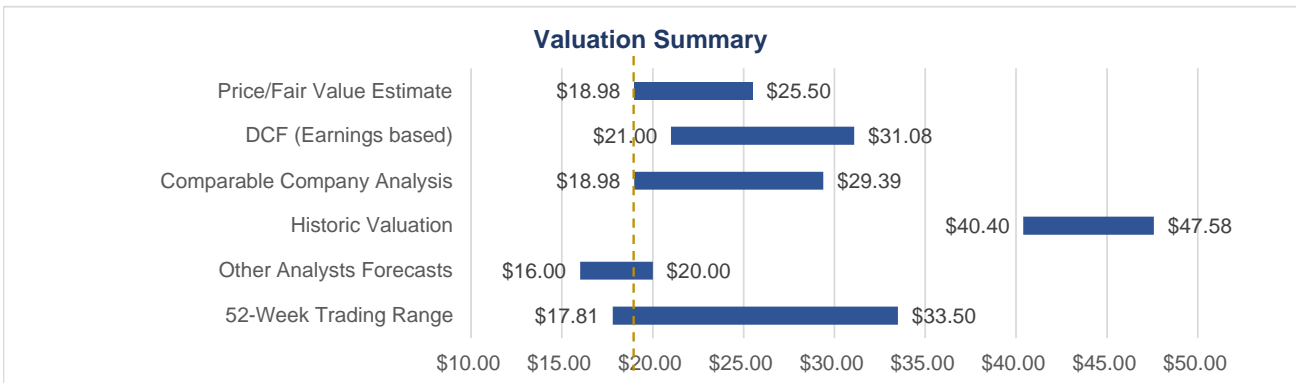
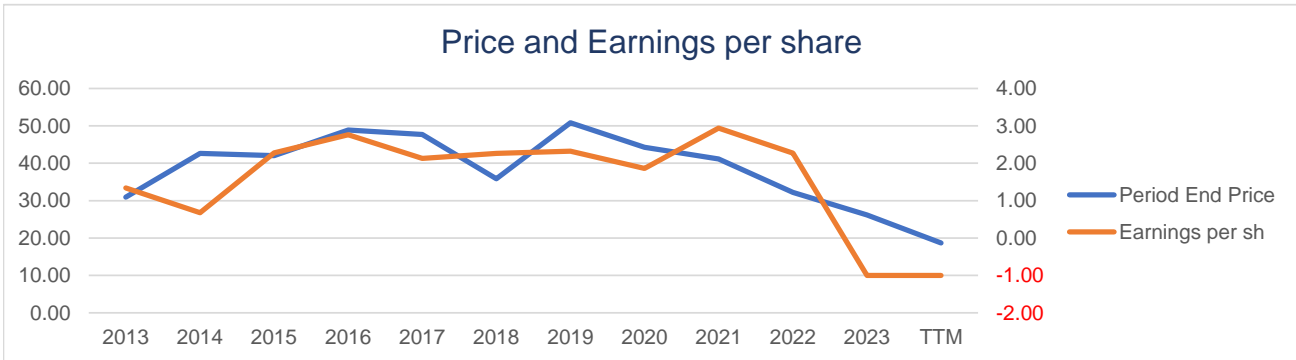


# Leggett & Platt Incorporated Analysis and Valuation

Updated April 10th 2024 by Jasper Bronkhorst MA



## Key Metrics

<b>Company</b>	Leggett & Platt Incorporated	<b>Symbol</b>	LEG
<b>Sector</b>	Consumer Discretionary	<b>Market Cap (bn)</b>	2.5
<b>Industry</b>	Household Durables	<b>52-wk min.</b>	17.81
<b>Date</b>	2024-04-10	<b>52-wk max.</b>	33.50
<b>Currency</b>	USD	<b>Revenue 10yr CAGR</b>	3.1%
<b>Stock Price</b>	18.98	<b>Price/Earnings</b>	-19.0
<b>Fair value estimate</b>	25.50	<b>Dividend %</b>	9.6%
<b>Margin of Safety</b>	26%	<b>Price/Sales</b>	0.5
<b>Rating</b>	Undervalued	<b>Price/Book</b>	1.9

## Business Overview

Leggett & Platt is a diversified manufacturer that designs and produces a wide range of engineered components and products for various industries. They specialize in bedding, automotive, aerospace, and furniture markets, offering innovative solutions such as bedding support systems, automotive seating components, and adjustable beds. With a focus on quality and innovation, Leggett & Platt continues to be a leading provider of engineered products globally.

Despite experiencing a loss of \$1 per share in 2023 (USD 1.39 Adjusted to exclude \$444m (\$2.50/share) intangible impairment), the company issued 2024 guidance on February 8, 2024. Key highlights include projected sales ranging between \$4.35 billion and \$4.65 billion, indicating a 2% to 8% decrease compared to 2023. Additionally, earnings per share (EPS) are estimated to fall within the range of \$0.95 and \$1.25. Short-term expectations for Leggett & Platt are relatively subdued, as indicated by the projected decrease in sales and the range provided for earnings per share (EPS) in the 2024 guidance.

## Why Invest

Leggett & Platt distinguishes itself as the top-yielding Dividend Aristocrat, with its dividends serving as the key draw for potential investors. Presently valued at approximately half of its historical averages, Leggett is in the midst of a restructuring initiative aimed at enhancing profitability and refining market focus. Should this restructuring yield positive results, the potential for substantial capital gains is promising. It's important to note that we anticipate any current challenges to be temporary, with the company poised to return to normal profitability levels.

## Analysis

Profitability	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TTM	Average	Median
Return on Equity (ROE)	7.7%	28.9%	35.2%	25.6%	26.1%	25.4%	18.5%	26.2%	18.8%	-9.2%	-10.3%	19.7%	25.4%
Return on Assets (ROA)	3.1%	10.7%	13.0%	9.0%	8.8%	7.7%	5.3%	8.0%	5.9%	-2.8%	-3.0%	6.8%	7.7%
Gross Margin	20.9%	23.6%	24.1%	22.4%	20.8%	21.6%	21.1%	20.5%	19.0%	18.1%	18.1%	21.1%	20.9%
Margin Before Taxes	7.8%	11.5%	13.0%	11.0%	9.0%	8.5%	7.7%	10.3%	7.8%	-3.7%	-3.7%	8.2%	8.5%
Net Margin	2.6%	8.3%	10.3%	7.4%	7.2%	6.6%	5.9%	7.9%	6.0%	-2.9%	-2.9%	5.9%	6.6%

In 2023, the company incurred its first loss since 2007. However, the preceding years had been stable and profitable.

Financial Health	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TTM	Average	Median
Equity-to-Asset	0.37	0.37	0.37	0.34	0.34	0.27	0.30	0.31	0.32	0.29	0.29	0.33	0.34
Current ratio	1.4	1.9	1.9	1.8	1.9	1.7	1.6	1.5	2.0	1.5	1.5	1.7	1.7
Quick ratio	1.0	1.2	1.1	1.2	1.1	1.0	1.0	0.8	1.1	0.8	0.8	1.0	1.0
Cash and Equivalents-to-assets	0.11	0.09	0.09	0.15	0.08	0.05	0.07	0.07	0.06	0.08	0.08	0.08	0.08
Pay out ratio	179%	55%	49%	67%	66%	68%	86%	56%	77%	-182%	-175%	36%	67%
Inventory to assets	15.3%	17.0%	17.4%	16.1%	18.7%	13.2%	14.4%	18.7%	17.5%	17.7%	17.7%	16.6%	17.0%

The company boasts a robust balance sheet. However, the primary concern arises from the high payout ratio observed last year. It is imperative for the company to regain profitability in order to sustain its dividend payouts.

Growth Analysis per share	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TTM
Sales per sh	26.41	27.41	26.79	28.72	31.58	35.10	31.50	37.11	37.70	34.67	34.67
Earnings per sh	0.68	2.28	2.76	2.13	2.26	2.32	1.86	2.94	2.27	-1.00	-1.00
Dividend per sh	1.22	1.26	1.34	1.42	1.50	1.58	1.60	1.66	1.74	1.82	1.82
Book Value per sh	8.05	7.67	7.80	8.66	8.55	9.68	10.47	12.05	12.01	9.79	9.79
Cash flow per sh	2.01	1.79	3.06	2.07	2.08	3.88	3.95	1.20	2.50	2.81	2.81
Shares Outstanding	143	143	140	137	135	135	136	137	137	136	136

Annual rates per share	10 yrs	5 yrs	3 yrs	1yr
Price per sh	-7.8%	-11.9%	-24.6%	-40.5%
Sales per sh	3.9%	1.9%	3.2%	-8.2%
Earnings per sh	na	na	na	na
Dividend per sh	4.4%	3.9%	4.4%	4.6%
Book Value per sh	0.3%	2.7%	-2.2%	-18.5%
Cash flow per sh	2.1%	6.2%	-10.7%	12.4%

While sales and dividends per share are experiencing growth, earnings growth appears to be less consistent. Leggett has maintained a track record of paying dividends since 1936, establishing itself as a dependable dividend issuer.

Yield	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TTM	Average	Median
Dividend	2.9%	3.0%	2.7%	3.0%	4.2%	3.1%	3.6%	4.0%	5.4%	7.0%	9.6%	3.9%	3.4%
Buyback	3.0%	3.1%	3.4%	2.4%	1.7%	0.2%	0.1%	0.1%	1.1%	0.1%	0.2%	1.5%	1.4%
Shareholder	5.8%	6.1%	6.1%	5.4%	5.9%	3.3%	3.7%	4.1%	6.5%	7.1%	9.8%	5.4%	5.9%

The primary reason to consider purchasing Leggett shares is its current dividend yield. Additionally, there are no intentions to initiate share buybacks at present. The current yield is much higher than before.

## Valuation

When we do a valuation analysis, our goal is to estimate the intrinsic value, compare it with the current price and figure out if a stock is priced reasonably or if it's too expensive. We want a margin of safety and do this by looking at a few things:

1. Historical Averages: We check how the current price compares to what the stock has been valued and priced at in the past. This gives us an idea of whether it's a good deal right now.
2. Competitors: We also look at similar companies to see how their stocks are priced. If our company's stock is much cheaper or more expensive than theirs. We prefer stocks which are lower valued than competitors.
3. Expected Future Earnings: Finally, we try to predict how much money the company will make in the future. If we think it'll make a lot, the stock might be worth more than it's priced at now. But if we're not so sure, it might be overpriced.

By doing this analysis, we try to avoid paying too much for a stock and try to find ones that are real bargains. It's like shopping for anything else – we want to get the best deal we can. If a stock seems undervalued it can take a few years till the market recognizes the mispricing.

### DCF Valuation (Earnings Based)

For the discounted cash flow (DCF) analysis, we prefer to utilize earnings per share (EPS). However, it's important to note that DCF analysis functions optimally when a company exhibits predictable and consistently positive earnings. Given that LEG's earnings do not meet this criterion, it's advisable to approach these results with caution.

In our analysis, we utilized a five-year average EPS of 2.33 up to 2022. Our model incorporates a discounted cash flow (DCF) valuation assessment across three scenarios: Base, Negative, and Positive. Under our Base scenario, with a projected annual growth rate of 3%, we estimate a Fair value of \$25.50, accompanied by a Margin of Safety of 26%. We anticipate that LEG will return to profitability.

Stock	Leggett & Platt
Date	2024-04-10
Stock Price	18.98
EPS w/o NRI per share	2.33
Discount rate	10%
Terminal Stage rate (yr11-20)	4%

Scenario	Base	Negative	Positive
Growth stage rate (10 years)	3.0%	0.0%	6.0%
Fair value estimate (20yrs horizon)	25.50	21.00	31.08
Margin of Safety	26%	10%	39%
Rating	Undervalued	Fairly Valued	Undervalued
Growth Value	16.52	14.32	19.11
Terminal Value	8.98	6.68	11.97

### Historic Valuation Analysis

Valuation Metrics	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TTM	Average	Median
Price-to-Earnings	59.9	17.5	16.9	21.5	15.3	21.3	23.2	13.6	13.8	-25.5	-19.0	14.4	16.9
Price-to-Book	5.1	5.2	6.0	5.3	4.0	5.1	4.1	3.3	2.6	2.6	1.9	4.1	4.1
Price-to-Sales	1.6	1.5	1.7	1.6	1.1	1.4	1.4	1.1	0.8	0.7	0.5	1.2	1.4
Market Capitalization (bn)	5.9	5.7	6.5	6.3	4.7	6.7	5.9	5.5	4.3	3.5	2.6	5.2	5.7
Period End Price	42.61	42.02	48.88	47.73	35.84	50.83	44.30	41.16	32.23	26.17	18.98	39.16	42.02

10-Period Valuation	Current	Historical Median	Historical Average	Fair Value Estimate
Price-to-Earnings	-19.0	16.9	14.4	na
Price-to-Book	1.9	4.1	4.1	40.4
Price-to-Sales	0.5	1.4	1.2	47.6

Compared to historical averages, the stock appears undervalued based on both its price-to-book and price-to-sales ratios. The current metrics are less than half of their historic averages.

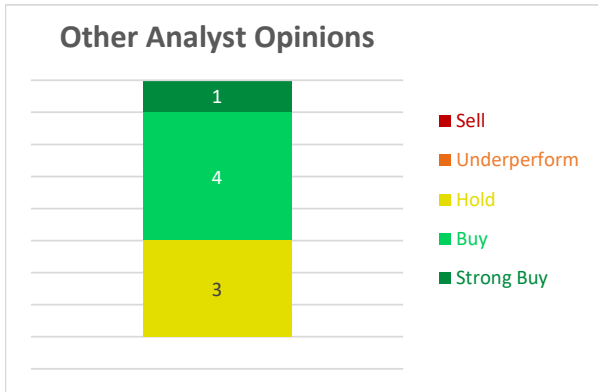
### Comparable Company Analysis

Name	Currency	Price	PE	PB	PS	PFCF	Dividend Yield	Market Capitalization mIn
Leggett & Platt Incorporated	USD	18.98	-19.0	1.9	0.5	6.8	9.6%	2,541
Illinois Tool Works Inc	USD	262.58	27.0	26.2	4.9	25.7	2.1%	78,283
Dover Corporation	USD	177.35	23.6	4.9	3.0	21.7	1.1%	24,189
Masco Corporation	USD	76.73	19.1	150.5	2.2	14.8	1.5%	16,948
La-Z-Boy Incorporated	USD	36.33	13.5	1.6	0.8	11.8	2.1%	1,535
Ethan Allen Interiors Inc	USD	33.15	10.6	1.8	1.2	10.5	4.2%	845
The Lovesac Company	USD	24.39	19.1	2.0	0.5	10.0	0.0%	376
Hooker Furniture Corporation	USD	21.77	-29.0	1.0	0.5	3.9	4.0%	244
Big Lots Inc	USD	3.77	-0.2	0.4	0.0	2.4	15.9%	113
<b>Average</b>			7.2	21.1	1.5	11.9	4.5%	
<b>Median</b>			13.5	1.9	0.8	10.5	2.1%	
<b>Fair Value Estimate</b>								
<b>Median</b>			na	18.98	26.60	29.39		

Leggett provides a notably higher dividend yield compared to its competitors and is undervalued in terms of its valuation. Big Lots announced to suspend dividend.

### Other Analyst Opinions

Although most analysts recommend buying the stock, the average price target indicates only a potential gain of 1.3%. However, it's crucial to note that these projections are based on a one-year timeframe. Our primary focus is determining the current intrinsic value of the company's stock, particularly with a long-term perspective in mind.



Analyst Price Targets	Prices	Upside
Current price	18.98	
Low	16.00	-15.7%
Average	18.94	-0.2%
High	20.00	5.4%

Estimates	2023A	2024	2025
EPS	-1.00	1.16	1.32
EPS growth			13.8%

### Disclaimer

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