LEGGETT & PLATT INC
Form 10-Q
August 04, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from to
Commission File Number 001-07845
LEGGETT & PLATT, INCORPORATED
(Exact name of registrant as specified in its charter)

Missouri	44-0324630
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
No. 1 Leggett Road Carthage, Missouri	64836
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (417) 358-8131
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Common stock outstanding as of August 1, 2016: 133,671,613

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
LEGGETT & PLATT, INCORPORATED
CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)

(Amounts in millions)	June 30, 2016	December 31, 2015
CURRENT ASSETS		
Cash and cash equivalents	$284.8	$ 253.2
Trade receivables, net	490.3	448.7
Other receivables, net	44.4	71.5
Total receivables, net	534.7	520.2
Inventories		
Finished goods	258.8	242.8
Work in process	43.1	42.6
Raw materials and supplies	252.0	241.8
LIFO reserve	(30.5)	(22.6)
Total inventories, net	523.4	504.6
Other current assets	37.2	33.2
Total current assets	1,380.1	1,311.2
PROPERTY, PLANT AND EQUIPMENT—AT COST		
Machinery and equipment	1,124.4	1,099.1
Buildings and other	545.2	548.2
Land	39.3	40.0
Total property, plant and equipment	1,708.9	1,687.3
Less accumulated depreciation	1,155.8	1,146.5
Net property, plant and equipment	553.1	540.8
OTHER ASSETS		
Goodwill	800.1	806.1
Other intangibles, less accumulated amortization of $133.8 and $139.8 as of June 30, 2016 and December 31, 2015, respectively	175.2	188.4
Sundry	123.3	117.2
Total other assets	1,098.6	1,111.7
TOTAL ASSETS	$3,031.8	$ 2,963.7
CURRENT LIABILITIES		
Current maturities of long-term debt	$3.6	$ 3.4
Accounts payable	339.8	307.2
Accrued expenses	266.9	286.7
Other current liabilities	88.7	103.9
Total current liabilities	699.0	701.2
LONG-TERM LIABILITIES		
Long-term debt	1,044.3	941.5
Other long-term liabilities	178.3	184.7
Deferred income taxes	44.6	38.6
Total long-term liabilities	1,267.2	1,164.8
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock	2.0	2.0
Additional contributed capital	504.7	529.5
Retained earnings	2,329.0	2,209.2

Accumulated other comprehensive loss	(77.0)	(91.1)
Treasury stock	(1,695.4)	(1,564.0)
Total Leggett & Platt, Inc. equity	1,063.3	1,085.6
Noncontrolling interest	2.3	12.1
Total equity	1,065.6	1,097.7
TOTAL LIABILITIES AND EQUITY	$3,031.8	$ 2,963.7

See accompanying notes to consolidated condensed financial statements.

LEGGETT & PLATT, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
(Amounts in millions, except per share data)	2016	2015	2016	2015
Net sales	$1,897.3	$1,963.5	$958.9	$997.3
Cost of goods sold	1,429.7	1,515.0	724.9	766.6
Gross profit	467.6	448.5	234.0	230.7
Selling and administrative expenses	204.8	204.1	99.7	106.6
Amortization of intangibles	9.9	10.4	4.8	5.2
Goodwill impairment	3.7	4.1	3.7	—
Gain from sale of assets and businesses	(20.7)	(2.5)	(18.3)	(.9)
Other (income) expense, net	(3.7)	1.5	(2.4)	.6
Earnings from continuing operations before interest and income taxes	273.6	230.9	146.5	119.2
Interest expense	19.5	22.2	10.3	11.2
Interest income	1.8	2.3	1.0	1.0
Earnings from continuing operations before income taxes	255.9	211.0	137.2	109.0
Income taxes	65.4	61.0	37.7	32.3
Earnings from continuing operations	190.5	150.0	99.5	76.7
Earnings from discontinued operations, net of tax	20.4	1.3	20.3	1.8
Net earnings	210.9	151.3	119.8	78.5
(Earnings) loss attributable to noncontrolling interest, net of tax	(.2)	(1.9)	1.4	(.8)
Net earnings attributable to Leggett & Platt, Inc. common shareholders	$210.7	$149.4	$121.2	$77.7
Earnings per share from continuing operations attributable to Leggett & Platt, Inc. common shareholders				
Basic	$1.37	$1.04	$.73	$.54
Diluted	$1.35	$1.03	$.72	$.53
Earnings per share from discontinued operations attributable to Leggett & Platt, Inc. common shareholders				
Basic	$.15	$.01	$.15	$.01
Diluted	$.15	$.01	$.15	$.01
Net earnings per share attributable to Leggett & Platt, Inc. common shareholders				
Basic	$1.52	$1.05	$.88	$.55
Diluted	$1.50	$1.04	$.87	$.54
Cash dividends declared per share	$.66	$.62	$.34	$.31
Average shares outstanding				
Basic	138.4	141.7	137.8	141.4
Diluted	140.6	143.6	140.1	143.4

See accompanying notes to consolidated condensed financial statements.

LEGGETT & PLATT, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
(Amounts in millions)	2016	2015	2016	2015
Net earnings	$210.9	$151.3	$119.8	$78.5
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	5.5	(35.0)	(16.9)	2.8
Cash flow hedges	6.0	(.4)	(.5)	1.3
Defined benefit pension plans	1.6	1.8	.9	.5
Other comprehensive income (loss)	13.1	(33.6)	(16.5)	4.6
Comprehensive income	224.0	117.7	103.3	83.1
Less: comprehensive loss (income) attributable to noncontrolling interest	.8	(2.0)	2.4	(.9)
Comprehensive income attributable to Leggett & Platt, Inc.	$224.8	$115.7	$105.7	$82.2

See accompanying notes to consolidated condensed financial statements.

LEGGETT & PLATT, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
(Amounts in millions)	2016	2015
OPERATING ACTIVITIES		
Net earnings	$210.9	$151.3
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	43.0	41.7
Amortization of intangibles and debt issuance costs	14.2	14.8
Provision for losses on accounts and notes receivable	1.6	2.9
Writedown of inventories	2.4	5.1
Goodwill impairment	3.7	4.1
Long-lived asset impairments	—	2.4
Net gain from sales of assets and businesses	(21.3)	(5.3)
Deferred income tax expense	9.0	17.9
Stock-based compensation	21.8	23.4
Tax benefits from stock-based compensation payments (See Note 2)	—	(13.6)
Other, net	2.3	(1.3)
Increases/decreases in, excluding effects from acquisitions and divestitures:		
Accounts and other receivables	(26.4)	(40.9)
Inventories	(24.3)	(43.0)
Other current assets	(1.7)	(3.5)
Accounts payable	34.0	(9.3)
Accrued expenses and other current liabilities	(7.1)	(19.8)
NET CASH PROVIDED BY OPERATING ACTIVITIES	262.1	126.9
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(57.9)	(51.3)
Purchases of companies, net of cash acquired	(16.9)	(11.1)
Proceeds from sales of assets and businesses	54.0	15.5
Other, net	(7.4)	(6.3)
NET CASH USED FOR INVESTING ACTIVITIES	(28.2)	(53.2)
FINANCING ACTIVITIES		
Payments on long-term debt	(1.6)	(3.6)
Additions to long-term debt	—	.4
Change in commercial paper and short-term debt	90.2	66.2
Dividends paid	(86.5)	(85.5)
Issuances of common stock	2.7	5.2
Purchases of common stock	(163.5)	(119.8)
Acquisition of noncontrolling interest	(35.2)	—
Tax benefits from stock-based compensation payments (See Note 2)	—	13.6
Other, net	(2.8)	(2.0)
NET CASH USED FOR FINANCING ACTIVITIES	(196.7)	(125.5)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(5.6)	(5.9)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31.6	(57.7)
CASH AND CASH EQUIVALENTS—January 1,	253.2	332.8
CASH AND CASH EQUIVALENTS—June 30,	$284.8	$275.1

See accompanying notes to consolidated condensed financial statements.

LEGGETT & PLATT, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)
(Amounts in millions, except per share data)

1. INTERIM PRESENTATION

The interim financial statements of Leggett & Platt, Incorporated (“we”, “us” or “our”) included herein have not been audited by an independent registered public accounting firm. The statements include all adjustments, including normal recurring accruals, which management considers necessary for a fair statement of our financial position and operating results for the periods presented. We have prepared the statements pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The operating results for interim periods are not necessarily indicative of results to be expected for an entire year.

The December 31, 2015 financial position data included herein was derived from the audited consolidated financial statements included in Form 10-K, but does not include all disclosures required by GAAP. For further information, refer to the financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2015.

Reclassifications

Certain reclassifications have been made to the prior period's information in the Consolidated Condensed Financial Statements and related notes to conform to the second quarter 2016 income statement and June 30, 2016 balance sheet presentation. The first reclassification was a result of changes in our management organizational structure and related internal reporting (See Note 4 - Segment Information). The final was a balance sheet reclassification associated with new accounting guidance for the presentation of debt issuance costs as discussed below.

2. ACCOUNTING STANDARD UPDATES

The Financial Accounting Standards Board (FASB) regularly issues updates to the FASB Accounting Standards Codification that are communicated through issuance of an Accounting Standards Update (ASU). Below is a summary of the ASUs, effective for current or future periods, most relevant to our financial statements:

- ASU 2016 -13 “Financial Instruments - Credit Losses": Replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU will be effective January 1, 2020. We are evaluating this guidance and do not expect it to have a material impact on our future financial statements.

- ASU 2016-09 “Improvements to Employee Share-Based Payment Accounting”: Simplifies the financial reporting for share-based compensation. We adopted this guidance in the first quarter of 2016:

All income tax effects of stock-based compensation are now classified within income tax expense, rather than recognizing some of the effects in additional contributed capital. To the extent tax deductions from stock-based compensation payments differ from the compensation cost recognized for financial reporting purposes, the tax effects are recorded as discrete items in that quarter.

Prospective application was required, and the impact of adopting this new guidance resulted in an additional tax benefit of $2.5 recorded in the second quarter of 2016, and $8.3 for the first six months of 2016.

This ASU impacted the calculation of the dilutive effect of stock-based compensation on earnings per share, which resulted in an increase in our average diluted shares outstanding of approximately .5 shares.

The income tax effects are now classified as cash flow from operations, rather than cash flow from financing activities. We have elected to apply this cash flow classification guidance prospectively.

Consistent with our past practice, when shares are withheld from the issuance of stock to fund the payment of the employee’s taxes, the payment is classified as a financing activity.

We have elected to continue to estimate the number of stock-based awards expected to vest, rather than electing to account for forfeitures as they occur.

- ASU 2016 -02 " Leases": Requires that a lessee recognize assets and liabilities on the balance sheet for lease terms of more than 12 months. This ASU will be effective January 1, 2019, and we are evaluating its impact on our future financial statements.

- ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs": Changes the presentation of long-term debt issuance costs in the financial statements to a reduction of the related liability rather than as a separate asset. We adopted this ASU in the first quarter of 2016 and retrospectively reclassified net deferred loan costs associated with each of our long-term debt issuances from assets to long-term debt on the balance sheet. The adoption of this ASU did not have a material impact on our financial statements.

- ASU 2014-09 "Revenue from Contracts with Customers": Supersedes most of the existing authoritative literature for revenue recognition and prescribes a five-step model for recognizing revenue. In July 2015, the FASB deferred the effective date of this ASU by one year, which results in the new standard being effective January 1, 2018. In addition, during March, April and May 2016, the FASB issued additional updates (ASU 2016-06, ASU 2016-10 and ASU 2016-12) which clarify the guidance on specific items such as principal-versus agent, identification of performance obligations and licensing implementation, clarification of noncash consideration, and a practical expedient for reflecting contract modifications at transition. This standard requires either a retrospective or a modified retrospective transition approach to adoption. This ASU will be effective January 1, 2018, and we are evaluating its impact on our future financial statements.

3. INVENTORIES

About 50% of our inventories are valued using the Last-In, First-Out (LIFO) cost method and the remainder using the First-In, First-Out (FIFO) cost method. We calculate our LIFO reserve (the excess of FIFO cost over LIFO cost) on an annual basis. During interim periods, we estimate the current year annual change in the LIFO reserve (i.e., the annual LIFO expense or benefit) and allocate that change ratably to the four quarters. Because accurately predicting inventory prices for the year is difficult, the change in the LIFO reserve for the full year could be significantly different from the amount currently estimated. In addition, a variation in expected ending inventory levels could also impact total change in the LIFO reserve for the year. Any change in the annual LIFO estimate will be reflected in future quarters.

The following table contains the LIFO (expense) benefit included in continuing operations for each of the periods presented.

	Six Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
LIFO (expense) benefit	$(7.3)	$10.0	$(7.3)	$5.0

4. SEGMENT INFORMATION

Our reportable segments are the same as our operating segments, which also correspond with our management organizational structure. During the fourth quarter of 2015, our logistics operations, which primarily include intercompany transportation activity, were moved from Residential Furnishings to Industrial Materials. This segment change was retrospectively applied to all prior periods presented.

We have four operating segments that supply a wide range of products:

- Residential Furnishings—components for bedding and furniture, fabric and carpet cushion
- Commercial Products—components for office and institutional furnishings, adjustable beds and consumer products
- Industrial Materials—drawn steel wire, fabricated wire products and steel rod
- Specialized Products—automotive seating components, tubing and sub-assemblies for the aerospace industry, specialized machinery and equipment, and commercial vehicle interiors

Each reportable segment has a senior operating vice-president that reports to the chief executive officer, who is the chief operating decision maker. The operating results and financial information reported through the segment structure are regularly reviewed and used by the chief operating decision maker to evaluate segment performance, allocate overall resources and determine management incentive compensation.

LEGGETT & PLATT, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Separately, we also utilize a role-based approach (Grow, Core, Fix or Divest) as a supplemental management tool to ensure capital (which is a subset of the overall resources referred to above) is efficiently allocated within the reportable segment structure.

The accounting principles used in the preparation of the segment information are the same as those used for the consolidated financial statements, except that the segment assets and income reflect the FIFO basis of accounting for inventory. Certain inventories are accounted for using the LIFO basis in the consolidated financial statements. We evaluate performance based on EBIT. Intersegment sales are made primarily at prices that approximate market-based selling prices. Centrally incurred costs are allocated to the segments based on estimates of services used by the segment. Certain of our general and administrative costs and miscellaneous corporate income and expenses are allocated to the segments based on sales. These allocated corporate costs include depreciation and other costs and income related to assets that are not allocated or otherwise included in the segment assets.

A summary of segment results from continuing operations are shown in the following tables.

	External Sales	Inter-Segment Sales	Total Sales	EBIT
Three Months Ended June 30, 2016				
Residential Furnishings	$ 487.4	$ 6.2	$493.6	$65.5
Commercial Products	136.8	16.3	153.1	10.9
Industrial Materials	79.9	70.2	150.1	16.6
Specialized Products	254.8	10.7	265.5	58.3
Intersegment eliminations and other				2.5
Change in LIFO reserve				(7.3)
	$ 958.9	$ 103.4	$1,062.3	$146.5
Three Months Ended June 30, 2015				
Residential Furnishings	$ 516.8	$ 7.5	$524.3	$50.7
Commercial Products	135.4	24.1	159.5	10.8
Industrial Materials	111.7	88.4	200.1	15.3
Specialized Products	233.4	9.8	243.2	37.7
Intersegment eliminations and other				(.3)
Change in LIFO reserve				5.0
	$ 997.3	$ 129.8	$1,127.1	$119.2

	External Sales	Inter-Segment Sales	Total Sales	EBIT
Six Months Ended June 30, 2016				
Residential Furnishings	$968.8	$ 13.7	$982.5	$113.2
Commercial Products	278.1	36.5	314.6	24.7
Industrial Materials	157.0	150.3	307.3	36.7
Specialized Products	493.4	21.1	514.5	104.6
Intersegment eliminations and other				1.7
Change in LIFO reserve				(7.3)
	$1,897.3	$ 221.6	$2,118.9	$273.6
Six Months Ended June 30, 2015				
Residential Furnishings	$1,022.8	$ 15.1	$1,037.9	$102.8
Commercial Products	258.9	41.6	300.5	18.8

Industrial Materials	229.4	189.9	419.3	23.3
Specialized Products	452.4	19.3	471.7	77.0
Intersegment eliminations and other				(1.0)
Change in LIFO reserve				10.0
	$1,963.5	$ 265.9	$2,229.4	$230.9

8

LEGGETT & PLATT, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Average assets for our segments are shown in the table below and reflect the basis for return measures used by management to evaluate segment performance. These segment totals include working capital (all current assets and current liabilities) plus net property, plant and equipment. Segment assets for all years are reflected at their estimated average for the periods presented.

	June 30, 2016	December 31, 2015
Residential Furnishings	$602.2	$ 623.7
Commercial Products	121.6	110.2
Industrial Materials	151.0	186.7
Specialized Products	266.9	256.4
Other (1)	.4	6.3
Average current liabilities included in segment numbers above	488.0	516.6
Unallocated assets (2)	1,381.7	1,387.0
Difference between average assets and period-end balance sheet	20.0	(123.2)
Total assets	$3,031.8	$ 2,963.7

(1) Businesses sold or classified as discontinued operations.
(2) Unallocated assets consist primarily of goodwill, other intangibles, cash and deferred tax assets.

5. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Discontinued Operations

During the fourth quarter of 2014, we divested the majority of our Store Fixtures reporting unit, which was previously part of the Commercial Products segment. We sold the final Store Fixtures business in the fourth quarter of 2015. Total consideration for these businesses was approximately $72 during this time period. No significant gains or losses were realized on the sale of these businesses.

The table below includes activity related to these operations:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
External sales:				
Commercial Products - Store Fixtures	$—	$12.3	$—	$6.1
Earnings (loss):				
Commercial Products - Store Fixtures	.5	3.3	.4	2.9
Subsequent activity related to previous divestitures (1)	31.4	(1.5)	31.4	(.7)
Earnings before interest and income taxes	31.9	1.8	31.8	2.2
Income tax expense	(11.5)	(.5)	(11.5)	(.4)
Earnings from discontinued operations, net of tax	$20.4	$1.3	$20.3	$1.8

(1) Subsequent activity for businesses divested in prior years has been reported as discontinued operations in the table above, including proceeds from an antitrust litigation settlement discussed in Note 15 of $31.4 associated with our former Prime Foam Products unit. This unit was sold in March 2007 and was previously part of the Residential Furnishings Segment.

LEGGETT & PLATT, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Assets Held for Sale

We had no material assets held for sale at June 30, 2016 or December 31, 2015.

Other Divestitures

The following businesses were divested during the periods presented, but did not meet the discontinued operations criteria.

	Date	Six Months Ended June 30,		Three Months Ended June 30,	
	Divested	2016	2015	2016	2015
External Sales:					
Industrial Materials:					
One Wire Products operation	Second quarter 2016	$19.5	$25.4	$8.1	$12.5
Steel Tubing business unit	Fourth quarter 2015	—	47.9	—	23.1
Specialized Products:					
One Commercial Vehicle Products (CVP) operation	Second quarter 2016	15.3	13.3	7.8	6.3
One CVP operation	Fourth quarter 2015	—	6.8	—	4.0
Total External Sales		$34.8	$93.4	$15.9	$45.9
EBIT:					
Industrial Materials:					
One Wire Products operation	Second quarter 2016	$1.2	$.2	$.8	$.3
Steel Tubing business unit	Fourth quarter 2015	—	1.3	—	.5
Specialized Products:					
One CVP operation	Second quarter 2016	2.8	1.7	1.3	.7
One CVP operation	Fourth quarter 2015	—	(.7)	—	(.4)
Total EBIT		$4.0	$2.5	$2.1	$1.1

We realized a gain of $11.2 related to the sale of one CVP operation in the second quarter of 2016. No significant gains or losses were realized on the sale of other businesses.

6. IMPAIRMENT CHARGES

Pre-tax impact of impairment charges is summarized in the following table.

Other long-lived asset impairments are reported in "Other (income) expense, net." Charges associated with discontinued operations are reported in "Earnings from discontinued operations, net of tax."

LEGGETT & PLATT, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

	Six Months Ended June 30,						Three Months Ended June 30,					
	2016			2015			2016			2015		
	Good-will	Other Long-Lived Assets	Total	Good-will	Other Long-Lived Assets	Total	Good-will	Other Long-Lived Assets	Total	Good-will	Other Long-Lived Assets	Total
Continuing operations:												