



COMPANY UPDATE / RATING CHANGE ESTIMATE CHANGE / TARGET CHANGE

Key Metrics

LEG - NYSE - as of	7/21/17	\$52.65
Price Target		\$66.00
52-Week Range	\$44.02 -	\$54.97
Shares Outstanding (mm)		132.3
Market Cap. (\$mm)		\$6,966.0
1-Mo. Average Daily Volume		710,828
Institutional Ownership		74.5%
Debt/Total Capital	Q1'17	43.9%
ROE--unadjusted	TTM	33.4%
Book Value / Share	Q1'17	\$7.90
Price / Book Value		6.7x
Dividend & Yield	\$1.44	2.7%
Adj EBITDA Margin	TTM	15.2%

EPS FY 12/31

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.63	--	\$0.62	A --	--
2Q	*\$0.66	\$0.63	\$0.65	--	--
3Q	\$0.67	\$0.71	\$0.74	--	--
4Q	*\$0.53	\$0.61	\$0.64	--	--
Year	\$2.49	\$2.58	\$2.66	\$2.76	\$2.87
P/E	22.5x		19.8x		18.3x

*adjusted for special items

Revenue (\$mm)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$938	--	\$976	A --	--
2Q	\$959	\$990	\$1,006	--	--
3Q	\$949	\$1,005	\$1,028	--	--
4Q	\$904	\$968	\$990	--	--
Year	\$3,750	\$3,924	\$3,984	\$4,111	\$4,199

Company Description: Carthage, MO-based Leggett & Platt, founded in 1883, is a leading producer of components for the Consumer Durables sector. LEG products are sold into various end-markets, including: bedding, residential and commercial furniture, flooring, automotive and aerospace. Leggett employs ~21,000 people, and trades on the NYSE under ticker 'LEG'.

Industrials

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July 24, 2017

Leggett & Platt Inc.

LEG – NYSE – Long-term Buy – 2

Upgrading Rating to Long-term Buy with \$66 Price Target; Initiating 2019 Estimates.

- We are upgrading our rating on LEG from Neutral to Long-term Buy, and assign shares a 2-3 year price target of \$66. Our suitability rating of '2' is unchanged.
- The stock has been flattish since Q1 results in April despite a strong Industrials sector. We find it plausible that either the general Retail narrative and/or a rollover in some of the Auto trades/data could be acting as an overhang; regardless of the reason for the churn, we identify a compelling long-term entry point.
- Our upgrade is not a trading call on Q2 results; however, we do expect positive commentary toward 2H'17, and are comfortable with Street consensus for Q2 itself.
- Rising steel prices percolated as an issue around the time of LEG making an all-time high last summer; supporting the front end of our investment timeframe, we like the idea of owning the stock as the 2-3 quarter lag for price increases expires, and we face softer near-term comps.
- Longer-term, we like LEG's competitive positioning and end-market exposures, and hold high confidence in a long-tenured management team.
- LEG is a preferred income play in the Industrials sector for us, having raised its payout for 46 consecutive years.
- Our 2017E EPS rises \$0.08 to \$2.66. On targeted retail sales data for Q2 that we believe corroborates comments exiting Q1, we raise our volumes (revenue) for 2017; our 2018E EPS rises \$0.11, on a higher base year.
- We are initiating 2019E EPS of \$3.21 on sales of \$4.41B; our numbers compare favorably to current 2019 consensus for \$3.06 on revenue of \$4.35B.
- At our price target, LEG would trade ~5% above recent average P/E and EV/EBITDA multiples (TTM) of 20.0x and 12.0x, respectively. We view this as reasonable and attainable based on stable growth expectations and our outlook for positive mix shift driven by the better margin/faster growing Specialty Products group.
- LEG is set to report Q2'17 results after the market close on Thursday, July 27, with a conference call on July 28.

Note Important Disclosures on Pages 6-7.

Note Analyst Certification on Page 6.**ADDITIONAL DISCUSSION—MULTIPLE ITEMS**

We model 2019 in similar fashion to 2018: low single digit sales growth for the legacy-LEG Residential Products and Furniture Products groups, and low double digit sales growth for the burgeoning Specialty Products segment (i.e. Auto/Aero businesses). In our view, both rates are sufficiently in line with standing stretch guidance, and we do not yet see anything across the broader macro landscape that pushes off these figures. These revenue items are coupled with the expectation for increased Cap Ex and fairly aggressive buyback assumptions.

We expect an update to 2017 guidance later this week, but to recap targets reiterated back in April, management is expecting EPS in a range of \$2.55-\$2.75; LEG earned an adjusted \$2.49 in 2016. Revenue is projected to be in the range of \$3.95B-\$4.05B, which assumes mid-single digit volume growth. We thought this assertion was a tad optimistic several months ago, but is more/less in line with our view at this point. Although it does not factor much into our day-to-day analysis, management continues to target total shareholder return in the top 1/3 of S&P 500 components.

ADDITIONAL DISCUSSION—INVESTMENT THESIS RECAP & FINAL THOUGHTS

We view Leggett & Platt as an exceptionally balanced capital allocation story (i.e. Cap Ex, capital return, M&A) and are pleased to identify, in our view, an entry point that balances both near-term and longer-term risk/reward. The Auto and Aero businesses remain the most important long-term drivers for us (faster growing/higher margin), and we believe the multi-year visibility here may be underappreciated by the market given recent headlines. Similarly, while LEG's bedding and furniture exposures are close to what's developed into a problematic retail narrative, we really make no adjustments to our standing thesis point that Leggett's legacy businesses (with substantial vertical integration) offer a very resilient cash story.

We are comfortable adding shares of LEG ahead of Q2'17 results later this week, with our expectation for solid commentary toward 2H'17 offsetting any fears we might have with respect to second quarter results in a vacuum. Longer-term, we see little that could materialize in Q2 that would substantially damage our thesis points outlined above (capital allocation; Auto/Aero; entrenched/resilient cash flow) over our investment timeframe, in which case we are happy to condition investors to capitalize on any volatility that could materialize around earnings.

SUITABILITY

We assign LEG a suitability rating of '2.' A complete description of our suitability scale is on page 6. We view Leggett & Platt as a top-tier vertically integrated industrial manufacturer; LEG's end markets are discretionary and tied to consumer sentiment and spending. Moderate size and scope, along with an element of cyclicalty tied to end markets and commodity prices, push the well-entrenched firm just below our '1' suitability rating. A strong competitive position across mostly-mature product categories, a demonstrated ability to consistently return capital to shareholders and a conservative financial profile keep LEG's suitability rating well above '3.'

CONSIDERATIONS AND RISKS

Most of Leggett & Platt's products are ultimately sold into consumer end markets (i.e. bedding, automotive, furniture). Shifts in consumer confidence, trends in real wages/unemployment, and secular shifts in preferences could have a material impact on the company. LEG cites consumer sentiment as an indicator for projected future performance; we believe management has little ability to compel consumption.

LEG generates ~35% of its revenues internationally, and maintains facilities abroad. The company is therefore subject to economies, trade policies, and currencies in countries that can be more volatile than the US. We believe the company is most sensitive to international regions of: Canada, China and Europe.

Raw commodities, particularly steel, are important components in LEG products. Should the company be unable to pass the burden of price fluctuations on to customers, we expect financial performance would suffer. Should LEG be unable to sufficiently source raw inputs, we believe volumes would suffer.

LEG's largest customer represents ~8% of revenues and the ten largest customers represent ~30% of revenues. A deterioration of a relationship with any of its largest customers could have a material adverse impact on the company.

Further consolidation in the bedding industry could lead to a client base with greater negotiating leverage.

The rise of specialty bedding categories could permanently displace demand for mattresses and/or box springs carrying LEG components.

The company has been an active acquirer at points throughout its history, and could do deals in the future. Failure to effectively integrate potential purchases and/or overpayment for assets could result in asset impairments and a reduced capital position. Expected cost synergies and the ability to execute on the organic strategy for acquired assets may not materialize.

Our Suitability rating is 2 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive)

Additional information is available upon request.

Leggett & Platt, Inc. (LEG)

(\$'s in MM's) FYE Dec.

Income Statement Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E	FY'19E
Sales (net)	3,782.3	3,917.2	938.4	958.9	948.9	903.7	3,749.9	960.3	1,005.5	1,028.5	989.9	3,984.2	4,198.7	4,411.1
COGS	2,991.9	2,994.0	704.8	724.9	721.5	699.5	2,850.7	734.3	765.2	781.6	757.3	3,038.4	3,203.4	3,356.8
Gross Profit	790.4	923.2	233.6	234.0	227.4	204.2	899.2	226.0	240.3	246.8	232.6	945.8	995.3	1,054.2
%	20.9%	23.6%	24.9%	24.4%	24.0%	22.6%	24.0%	23.5%	23.9%	24.0%	23.5%	23.7%	23.7%	23.9%
Selling, G & A Expense	449.6	416.9	105.1	99.7	93.9	98.1	416.9	106.4	105.4	96.2	100.6	408.6	418.8	431.4
%	11.9%	10.6%	11.2%	10.4%	9.9%	10.9%	11.1%	11.1%	10.5%	9.4%	10.2%	10.3%	10.0%	9.8%
Amortization of Intangibles	19.7	20.8	5.1	4.8	5.2	4.8	19.9	5.1	5.1	5.1	5.1	20.4	20.4	20.4
Goodwill Impairment	0.0	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Inc.	321.1	481.4	123.4	129.5	128.3	101.3	462.4	114.5	129.8	145.5	127.0	516.8	556.1	602.5
%	8.5%	12.3%	13.2%	13.5%	13.5%	11.2%	12.3%	11.9%	12.9%	14.1%	12.8%	13.0%	13.2%	13.7%
Interest Inc. (Exp.)	(36.0)	(36.7)	(8.4)	(9.3)	(9.0)	(8.2)	(34.9)	(8.6)	(8.4)	(8.5)	(8.4)	(33.9)	(34.0)	(34.2)
Other Inc. (Exp.)	10.4	5.1	3.7	17.0	1.9	16.9	39.5	1.4	2.0	2.0	2.0	7.4	8.0	8.0
Pre Tax Inc.	295.5	449.8	118.7	137.2	121.2	110.0	467.0	107.3	123.4	139.0	120.5	490.2	530.0	576.2
Income Tax Expense	70.3	121.8	27.7	37.7	27.6	27.0	120.0	21.2	32.1	36.1	31.3	120.8	140.5	152.7
%	23.8%	27.1%	23.3%	27.5%	22.8%	24.5%	25.7%	19.8%	26.0%	26.0%	26.0%	24.6%	26.5%	26.5%
Net Income--Cont'd Ops	225.2	328.0	91.0	99.5	93.6	83.0	347.0	86.1	91.3	102.8	89.2	369.5	389.6	423.5
Less: (NI) / Loss Attrib to non-CI	(3.2)	(4.1)	(1.6)	1.4	(0.1)	(0.1)	(0.4)	-	(1.4)	(1.4)	(1.4)	(4.2)	(5.6)	(5.6)
Net Income att to LEG (ctd ops)	222.0	323.9	89.4	100.9	93.5	82.9	346.6	86.1	89.9	101.4	87.8	365.3	384.0	417.9
%	5.9%	8.3%	9.5%	10.5%	9.9%	9.2%	9.2%	9.0%	8.9%	9.9%	8.9%	9.2%	9.1%	9.5%
Shares Out.	143.2	142.9	141.2	140.1	139.4	139.2	140.0	138.1	137.6	137.2	136.7	137.4	133.9	130.1
Dilluted EPS (cont'd ops)	\$1.55	\$2.27	\$0.63	\$0.72	\$0.67	\$0.60	\$2.62	\$0.62	\$0.65	\$0.74	\$0.64	\$2.66	\$2.87	\$3.21
Adjusted EPS (cont'd ops)	\$1.78	\$2.34		\$0.66		\$0.53	\$2.49					\$2.66	\$2.87	\$3.21
EPS from disc ops	-\$0.87	\$0.01	\$0.00	\$0.00	\$0.00	-\$0.01		-						
Rate of Change Analysis														
Sales	8.8%	3.6%	-2.9%	-3.9%	-6.0%	-4.3%	-4.3%	2.3%	4.9%	8.4%	9.5%	6.2%	5.4%	5.1%
Op. Inc.	26.6%	49.9%	11.2%	8.9%	-7.7%	-10.0%	-3.9%	-7.2%	0.2%	13.4%	25.4%	11.8%	7.6%	8.3%
Adjusted EPS: Cont'd Ops	15.9%	31.6%	26.1%	23.6%	0.3%	-17.5%	6.3%	-1.5%	-1.0%	10.3%	22.2%	6.8%	7.9%	12.1%
Adjusted EBITDA--approx	-2.2%	25.0%	4.8%	5.4%	-6.0%	-16.8%	-3.5%	-4.5%	2.6%	11.4%	21.3%	7.2%	7.3%	8.1%
Working Cap.	-15.1%	17.7%	4.8%	0.3%	7.7%	-5.6%	-5.6%	3.8%	11.4%	13.3%	36.9%	36.9%	6.6%	7.2%
Inventory	4.7%	4.8%	3.1%	2.5%	2.8%	3.0%	3.0%	6.5%	4.9%	8.4%	9.5%	9.5%	4.8%	5.1%
			*Rsd FY guide by \$0.10 on both ends	** Adj out \$.05 gain-on- sale, \$.03 litig gain, -.02 gwill chg *Rsd FY guide by \$0.05 on low- end	**Rsd FY guide low/high end by \$0.10/\$0.02 on low-end	** Adj out \$.07 gain-on- sale							*EPS guide for \$2.55- \$2.75; Rev \$3.95B- \$4.05B	

Source: Company reports and Hilliard Lyons estimates

Leggett & Platt, Inc. (LEG)

Cash Flow Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E	FY'19E
Net Inc.	222.0	323.9	89.4	100.9	93.5	82.9	346.6	86.1	89.9	101.4	87.8	365.3	384.0	417.9
D&A	117.9	113.2	28.3	28.9	29.2	29.0	115.4	30.3	29.4	30.0	31.1	120.8	128.3	137.2
(Increase) Decrease in Wrkg. Cap	54.6	(54.2)	(55.0)	15.3	(10.2)	70.1	20.2	(91.0)	(14.3)	(19.3)	(1.0)	(125.6)	(30.9)	(35.7)
Operating C.F.	394.5	382.9	62.7	145.1	112.5	182.0	482.2	25.4	105.1	112.1	117.9	360.5	481.4	519.5
Cap Ex	(94.1)	(103.2)	(27.7)	(30.2)	(25.2)	(40.9)	(124.0)	(34.3)	(40.0)	(40.0)	(35.0)	(149.3)	(160.0)	(170.0)
Dividends	(167.5)	(171.6)	(43.5)	(43.0)	(45.5)	(45.4)	(177.4)	(45.4)	(46.8)	(49.4)	(49.2)	(192.3)	(198.2)	(192.5)
Free C.F.	132.9	108.1	(8.5)	71.9	41.8	95.7	180.8	(54.3)	18.3	22.7	33.7	18.8	123.2	157.0
Free C.F./Share	\$ 0.93	\$ 0.76	\$ (0.06)	\$ 0.51	\$ 0.30	\$ 0.69	\$ 1.29	\$ (0.39)	\$ 0.13	\$ 0.17	\$ 0.25	\$ 0.14	\$ 0.92	\$ 1.21
Acquisition Costs	(70.4)	(11.1)	(16.4)	(0.5)	(11.1)	(1.5)	(29.5)	(37.9)	-	(25.0)	-	(62.9)	(25.0)	(25.0)
Divestiture Gains	76.5	51.4	2.3	51.7	0.2	31.9	86.1	1.3	-	-	-	1.3	-	-
LTD Issue (Repaid)														
CP/Revolver Issue (Repaid)		201.3	81.4	8.8	11.2	(89.9)	11.5	159.1	(1.0)	1.0	(1.0)	158.1	32.0	32.0
LT Debt Drawn	299.3	0.4	-	-	0.2	0.2	0.4	-	-	-	-	-	-	-
LT Debt (Repaid)	(188.1)	(205.0)	(0.6)	(1.0)	(3.2)	(0.6)	(5.4)	(4.9)	-	-	-	(4.9)	-	-
Stock Issued	21.8	8.3	1.2	1.5	1.3	0.9	4.9	1.3	-	-	-	1.3	-	-
Stock (Repurchased)	(149.7)	(191.5)	(106.6)	(56.9)	(17.9)	(16.6)	(198.0)	(104.2)	(25.0)	(25.0)	(25.0)	(179.2)	(190.0)	(205.0)
Net C.F.	122.3	(38.1)	(47.2)	75.5	22.5	20.1	50.8	(39.6)	(7.7)	(26.3)	7.7	(67.5)	(59.8)	(41.0)
EBITDA	\$ 439.0	\$ 594.6	\$ 151.7	\$ 158.4	\$ 157.5	\$ 130.3	\$ 577.8	\$ 144.8	\$ 159.3	\$ 175.5	\$ 158.1	\$ 637.6	\$ 684.4	\$ 739.7
Adjusted EBITDA--approx	\$ 493.0	\$ 616.2	\$ 151.7	\$ 155.2	\$ 157.5	\$ 130.3	\$ 594.7	\$ 144.8	\$ 159.3	\$ 175.5	\$ 158.1	\$ 637.6	\$ 684.4	\$ 739.7
TTM Adj EBITDA Margin	13.0%	15.7%	16.0%	16.4%	16.4%	15.9%	15.9%	15.6%	15.5%	15.6%	16.0%	16.0%	16.3%	16.8%
Balance Sheet Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E	FY'19E
Cash	332.8	253.2	250.2	284.8	317.3	281.9	281.9	268.6	260.9	234.6	242.3	242.3	182.5	141.5
A/R	523.3	520.2	531.3	534.7	543.8	486.6	486.6	555.4	543.0	555.4	534.6	534.6	560.0	588.6
Inventory	481.4	504.6	522.1	523.4	518.6	519.6	519.6	556.2	548.8	562.1	569.2	569.2	596.2	626.7
Other Current Assets	91.8	33.2	38.3	37.2	33.6	36.8	36.8	32.9	37.9	34.3	37.5	37.5	38.3	39.1
Current Assets	1,429.3	1,311.2	1,341.9	1,380.1	1,413.3	1,324.9	1,324.9	1,413.1	1,390.6	1,386.4	1,383.6	1,383.6	1,377.0	1,395.9
Net PP&E	548.8	540.8	554.7	553.1	554.1	565.5	565.5	588.8	599.4	621.9	625.8	625.8	670.0	715.3
Goodwill / Intangibles	1,034.1	998.4	997.3	975.3	978.2	956.0	956.0	987.3	1,007.3	1,027.3	1,044.8	1,044.8	1,124.8	1,209.8
Other LT Assets	128.4	117.2	130.5	123.3	124.7	137.7	137.7	130.3	132.9	135.6	138.3	138.3	149.7	162.0
Total Assets	3,140.6	2,967.6	3,024.4	3,031.8	3,070.3	2,984.1	2,984.1	3,119.5	3,130.2	3,171.1	3,192.5	3,192.5	3,321.5	3,483.0
Current LTD	201.7	3.4	3.5	3.6	1.0	3.6	3.6	3.1	2.3	2.3	2.3	2.3	2.3	2.3
A/P	369.8	307.2	332.1	339.8	334.9	351.1	351.1	387.8	321.8	329.1	316.8	316.8	331.8	348.8
Other CL	420.7	390.6	344.4	355.6	351.0	351.9	351.9	325.7	362.7	358.0	358.9	358.9	366.1	373.4
Total Current Liabilities	992.2	701.2	680.0	699.0	686.9	706.6	706.6	716.6	686.8	689.4	678.0	678.0	700.2	724.6
Long Term Debt	766.7	945.4	1,032.0	1,044.3	1,055.4	956.2	956.2	1,119.9	1,109.7	1,110.7	1,109.7	1,109.7	1,162.3	1,194.3
Other LT Liabilities	226.8	223.3	221.2	222.9	224.4	227.3	227.3	191.8	227.4	228.9	231.8	231.8	236.5	241.2
Shareholders' Equity	1,154.9	1,097.7	1,091.2	1,065.6	1,103.6	1,094.0	1,094.0	1,091.2	1,106.4	1,142.1	1,172.9	1,172.9	1,222.4	1,322.9
Book Value	\$ 8.07	\$ 7.74	\$ 7.73	\$ 7.61	\$ 7.92	\$ 7.86	\$ 7.86	\$ 7.90	\$ 8.04	\$ 8.33	\$ 8.58	\$ 8.58	\$ 9.19	\$ 10.24
Current Ratio	1.4	1.9	2.0x	2.0x	2.1x	1.9x	1.9	2.0x	2.0x	2.0x	2.0x	2.0x	2.0x	1.9x
Net LT Debt / Total Cap	35.5%	38.8%	41.8%	41.7%	40.1%	38.3%	38.3%	43.9%	43.5%	43.5%	42.6%	42.6%	44.5%	44.4%
TTM ROE	18.4%	29.0%	30.9%	33.5%	33.4%	33.6%	33.6%	33.4%	32.3%	32.5%	32.6%	32.6%	32.6%	33.3%

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Spencer E Joyce, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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