# Leggett & Platt – Strategy Overview

*August 2017*

## Key Financial Metric

Total Shareholder Return is the key financial measure that we use to assess long-term performance. Our goal is to achieve TSR in the top third of the S&P 500 over the long-term through a balanced approach that employs four TSR sources: revenue growth, margin expansion, dividends, and share repurchases.

We monitor our TSR performance relative to the S&P 500 on a rolling three-year basis. For the three-year period that will end on December 31, 2017, we have so far generated compound annual TSR of 11% per year. That performance places us in the top 49% of the S&P 500.

## Portfolio Management

We employ a rigorous strategic planning process to guide decisions regarding business unit roles, capital allocation priorities, and new areas to grow. We review the portfolio classifications of each unit on an annual basis to determine its appropriate role (Grow, Core, Fix, or Divest). This review includes criteria such as competitive position, market attractiveness, business unit size, and fit within our overall objectives, as well as financial indicators such as EBIT and EBITDA growth, operating cash flows, and return on assets. Businesses in the Grow category should provide avenues for profitable growth from competitively advantaged positions in attractive markets. Core business units are expected to enhance productivity, improve market share, and generate free cash flow while using minimal capital. To remain in the portfolio, business units are expected to consistently generate after-tax returns in excess of our cost of capital. Business units that fail to consistently attain minimum return goals will be moved to the Fix or Divest categories.

## Disciplined Growth

For quite some time we have envisioned profitable revenue growth as the primary driver of our TSR. Over the last three years, we have enjoyed combined volume and acquisition growth of 5% per year, though this has been partially offset by divestitures, commodity deflation, and currency.

We expect that long-term revenue growth should: i) average 6-9% per year, ii) come primarily from organic growth, predominantly Leggett-specific opportunities within our Grow business units (such as Automotive, Bedding, Adjustable Bed, Work Furniture, Home Furniture, Geo Components, and Aerospace), and iii) be augmented by carefully screened, strategic acquisitions that meet our established criteria.

We have made internal structural changes to improve the quality and quantity of profitable growth initiatives generated within the business units:

- Implemented a formal growth identification process within the business units to identify, appropriately resource, and bring to fruition profitable growth opportunities in our current markets.
- Formed, within the Corporate Development group, a small team that is seeking out new markets that strongly align with our styles of competition and core competencies.

As mentioned above, our long-term growth objective envisions periodic acquisitions. We expect all acquisitions to: i) have a clear strategic rationale, a sustainable competitive advantage, a strong fit with the company, and be in an attractive and growing market; ii) create value by enhancing TSR; iii) for stand-alone businesses, generally possess revenue in excess of $50 million, strong management, and future growth opportunity with a strong market position in a market growing faster than GDP; and iv) for bolt-on businesses, generally possess revenue in excess of $15 million, significant synergies, and a strategic fit with an existing business unit.

## Returning Cash to Shareholders

Leggett & Platt has consistently been a strong cash generator. During the past three years, we produced $1.3 billion of operating cash, and we returned much of this cash to shareholders in the form of dividends and stock buybacks.

Our target for dividend payout is 50-60% of earnings, and we are currently within that range. Accordingly, future dividend growth should approximate earnings growth. We have increased our annual dividend for 46 consecutive years, and we plan to extend that record.

Our priorities for use of cash are organic growth (capital expenditures to support product development, market share gains, and geographic expansion), dividends, and strategic acquisitions. If cash is available after funding those priorities, we expect to continue to repurchase stock rather than repay debt early or stockpile cash. We have a standing authorization from the Board to buy up to 10 million shares each year; however, no specific repurchase commitment or timetable has been established. We assume an annual 1% net reduction in share count on average, which will generate 1% TSR annually. However, it is likely that there will be some years with little or no share reduction (i.e. when growth and acquisitions have used most or all of the available capital).

## Management Compensation

Our incentive programs reward strong performance. Senior executives participate in a TSR-based incentive program (based on our 3-year relative performance compared to the performance of a group of approximately 320 peers). Top management also participates in a profitable growth incentive program that rewards revenue growth and EBITDA margin performance over a 2-year period. Annual bonuses at the business unit level emphasize the achievement of higher return on assets along with free cash flow generation.