



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

LEG - NYSE - as of	10/26/17	\$48.23
Price Target		\$66.00
52-Week Range	\$43.17 -	\$54.97
Shares Outstanding (mm)		136.9
Market Cap. (\$mm)		\$6,380.1
1-Mo. Average Daily Volume		877,427
Institutional Ownership		72.1%
Debt/Total Capital	Q3'17	43.6%
ROE--unadjusted	TTM	30.8%
Book Value / Share	Q3'17	\$8.06
Price / Book Value		6.0x
Dividend & Yield	\$1.44	3.0%
Adj EBITDA Margin	TTM	14.8%

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	--	*\$0.61	A --	--
4Q	*\$0.53	\$0.59	\$0.59	--	--
Year	\$2.49	\$2.49	\$2.47	\$2.81	\$2.78
P/E	20.6x		19.5x		17.3x

*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	--	\$1,010	A --	--
4Q	\$904	\$986	\$1,009	--	--
Year	\$3,750	\$3,948	\$3,968	\$4,163	\$4,185

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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Leggett & Platt Inc.

LEG – NYSE – Long-term Buy – 2

Better than Expected Q3'17 from LEG; Reiterating Long-term Buy Rating.

- LEG reported Q3'17 adjusted EPS of \$0.61, down six-cents from the year-ago period; results fell between our estimate for \$0.64 and consensus at \$0.60. Rising steel costs across LEG and a confluence of growth-oriented investments for the Specialized segment offset the company's quickest revenue growth since Q1'15.
- Revenue grew 6.4% in Q3; external sales of \$1.01B were in line with both our model and Street consensus. Consolidated same-store-sales were higher by 6%.
- Specialized volumes were +7% yr/yr; organic sales for Auto lines were +8%, despite relatively weak car unit volumes. Continued growth here remains a key of our long-term investment thesis, with LEG noting substantial clarity on the growth outlook through 2020.
- We estimate Residential volumes were flat yr/yr but EBIT margin improved, as did revenue performance versus Q2. After citing an anomalistic environment for Bedding this summer (weak), management cited a 'better mood' exiting the third quarter.
- Consolidated gross margin fell 300bps to 21.4%, which was 150bps below our model and material to our EPS 'miss.' Having said that, we are incrementally encouraged by lesser EBIT margin compression, and expect the lost margin is recoverable though LEG's well established protocol for passing along raw cost inflation.
- Management raised the low end of FY adjusted 2017 EPS guidance by \$0.05 to \$2.45-\$2.50, on sales of \$3.95B-\$4.00B (raised low-end by \$0.05B).
- Our 2017E EPS slips \$0.02 to \$2.47, reflecting downside to Q3 but mostly offsetting adjustments to our Q4 model. Our 2018 and 2019 EPS move -\$0.05/+0.02 to \$2.78 and \$3.20, respectively.
- We are reiterating our LTB rating and 2-3 year \$66 price target. At our target and based on our 2019 estimates, LEG would trade ~5% above recent average P/E and EV/EBITDA multiples (TTM) of 20.2x and 12.2x, respectively. With a constructive multi-year qualitative outlook, we view this as reasonable and attainable.

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

ADDITIONAL DISCUSSION—MULTIPLE ITEMS

GAAP EPS for the quarter were also \$0.61 (equaling our adjusted figure), but include three, small offsetting items: +\$0.04 tax benefit from sale of Masterack (last Commercial Vehicle business), -\$0.02 loss on Masterack sale, and -\$0.02 assorted impairment. A final \$0.02/share benefit from the Masterack item is expected in the fourth quarter, along with an \$0.11/share gain from a real estate sale and a \$0.09/share pension settlement charge. These items hold negligible read through value for us, and do not impact our forward view on valuation or the remaining business mix.

The most material revision to our financial model at this point is lower gross margin expectations across Q4 and into 1H'18. Management noted on the call this morning that pressures should abate by early next year due to a mix of pricing actions and easier comparisons, with stabilization in the steel market... although from our vantage point, that is somewhat of a large caveat. Having said that, the timing over which margins normalize is essentially immaterial to our long-term outlook; LEG has an established process for handling the ups and downs for steel costs, and over time, we still expect positive carry to consolidated margins due to mix shift toward the Specialized Products segment. Both our 2018 and 2019 model years benefit from a -100 basis point revision to our effective tax rate, per comments from management.

ADDITIONAL DISCUSSION—FINAL THOUGHTS

While we do not see quite the tactical opportunity that we cited following LEG's guidance cut in early-September, we still identify substantial value in Leggett shares. We expect estimates have likely bottomed given the most recent positive tweaks to guidance, and see a potential hiking cycle as a reasonable near-term catalyst. We particularly identify substantial room for 2019 consensus EPS to move higher (from \$2.94) toward our model (at \$3.20). We also note that Leggett's dividend yield of ~2.8% and its opportunistic buyback strategy make it one of our preferred income plays within the Industrials sector.

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 cyclicity 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	Q2'17	Q3'17	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	1,009.7	1,008.9	3,968.2	4,184.7	4,372.2
COGS	2,991.9	2,994.0	704.8	724.9	721.5	699.5	2,850.7	734.3	759.2	793.9	787.6	3,075.0	3,214.7	3,331.6
Gross Profit	790.4	923.2	233.6	234.0	227.4	204.2	899.2	226.0	230.1	215.8	221.4	893.3	970.1	1,040.6
%	20.9%	23.6%	24.9%	24.4%	24.0%	22.6%	24.0%	23.5%	23.3%	21.4%	21.9%	22.5%	23.2%	23.8%
Selling, G & A Expense	449.6	416.9	105.1	99.7	93.9	98.1	416.9	106.4	105.0	95.7	100.6	407.7	417.8	430.4
%	11.9%	10.6%	11.2%	10.4%	9.9%	10.9%	11.1%	11.1%	10.6%	9.5%	10.0%	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	6.2	4.8	20.8	20.8	20.8
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	113.9	116.0	464.8	531.4	589.4
%	8.5%	12.3%	13.2%	13.5%	13.5%	11.2%	12.3%	11.9%	12.2%	11.3%	11.5%	11.7%	12.7%	13.5%
Interest Inc. (Exp.)	(36.0)	(36.7)	(8.4)	(9.3)	(9.0)	(8.2)	(34.9)	(8.6)	(8.9)	(8.5)	(8.7)	(34.7)	(34.7)	(34.9)
Other Inc. (Exp.)	10.4	5.1	3.7	17.0	1.9	16.9	39.5	1.4	1.9	(4.7)	1.9	0.5	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	100.7	109.2	430.6	504.8	562.5
Income Tax Expense	70.3	121.8	27.7	37.7	27.6	27.0	120.0	21.2	25.8	17.2	26.8	91.0	128.7	143.4
%	23.8%	27.1%	23.3%	27.5%	22.8%	24.5%	25.7%	19.8%	22.8%	17.1%	24.5%	21.1%	25.5%	25.5%
Net Income--Cont'd Ops	225.2	328.0	91.0	99.5	93.6	83.0	347.0	86.1	87.6	83.5	82.5	339.7	376.0	419.1
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)	(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	83.5	81.1	338.3	370.4	413.5
%	5.9%	8.3%	9.5%	10.5%	9.9%	9.2%	9.2%	9.0%	8.9%	8.3%	8.0%	8.5%	8.9%	9.5%
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	133.4	129.2
Dilluted EPS (cont'd ops)	\$1.55	\$2.27	\$0.63	\$0.72	\$0.67	\$0.60	\$2.62	\$0.62	\$0.64	\$0.61	\$0.59	\$2.47	\$2.78	\$3.20
Adjusted EPS (cont'd ops)	\$1.78	\$2.34		\$0.66		\$0.53	\$2.49			\$0.61		\$2.47	\$2.78	\$3.20
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%	6.4%	11.6%	5.8%	5.5%	4.5%
Op. Inc.	26.6%	49.9%	11.2%	8.9%	-7.7%	-10.0%	-3.9%	-7.2%	-7.0%	-11.2%	14.5%	0.5%	14.3%	10.9%
Adjusted EPS: Cont'd Ops	15.9%	31.6%	26.1%	23.6%	0.3%	-17.5%	6.3%	-1.5%	-3.4%	-9.1%	13.1%	-1.0%	12.7%	15.2%
Adjusted EBITDA--approx	-2.2%	25.0%	4.8%	5.4%	-6.0%	-16.8%	-3.5%	-4.5%	-1.9%	-7.2%	13.8%	-0.6%	12.4%	10.3%
Working Cap.	-15.1%	17.7%	4.8%	0.3%	7.7%	-5.6%	-5.6%	3.8%	16.7%	14.3%	35.9%	35.9%	6.6%	7.1%
Inventory	4.7%	4.8%	3.1%	2.5%	2.8%	3.0%	3.0%	6.5%	10.8%	7.6%	11.6%	11.6%	4.7%	4.5%
			*Rsd FY guide by \$0.10 on both ends	** Adj out \$0.05 gain-on-sale, \$0.03 litig gain, -\$0.02 gwill chg *Rsd FY guide by \$0.05 on low-end	**Rsd FY guide low/high end by \$0.10/\$0.02	** Adj out \$0.07 gain-on-sale			*FY EPS guide -\$0.10 on top-end; cut FY rev guide by \$0.05B on top end	+\$0.02/sh from CVP sale (net); (\$0.02)/sh imparim't			*EPS guide for \$2.45-\$2.50; Rev \$3.95B-\$4.00B	

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	Q2'17	Q3'17p	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	83.5	81.1	338.3	370.4	413.5
D&A	117.9	113.2	28.3	28.9	29.2	29.0	115.4	30.3	31.9	32.2	32.2	126.6	133.5	143.7
(Increase) Decrease in Wrkg. Cap	54.6	(54.2)	(55.0)	15.3	(10.2)	70.1	20.2	(91.0)	(35.8)	(1.8)	6.7	(121.9)	(30.6)	(35.2)
Operating C.F.	394.5	382.9	62.7	145.1	112.5	182.0	482.2	25.4	83.7	113.9	120.0	343.0	473.3	522.0
Cap Ex	(94.1)	(103.2)	(27.7)	(30.2)	(25.2)	(40.9)	(124.0)	(34.3)	(44.8)	(39.9)	(35.0)	(154.0)	(160.0)	(170.0)
Dividends	(167.5)	(171.6)	(43.5)	(43.0)	(45.5)	(45.4)	(177.4)	(45.4)	(45.0)	(47.6)	(49.1)	(192.1)	(197.4)	(191.1)
Free C.F.	132.9	108.1	(8.5)	71.9	41.8	95.7	180.8	(54.3)	(6.1)	26.4	35.9	(3.1)	115.9	160.9
Free C.F./Share	\$ 0.93	\$ 0.76	\$ (0.06)	\$ 0.51	\$ 0.30	\$ 0.69	\$ 1.29	\$ (0.39)	\$ (0.04)	\$ 0.19	\$ 0.26	\$ (0.02)	\$ 0.87	\$ 1.25
Acquisition Costs	(70.4)	(11.1)	(16.4)	(0.5)	(11.1)	(1.5)	(29.5)	(37.9)	(0.9)	(0.2)	-	(39.0)	(50.0)	(50.0)
Divestitures	76.5	51.4	2.3	51.7	0.2	31.9	86.1	1.3	0.3	11.0	-	12.6	-	-
LTD Issue (Repaid)														
CP/Revolver Issue (Repaid)		201.3	81.4	8.8	11.2	(89.9)	11.5	159.1	61.6	13.4	(1.0)	233.1	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)	(0.8)	-	-	(5.7)	-	-
Stock Issued	21.8	8.3	1.2	1.5	1.3	0.9	4.9	1.3	0.6	-	-	1.9	-	-
Stock (Repurchased)	(149.7)	(191.5)	(106.6)	(56.9)	(17.9)	(16.6)	(198.0)	(104.2)	(11.0)	(41.5)	(25.0)	(181.7)	(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	9.1	9.9	18.1	(92.1)	(62.1)
EBITDA	\$ 439.0	\$ 594.6	\$ 151.7	\$ 158.4	\$ 157.5	\$ 130.3	\$ 577.8	\$ 144.8	\$ 152.3	\$ 146.1	\$ 148.2	\$ 591.4	\$ 664.9	\$ 733.2
Adjusted EBITDA--approx	\$ 493.0	\$ 616.2	\$ 151.7	\$ 155.2	\$ 157.5	\$ 130.3	\$ 594.7	\$ 144.8	\$ 152.3	\$ 146.1	\$ 148.2	\$ 591.4	\$ 664.9	\$ 733.2
TTM Adj EBITDA Margin	13.0%	15.7%	16.0%	16.4%	16.4%	15.9%	15.9%	15.6%	15.4%	14.8%	14.9%	14.9%	15.9%	16.8%
Balance Sheet Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17p	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	342.9	352.8	352.8	260.7	198.6
A/R	523.3	520.2	531.3	534.7	543.8	486.6	486.6	555.4	577.7	585.8	544.8	544.8	570.5	596.5
Inventory	481.4	504.6	522.1	523.4	518.6	519.6	519.6	556.2	580.0	558.0	580.1	580.1	607.5	635.1
Other Current Assets	91.8	33.2	38.3	37.2	33.6	36.8	36.8	32.9	47.4	63.0	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	1,549.7	1,515.2	1,515.2	1,477.1	1,469.3
Net PP&E	548.8	540.8	554.7	553.1	554.1	565.5	565.5	588.8	616.2	644.3	647.1	647.1	698.6	749.9
Goodwill / Intangibles	1,034.1	998.4	997.3	975.3	978.2	956.0	956.0	987.3	816.3	836.3	853.8	853.8	933.8	1,018.8
Other LT Assets	128.4	117.2	130.5	123.3	124.7	137.7	137.7	130.3	308.8	293.5	299.3	299.3	324.0	350.7
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	3,323.7	3,315.4	3,315.4	3,433.4	3,588.6
Current LTD	201.7	3.4	3.5	3.6	1.0	3.6	3.6	3.1	3.4	153.3	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	381.8	322.9	322.9	338.1	353.5
Other CL	420.7	390.6	344.4	355.6	351.0	351.9	351.9	325.7	350.0	356.4	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	891.5	684.1	684.1	706.5	729.2
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	1,044.4	1,194.4	1,194.4	1,247.0	1,279.0
Other LT Liabilities	226.8	223.3	221.2	222.9	224.4	227.3	227.3	191.8	222.7	284.2	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	1,103.6	1,205.1	1,205.1	1,243.4	1,339.2
Book Value	\$ 8.07	\$ 7.74	\$ 7.73	\$ 7.61	\$ 7.92	\$ 7.86	\$ 7.86	\$ 7.90	\$ 8.25	\$ 8.06	\$ 8.84	\$ 8.84	\$ 9.39	\$ 10.45
Current Ratio	1.4	1.9	2.0x	2.0x	2.1x	1.9x	1.9	2.0x	2.1x	1.7x	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%	43.6%	41.2%	41.2%	44.3%	44.7%
TTM ROE	18.4%	29.0%	30.9%	33.5%	33.4%	33.6%	33.6%	33.4%	31.9%	30.8%	30.1%	30.1%	31.2%	32.9%

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.

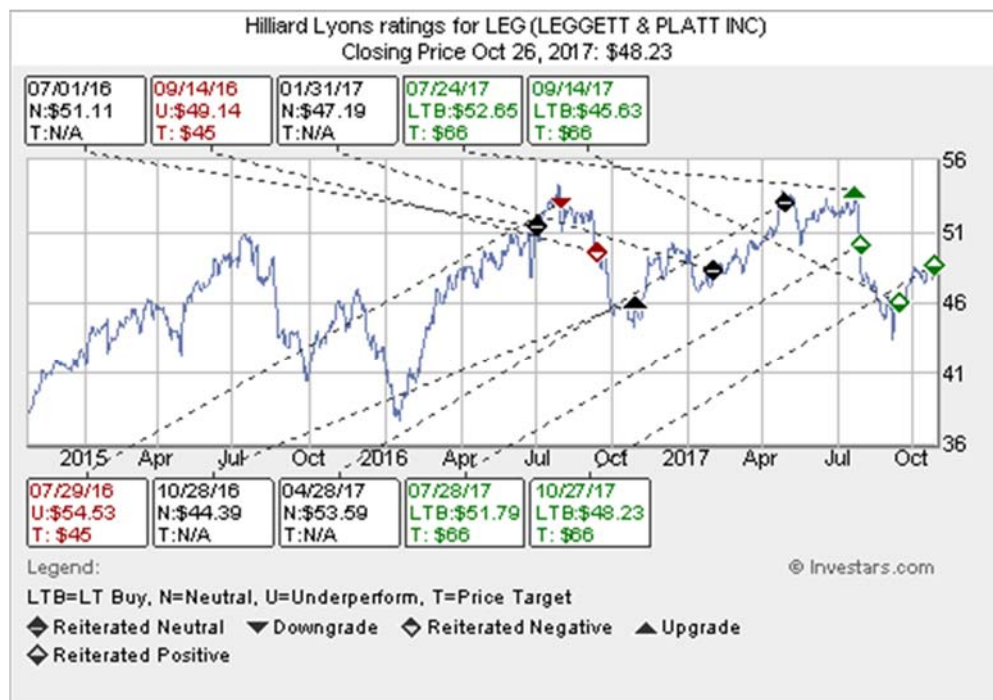
Suitability Ratings

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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

Other Disclosures

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