



## COMPANY UPDATE / ESTIMATE CHANGE

### Key Metrics

LEG - NYSE - as of	7/27/17	\$51.79
Price Target		\$66.00
52-Week Range	\$44.02 -	\$54.97
Shares Outstanding (mm)		132.3
Market Cap. (\$mm)		\$6,852.2
1-Mo. Average Daily Volume		766,146
Institutional Ownership		74.5%
Debt/Total Capital	Q2'17	42.9%
ROE--unadjusted	TTM	31.9%
Book Value / Share	Q2'17	\$8.25
Price / Book Value		6.3x
Dividend & Yield	\$ 1.44	2.8%
Adj EBITDA Margin	TTM	14.9%

### EPS FY 12/31

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.63	--	\$0.62	A --	--
2Q	*\$0.66	--	\$0.64	A --	--
3Q	\$0.67	\$0.74	\$0.70	--	--
4Q	*\$0.53	\$0.64	\$0.65	--	--
Year	\$2.49	\$2.66	\$2.61	\$2.87	\$2.84
P/E	22.1x		19.8x		18.2x

\*adjusted for special items

### Revenue (\$mm)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$938	--	\$976	A --	--
2Q	\$959	--	\$989	A --	--
3Q	\$949	\$1,028	\$1,025	--	--
4Q	\$904	\$990	\$985	--	--
Year	\$3,750	\$3,984	\$3,960	\$4,199	\$4,173

**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'.

## Leggett & Platt Inc.

LEG – NYSE – Long-term Buy – 2

### Q2'17 Results from LEG; Reiterating Long-term Buy.

- LEG reported Q2'17 EPS of \$0.64, down \$0.02 from the year-ago period; results missed our estimate by a penny, which was in line with consensus. Similar to Q1, margin compression offset revenue growth; a lower effective tax rate provided a ~\$0.04 tailwind to the quarter.
- Revenue rose 3.2% in Q2, a third sequential quarter of improved growth. Nonetheless, external sales of \$989MM were \$17MM short of our estimate (near consensus) due mostly to volumes at the Residential Products segment (-5%). Consolidated same-store-sales were higher by 4%, due to a mix of volume and price.
- Specialized volumes were +7% yr/yr, with sales growth muted by a mix of pricing, FX and divestitures. Strength in Auto continued with organic sales +11%; growth here remains a key of our investment thesis, and LEG noted additional contract wins in Q2 on the conference call.
- Residential volumes posted a surprise decline in Q2 after advancing in Q1. Management asserted 1H'17 was an anomalistic environment for the Bedding Group, but noted better trends thus far in July.
- Consolidated EBIT margin fell 140bps to 12.4%, although directionally this was expected; gross margin fell to 23.3% from 24.4%, although from a year-ahead standpoint we view comps as fair-to-constructive.
- Management cut the top end of FY 2017 EPS guidance by \$0.10, netting a new range of \$2.55-\$2.65 on sales of \$3.9B-\$4.00B (lowered mid-point by \$0.05B). LEG now assumes low to mid-single digit volume growth.
- Reflecting Q2 and lower Q3 margins, our 2017E EPS falls \$0.05 to \$2.61. Our 2018 and 2019 EPS estimates each slip \$0.03 to \$2.84 and \$3.18, respectively.
- We are reiterating our LTB rating and 2-3 year \$66 price target. Our valuation outlook is nearly unchanged, and we like adding shares exiting a somewhat disappointing quarter. At our 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 competitive positioning and our outlook for positive mix shift to Specialized.

**Note Important Disclosures on Pages 6-7.  
Note Analyst Certification on Page 6.**

**ADDITIONAL DISCUSSION—THESIS UPDATE**

Over the long-term we see LEG as an improved margin story based on the faster growing and higher margin Specialized Products segments; exposure to this segment is a core of our long-term investment thesis. Perhaps lost in the minutia of this morning's conference call we point out for investors that LEG management noted a couple of additional contract wins during the quarter, and a very slightly increased Cap Ex budget, due in part to support growth of Automotive. This does not compel a model adjustment for us, but we do like the positive affirmation through what has been a choppy few months for Auto in general.

**ADDITIONAL DISCUSSION—FINAL THOUGHTS**

To be fair, Q2 was a bit disappointing, in our view; however, the guidance cuts are mostly backward looking to reflect what was a softer 1H'17, especially for the bedding market. What remains intact are our views toward quickening revenue growth over the balance of this year, along with a return to profit growth that should net LEG record EPS for the full-year. Over the longer-term, we see unchanged competitive positioning for Leggett, and like owning the company's entrenched competitive position in the home furnishings industry, which we believe meshes well from a cash flow and capital allocation standpoint with the more dynamic Specialized Products segment.

Thus, we are reiterating our Long-term Buy rating and \$66 price target, along with a suggestion that investors aggressively add to Leggett positions, should the stock react negatively in the next few sessions.

**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 &amp; 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	Q2'17	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	989.3	1,025.5	984.9	3,960.0	4,172.7	4,382.7
COGS	2,991.9	2,994.0	704.8	724.9	721.5	699.5	2,850.7	734.3	759.2	783.5	753.5	3,030.5	3,183.6	3,335.3
Gross Profit	790.4	923.2	233.6	234.0	227.4	204.2	899.2	226.0	230.1	242.0	231.5	929.6	989.1	1,047.5
%	20.9%	23.6%	24.9%	24.4%	24.0%	22.6%	24.0%	23.5%	23.3%	23.6%	23.5%	23.5%	23.7%	23.9%
Selling, G & A Expense	449.6	416.9	105.1	99.7	93.9	98.1	416.9	106.4	105.0	96.2	100.6	408.2	418.4	431.0
%	11.9%	10.6%	11.2%	10.4%	9.9%	10.9%	11.1%	11.1%	10.6%	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	4.7	5.1	4.8	19.7	19.7	19.7
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	120.4	140.7	126.1	501.7	551.0	596.8
%	8.5%	12.3%	13.2%	13.5%	13.5%	11.2%	12.3%	11.9%	12.2%	13.7%	12.8%	12.7%	13.2%	13.6%
Interest Inc. (Exp.)	(36.0)	(36.7)	(8.4)	(9.3)	(9.0)	(8.2)	(34.9)	(8.6)	(8.9)	(8.8)	(8.8)	(35.1)	(35.3)	(35.6)
Other Inc. (Exp.)	10.4	5.1	3.7	17.0	1.9	16.9	39.5	1.4	1.9	2.0	2.0	7.3	8.0	8.0
Pre Tax Inc.	295.5	449.8	118.7	137.2	121.2	110.0	467.0	107.3	113.4	133.9	119.3	473.9	523.6	569.2
Income Tax Expense	70.3	121.8	27.7	37.7	27.6	27.0	120.0	21.2	25.8	36.2	29.8	113.0	138.8	150.9
%	23.8%	27.1%	23.3%	27.5%	22.8%	24.5%	25.7%	19.8%	22.8%	27.0%	25.0%	23.8%	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	87.6	97.8	89.5	360.9	384.9	418.4
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)	(2.8)	(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	87.6	96.4	88.1	358.1	379.3	412.8
%	5.9%	8.3%	9.5%	10.5%	9.9%	9.2%	9.2%	9.0%	8.9%	9.4%	8.9%	9.0%	9.1%	9.4%
Shares Out.	143.2	142.9	141.2	140.1	139.4	139.2	140.0	138.1	137.4	136.9	136.4	137.2	133.6	129.7
Dilluted EPS (cont'd ops)	\$1.55	\$2.27	\$0.63	\$0.72	\$0.67	\$0.60	\$2.62	\$0.62	\$0.64	\$0.70	\$0.65	\$2.61	\$2.84	\$3.18
Adjusted EPS (cont'd ops)	\$1.78	\$2.34		\$0.66		\$0.53	\$2.49					\$2.61	\$2.84	\$3.18
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%	3.2%	8.1%	9.0%	5.6%	5.4%	5.0%
Op. Inc.	26.6%	49.9%	11.2%	8.9%	-7.7%	-10.0%	-3.9%	-7.2%	-7.0%	9.6%	24.5%	8.5%	9.8%	8.3%
Adjusted EPS: Cont'd Ops	15.9%	31.6%	26.1%	23.6%	0.3%	-17.5%	6.3%	-1.5%	-3.4%	4.9%	22.8%	4.8%	8.7%	12.1%
Adjusted EBITDA--approx	-2.2%	25.0%	4.8%	5.4%	-6.0%	-16.8%	-3.5%	-4.5%	-1.9%	8.9%	20.8%	5.3%	8.8%	8.3%
Working Cap.	-15.1%	17.7%	4.8%	0.3%	7.7%	-5.6%	-5.6%	3.8%	16.7%	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%	10.8%	8.1%	9.0%	9.0%	4.8%	5.1%
			*Rsd FY guide by \$0.10 on both ends	** Adj out \$0.05 gain-on-sale, -\$0.02 gain, *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 \$0.07 gain-on-sale			*Rsd FY guide -\$0.10 on top-end; cut FY rev guide by \$0.05B on top end				*EPS guide for \$2.55-\$2.65; Rev \$3.9B-\$4.0B	

Source: Company reports and Hilliard Lyons estimates

## Leggett &amp; Platt, Inc. (LEG)

Cash Flow Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17p	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	87.6	96.4	88.1	358.1	379.3	412.8
D&A	117.9	113.2	28.3	28.9	29.2	29.0	115.4	30.3	31.9	30.8	31.3	124.3	130.1	141.0
(Increase) Decrease in Wrkg. Cap	54.6	(54.2)	(55.0)	15.3	(10.2)	70.1	20.2	(91.0)	(35.8)	2.2	(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	83.7	129.4	118.3	356.8	478.5	518.1
Cap Ex	(94.1)	(103.2)	(27.7)	(30.2)	(25.2)	(40.9)	(124.0)	(34.3)	(44.8)	(40.0)	(35.0)	(154.1)	(160.0)	(170.0)
Dividends	(167.5)	(171.6)	(43.5)	(43.0)	(45.5)	(45.4)	(177.4)	(45.4)	(45.0)	(49.3)	(49.1)	(192.1)	(197.8)	(192.0)
Free C.F.	132.9	108.1	(8.5)	71.9	41.8	95.7	180.8	(54.3)	(6.1)	40.1	34.2	10.6	120.7	156.2
Free C.F./Share	\$ 0.93	\$ 0.76	\$ (0.06)	\$ 0.51	\$ 0.30	\$ 0.69	\$ 1.29	\$ (0.39)	\$ (0.04)	\$ 0.29	\$ 0.25	\$ 0.08	\$ 0.90	\$ 1.20
Acquisition Costs	(70.4)	(11.1)	(16.4)	(0.5)	(11.1)	(1.5)	(29.5)	(37.9)	(0.9)	-	-	(38.8)	(50.0)	(50.0)
Divestiture Gains	76.5	51.4	2.3	51.7	0.2	31.9	86.1	1.3	0.3	-	-	1.6	-	-
LTD Issue (Repaid)														
CP/Revolver Issue (Repaid)		201.3	81.4	8.8	11.2	(89.9)	11.5	159.1	60.8	1.0	(1.0)	219.9	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)	(10.4)	(25.0)	(25.0)	(164.6)	(190.0)	(205.0)
Net C.F.	122.3	(38.1)	(47.2)	75.5	22.5	20.1	50.8	(39.6)	43.7	16.1	8.2	25.1	(87.3)	(66.8)
EBITDA	\$ 439.0	\$ 594.6	\$ 151.7	\$ 158.4	\$ 157.5	\$ 130.3	\$ 577.8	\$ 144.8	\$ 152.3	\$ 171.5	\$ 157.4	\$ 626.0	\$ 681.1	\$ 737.9
Adjusted EBITDA--approx	\$ 493.0	\$ 616.2	\$ 151.7	\$ 155.2	\$ 157.5	\$ 130.3	\$ 594.7	\$ 144.8	\$ 152.3	\$ 171.5	\$ 157.4	\$ 626.0	\$ 681.1	\$ 737.9
TTM Adj EBITDA Margin	13.0%	15.7%	16.0%	16.4%	16.4%	15.9%	15.9%	15.6%	15.4%	15.4%	15.8%	15.8%	16.3%	16.8%
Balance Sheet Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17p	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	335.1	351.2	359.4	359.4	272.1	205.3
A/R	523.3	520.2	531.3	534.7	543.8	486.6	486.6	555.4	577.7	553.8	531.9	531.9	557.2	585.8
Inventory	481.4	504.6	522.1	523.4	518.6	519.6	519.6	556.2	580.0	560.5	566.3	566.3	593.3	623.7
Other Current Assets	91.8	33.2	38.3	37.2	33.6	36.8	36.8	32.9	47.4	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	1,540.2	1,499.7	1,495.1	1,495.1	1,460.9	1,453.9
Net PP&E	548.8	540.8	554.7	553.1	554.1	565.5	565.5	588.8	616.2	625.4	629.1	629.1	684.0	737.9
Goodwill / Intangibles	1,034.1	998.4	997.3	975.3	978.2	956.0	956.0	987.3	987.0	1,007.0	1,024.5	1,024.5	1,104.5	1,189.5
Other LT Assets	128.4	117.2	130.5	123.3	124.7	137.7	137.7	130.3	138.1	140.9	143.7	143.7	155.5	168.3
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	3,281.5	3,272.9	3,292.4	3,292.4	3,404.9	3,549.7
Current LTD	201.7	3.4	3.5	3.6	1.0	3.6	3.6	3.1	3.4	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	388.3	328.2	315.2	315.2	330.2	347.1
Other CL	420.7	390.6	344.4	355.6	351.0	351.9	351.9	325.7	350.0	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	741.7	688.5	676.4	676.4	698.6	722.9
Long Term Debt	766.7	945.4	1,032.0	1,044.3	1,055.4	956.2	956.2	1,119.9	1,183.5	1,185.6	1,184.6	1,184.6	1,237.2	1,269.2
Other LT Liabilities	226.8	223.3	221.2	222.9	224.4	227.3	227.3	191.8	222.7	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	1,133.6	1,170.0	1,199.5	1,199.5	1,232.6	1,316.4
Book Value	\$ 8.07	\$ 7.74	\$ 7.73	\$ 7.61	\$ 7.92	\$ 7.86	\$ 7.86	\$ 7.90	\$ 8.25	\$ 8.55	\$ 8.79	\$ 8.79	\$ 9.28	\$ 10.22
Current Ratio	1.4	1.9	2.0x	2.0x	2.1x	1.9x	1.9	2.0x	2.1x	2.2x	2.2x	2.2x	2.1x	2.0x
Net LT Debt / Total Cap	35.5%	38.8%	41.8%	41.7%	40.1%	38.3%	38.3%	43.9%	42.9%	41.7%	40.8%	40.8%	44.0%	44.7%
TTM ROE	18.4%	29.0%	30.9%	33.5%	33.4%	33.6%	33.6%	33.4%	31.9%	31.6%	31.5%	31.5%	31.4%	32.5%

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



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

As of 7 July 2017

**Other Disclosures**

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