, with the work furniture, it continues to lag the other businesses in the segment. But there's three quarters of sequential sales improvement there. Our results are basically in line with our largest customers. We

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still believe the industry demand will be challenged for some time. But we are seeing, as we said, slow recovery being primarily retail oriented, while the contract work continues to lag. But it is increasing and that should lead to some improvements in the late fourth quarter, early first quarter of next year as we have vaccines rolled out. So, all of the retail oriented aspects are driving this portion of the portfolio.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Okay. That's very helpful color. Thank you for all that detail. I guess, one last question is we've obviously talked about the impact of weather, especially in Texas as it relates to the supply chain and the availability of some raw materials. But were there any other impacts to the business in terms of maybe production or your ability to flow product or anything of that nature that we should be thinking about as things there have improved and we move through the second quarter?

Karl G. Glassman

Chairman, Chief Executive Officer & Management Director, Leggett & Platt, Inc.

Yeah. Mitch, why don't you talk about the logistics issues that we continue to deal with it?

J. Mitchell Dolloff

President, Chief Operating Officer, President-Bedding Products & Management Director, Leggett & Platt, Inc.

Okay. Yeah. Thanks, Karl. I mean I think that there's a variety of issues, but it feels like it has been happening for so long now that it's just part of the normal operations, right. So, the teams have done an incredible job really working around the inherent inefficiencies that come from whether it's the tip shortages or chemical shortages or material shortages. But as Karl mentioned, I think globally we see transportation issues continue as well. We see lack of container availability. We see congestion at ports. We see – so, both supply constraints there, as well as inflation. And I think we also continue to see labor challenges around the world.

But I don't think – I think those are more, like – and these are things that we are dealing with and we probably will continue to deal with them for the foreseeable future. Hopefully, they don't get worse, but I think though we'll probably continue to have similar impacts that we have had here in the last few quarters with them going forward.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Okay. All right. Thank you very much for all the color, guys, and good luck with everything.

Operator: Thank you. Ladies and gentlemen, this brings us to the end of our question-and-answer session. I would like to turn the floor back over to Ms. McCoy for closing comments.

Susan R. McCoy

Senior Vice President, Investor Relations, Leggett & Platt, Inc.

Well, with that, we don't have anything else to add, but we appreciate your time today and we look forward to speaking with you next quarter. Thank you.

Operator: Ladies and gentlemen, thank you for your interest in Leggett & Platt. You may disconnect your lines at this time or log off the webcast and have a wonderful day.

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