

LEGGETT & PLATT INCORPORATED (NYSE: LEG)



BUY. HOLD. AND PROSPER.®

(as at May 31, 2020)

Business Description:

Leggett & Platt, Incorporated (L&G) engages in the manufacture and distribution of furniture and engineered components; and products for homes, offices, automobiles and commercial aircraft. It operates through the following segments: Bedding, Flooring & Textile and Specialized Products. The Bedding Products segment supplies products and components for the home, including mattress springs and specialty foam, as well as adjustable beds, bedding machinery, steel rod and drawn wire. The Flooring & Textile Products segment is a producer of an extensive line of components and engineered systems for office, residential and contract furniture manufacturers. The Specialized Products segment supplies titanium, nickel and stainless-steel tubing for the aerospace industry, and serves the construction market with hydraulic cylinders group.

Investment Thesis:

- **L&P holds a low cost production advantage and has a competitive edge in an omni-channel environment.** Within the bedding segment, L&G has integrated the rod-wire-machinery-inner spring value chain, allowing for lower production costs than competitors. In addition, with the industry trend shifting towards multiple distribution channels, L&G has been one step ahead of the game and has made significant developments in building out a strong distribution channel.
- **The company is diversified across multiple industries, allowing for less exposure to industry-specific volatility.** L&G products serve multiple industries including the automotive, aerospace and consumer furniture sectors. The automotive industry is widely known as highly cyclical. Through diversification, L&G is able to hedge some of that volatility out of its financial results.
- **Growing stable cash flows and financial metrics.** The company has expanded both top-line and bottom-line financial results throughout the past 6 years while maintaining a healthy balance sheet. This allows the company to return capital to shareholders through the form of consistently increasing dividend payments.

Industry Drivers/Trend

Consumer Furniture Goods & Manufacturing:

- Consumer demand for bedding has started to shift towards synergies between comfort, convenience and connectivity. An increasing amount of the population look to generate sleeping data in order to analyze their sleeping cycles and how to improve their sleeping habits.
- Aerospace is a relatively small portion of the company's business, however there is strong potential for growth.

Increasing aerospace backlog and defense spending allows for aerospace parts suppliers to increase its presence within this space.

- A large portion of sales within the industry are shifting towards online direct-to-consumer amongst other non-traditional channels. With the growth of e-commerce, companies must embrace this shift and grow its online presence to match consumer demands.

Competitive Advantages:

- Innovation, value engineering and speed across development, production and fulfillment
- Integrated supply chains allow for lower costs
- One of the largest household penetrations of all global brands

Competitors:

- HNI Corporation, Knoll, Inc., Crown Crafts, Inc., La-Z-Boy Incorporated, Ethan Allen Interiors Inc.

Customers:

- Furniture Retailers, distributors and wholesalers; end consumers, automotive companies, aerospace companies & enterprises

Barriers to Entry:

- **Branded Portfolio:** Existing brands have a distinct advantage as branded products are sold and recognized worldwide. It is hard for a new entrant to gain enough market share from brand-loyal consumers to compete and survive.
- **Large Start-Up Costs:** Existing buildings and plant machinery make up a large part of an incumbent's assets. Large financial investments in plants and equipment are a barrier to a start-up company attempting to enter the industry.
- **Economies of Scale:** Large companies in this space have an operating advantage as they have been able to operate at a large volume for a prolonged period. This operating cost advantage will discourage new entrants.

Officers & Directors:

Karl Glassman, Chairman & Chief Executive Officer; **Jeffrey Tate**, EVP & Chief Financial Officer; **J. Mitchell Dolloff**, Chief Operating Officer & Director; **Michael Blinzler**, Chief Information & VP-IT; **Vincent Lyons**, Vice President – Engineering & Technology.

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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	3,920.0	3,761.0	3,942.0	4,268.0	4,755.0
COGS	(3,016.0)	(2,870.0)	(3,081.0)	(3,396.0)	(3,767.0)
Gross Profit	904.0	891.0	861.0	872.0	988.0
Profit before Tax	450.0	487.0	432.0	384.0	380.0
Net Profit	122.0	120.0	138.0	78.0	96.0
EPS (Diluted)	2.28	2.76	2.13	2.26	2.47
Dividends per Share	1.26	1.34	1.42	1.50	1.60

Balance Sheet

Total assets	2,968.0	2,984.0	3,551.0	3,382.0	4,816.0
Long-term debt	945.0	956.0	1,098.0	1,168.0	2,188.0
Total equity	1,086.0	1,092.0	1,190.0	1,157.0	1,312.0

Statement of Cash Flow

Cash from operations	359.1	552.6	443.7	440.3	668.0
Cash from investing	(69.6)	(137.2)	(167.6)	(277.8)	(1,418.2)
Cash from financing	(349.2)	(367.0)	(61.9)	(396.9)	731.1

Key Ratios and Figures (%)

Gross Margin	23.1%	23.7%	21.8%	20.4%	20.8%
Dividend as % of Diluted EPS	55.3%	48.6%	66.7%	66.4%	64.8%

Source: Leggett & Platt Incorporated 2019 Annual Report; Wall Street Journal

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