

# InVision

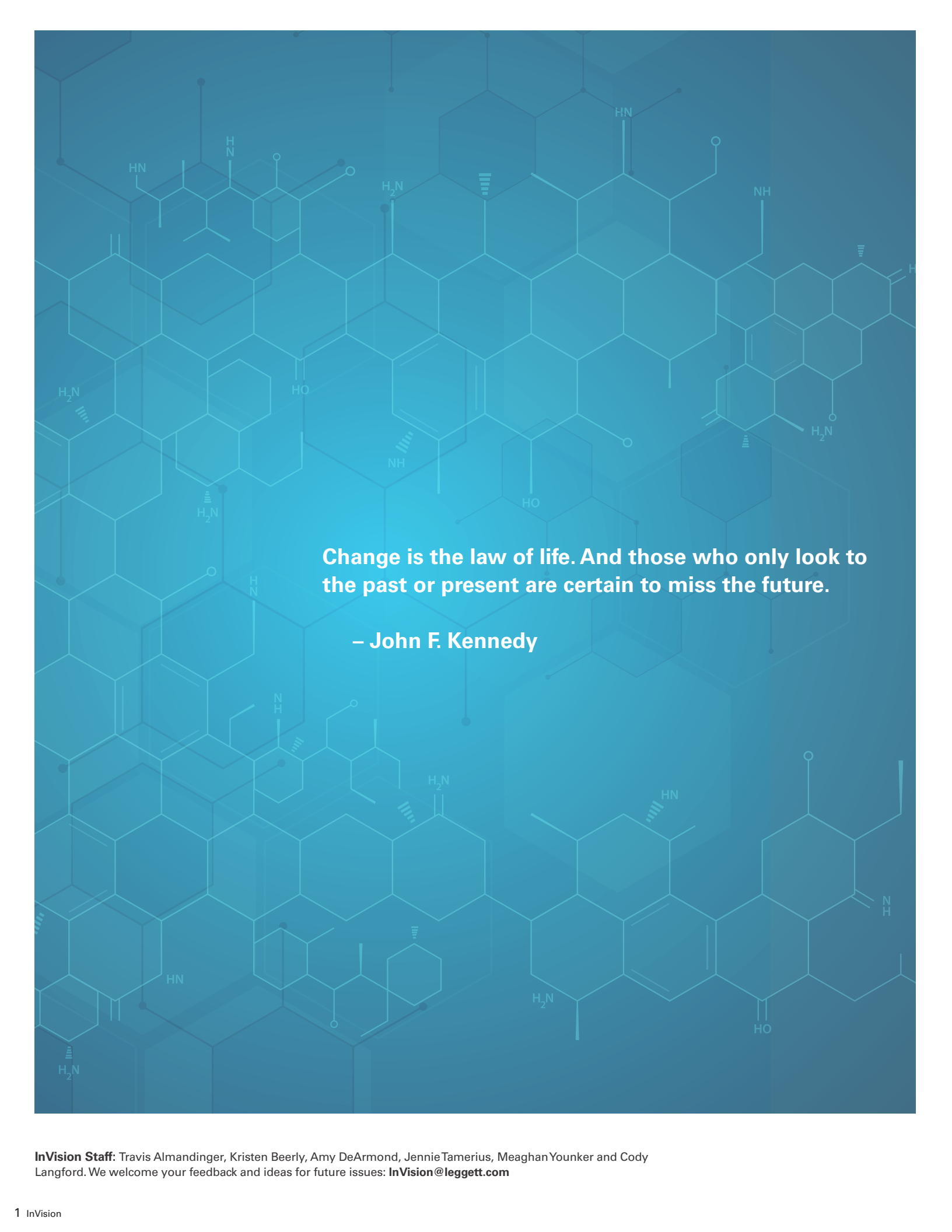
A look **inside**.  
A look **ahead**.

A NEW FORMULA FOR

TSR

SUCCESS





**Change is the law of life. And those who only look to  
the past or present are certain to miss the future.**

**– John F. Kennedy**

## INVESTOR DAYS AND ELEPHANTS

If you've been to the circus, you may have noticed that large elephants are usually tied to a small stake in the ground. If you ask the trainers how those small stakes keep such large elephants under control, they will explain that when the elephants are small and tied to the same stakes, they try to pull them out and can't. So when they grow older, they never try to pull the stakes out again.

**To me the key lesson here is . . . don't limit yourself to what you've only known in the past.** So why is this relevant to us at Leggett & Platt? Please keep reading.



Matt Flanigan, Executive Vice President  
& Chief Financial Officer

As many of you know, we just held an Investor Day in New York on September 14. The last time we held such an event was also in New York . . . nine years ago. Let's reflect on that one for just a second.

Back in 2006 when Dave became CEO and Karl became COO, they rightly determined that we had not been creating much value for our Shareholders during the previous several years and that we needed to adjust our course. The "elephant in the room" at that time was our ongoing commitment to "double digit sales growth for all of our businesses." That mandate was actually weakening our performance, because we were pursuing high sales growth with selling price strategies and certain acquisition investments that were counter-productive. We were also asking some of our businesses to grow 10+% when they already had very large market shares.

So at that Investor Day on November 14, 2007, we made the dramatic announcement that we would change L&P's strategy from double digit sales growth to a Total Shareholder Return (TSR) approach. In doing so, we lowered our sales growth expectations to 4-5%. We also pledged to significantly improve our profit margins, pay a much higher dividend, and repurchase stock (particularly from divestiture cash proceeds) to create value for our shareholders. It took a lot of courage and conviction for Dave and Karl to initiate such a startling change to our longstanding growth strategy, which had been very successful in the 1970s, 80s and 90s. In essence, they didn't limit their thinking to what L&P had only known in the past.

**And the results? From that Investor Day until now, L&P has outperformed 91% of the S&P 500!**

## So why are we changing anything?! Ok, let's flash forward to today.

The purpose for the Investor Day we just held was to formally communicate some major refinements to our Total Shareholder Return strategy. The “elephant in the room” now (and he’s a “good” elephant!) is that our sales growth has been notably higher than our 4-5% range during the past several years after adjusting for divestitures, deflation and currency. Furthermore, we don’t anticipate significant divestitures during the next several years, allowing us to focus more time and energy on reviewing carefully screened acquisitions to further enhance our sales growth potential. On the other hand, opportunities to further expand our profit margins will become more challenging, and we needed to formally communicate that development as well.

### We’ve modified our formula for Total Shareholder Return:

	November 2007	September 2016
Sales Growth	4 - 5%	6 - 9%
Profit Margin Improvement	2 - 3%	1%
Dividend Yield	3 - 4%	3%
Stock Repurchases	2 - 4%	1%
<b>Annual TSR</b>	<b>12 - 15%</b>	<b>11 - 14%</b>

#### I know the table shows a lot of percentages, but here are the key takeaways:

- We increased our average annual sales growth target to 6-9%. This raised expectation is primarily based upon internal growth from “content” activity, as opposed to relying simply upon more overall demand. For example, as we sell higher-value content in bedding (continued market penetration by Comfort Core) or automotive (more features in cars involving our lumbar, cables or actuators), that brings significant sales growth to Leggett without a dramatic increase in sales of mattresses or cars.
- As I previously mentioned, we still expect our profit margins to improve, but not nearly as much as they have during the past several years.
- Our dividend yield remains essentially unchanged at an attractive 3%.
- We expect to buy back fewer shares of our stock as we invest more dollars into our internal growth opportunities and prudent strategic acquisitions.

By generating average annual TSR of 11-14%, we should once again be performing in the top 1/3 of the S&P 500 companies. That remains our overall financial goal, which is unchanged from 2007.

The response at Investor Day and in the days since has been quite positive. Our new TSR framework was readily understood and recognized as both reasonable and timely refinements to our strategy. The bottom line is that while these new changes to our TSR framework are not as dramatic as our strategy shift back in 2007, they are certainly an adjustment to our way forward. And, they reflect a healthy approach of not limiting ourselves to what we’ve known in the past.

We greatly appreciate everyone’s excellent work and dedication to making this new TSR framework another “elephant-sized” success!

## THIS IS WHERE WE'RE HEADING

### Communicating Leggett's Refined Strategy

Perhaps just as important as defining a company's strategy is communicating it. Leggett & Platt recently hosted Investor Day and Leggett Together to share the Company's vision for the future with investors and employees.

#### Engaging Shareholders at Investor Day

On September 14, CEO Karl Glassman and senior leaders spent half of a day with nearly 40 investors and analysts in New York for Investor Day. They presented Leggett's refined strategy for reaching the TSR goals first put in place in 2007, now with a renewed focus on growth.

"We told the investment community that we are confident we have the talent, products, and business units in place to deliver long-term revenue growth," said Karl. In-depth presentations from operations management for our automotive, bedding, home furniture and adjustable bed groups offered details on how the Company will achieve 6-9% revenue growth.

Since unveiling the refined strategy, investors have responded positively. "They've really appreciated our transparency and candor," said Karl.

And while some things change, the Company's underlying fundamentals will remain intact. "As we make adjustments to meet our growth targets, we will make sure the Company is in a strong financial position," said CFO Matt Flanigan. "We'll stay the course and do it prudently and confidently."

#### Informing Employees through Leggett Together

On the heels of Investor Day, Karl and Matt shared a condensed version of the strategy presentation during Leggett Together, a town hall meeting for employees.

Jason Gorham, VP of Human Resources, then facilitated an employee Q&A session and addressed several HR-related questions pertaining to employee learning, leadership development, merit increases, and Leggett's sick day and vacation policies. Employees across the Company will benefit from improvements on these fronts in upcoming months.

Throughout the Q&A, Karl echoed his commitment to the renewed focus on Leggett's growth. "Growth is fun—it's much more fun to play offense than defense. The company I see moving forward is a lot more empowered at every level."

In responding to a question about his 5-year vision for the Company, Karl stressed that it'll be the collective results of individual efforts that generate our success. "I envision Leggett being more diverse in terms of our people—where they work, how they work, what they look like, and what some of their preferences are. That's what vitality for our Company is all about."



Jason Gorham moderated the Q&A portion of Leggett Together, where Karl Glassman and Matt Flanigan responded to employee questions.



Around 350 employees attended the town hall meeting at Corporate. A recorded version is also available on SharePoint.



## Investing in Success: Schukra of North America

You don't earn the title of "world's foremost designer and manufacturer of automotive lumbar support systems" year after year by settling for the status quo. That requires innovation and expanded capabilities, which is exactly what Schukra has done. Now it's time to expand their facilities to build upon that reputation.

This September, Schukra broke ground on a 50,000-square-foot addition to their facilities in Windsor, Ontario, Canada. "This plant has proven itself time and again to be a strong performing location, consistently meeting or exceeding our growth targets," said Barry Jones, President of North American Automotive. "The expansion is simply an investment in Schukra's continued success."

Schukra specializes in front seat lumbar systems, providing comfort components for vehicles made by multiple OEMs, including General Motors, Toyota and Ford. With increased demand year after year, Schukra has pushed the limits of

its production capacity. Freeing up nearly 12,000 feet of space through continuous improvement initiatives still wasn't enough. "We launched the 'WOW' line of products, which brought in multi-year contracts with several stages of production, and we had no choice but to expand the facility," said Barry.

According to CEO Karl Glassman, "We're continually reviewing opportunities to grow Leggett by acquiring other businesses, but those involve a lot of unknowns and a fair amount of risk. We'll take opportunities to grow the Company with investments like Schukra and the WOW program any day of the week."

Construction of the Windsor expansion will provide further manufacturing and warehouse space for assembly lines, materials, and finished goods. Schukra, and L&P as a whole, look forward to the long-term growth of the completed facility, bringing with it increased product offerings, a broader customer base, and the creation of 100 new jobs.



The brains behind the business—the WOW Project Team has worked for months on the development of WOW products and plans for the expansion.



Construction has begun on the 50,000-square-foot expansion and is scheduled to be completed in February 2017.



WOW indeed! This sleek, multifunctional front seat is made possible by Schukra's leading-edge comfort components.

The WOW products are an entirely new venture for Schukra. These leading-edge components were completely redesigned by Ford to offer increased functionality and luxury level comfort. And unlike Schukra's other components that are hidden inside the seat, WOW includes a number of "Class A" surfaces that are exposed to the vehicle's interior.

"There's definitely a learning curve with this sort of shift," explained Simon Hancox, Director of Operations. "For example, now that we're dealing with components that drivers can see, and not just feel inside the seat, we instituted a color blind test for our operators as part of their training on the WOW assembly lines."

Schukra started producing the first WOW components in September, consisting of 10-, 24- and 30-way cushion and back modules for Ford's Lincoln Continental. While the initial launch is thrilling, Schukra is even more excited by the long-term prospects, with revenue projected to grow exponentially by 2019 thanks to the WOW product line.

"We've met challenges along the way, but bringing these brand new products to market is an exciting accomplishment," said Simon. "We're grateful for the support of our executives and look forward to showing them another successful project."

## LP Sense: Making Our Products Safer and Smarter

“With great power comes great responsibility” is a line many will recognize from Spider-Man (it was also used by Winston Churchill and both Teddy and Franklin Roosevelt). But for Leggett & Platt, as we create more power-assisted furniture, we’re also mindful of the safety of those using our products.

One such feature being integrated into a variety of Leggett products is LP Sense. With capacitive-sensing technology (the technology used in most digital touch screens), LP Sense can detect and respond to the presence or touch of a living thing. The sensors recognize when a person or pet makes or breaks contact with the product to make it function smarter and safer.



### Adjustable Beds with LP Sense: Power and Peace of Mind

L&P Adjustable Bed Group currently offers LP Sense as a safety enhancement feature on its premium bed line, the Premier series. LP Sense helps reduce the risk of injury to a person or pet caught in the pinch point of the bed because the sensor will stop the motion of the bed mechanism if it detects physical contact.

According to Jay Thompson, Adjustable Bed Unit President, “Other traditional safety mechanisms, such as infrared beams, have a lot of false triggers when something inconsequential blocks the beam. Because LP Sense is specifically designed to detect the presence of a person or an animal, it has much fewer false triggers. It helps protect the things that really matter.”

Jay says that while LP Sense is currently offered only as a safety enhancement for adjustable beds, he sees future opportunities to use the technology for convenience and customization. “If the sensor can tell someone’s in the bed, the bed could do things in response to that, such as adjusting the lights or the room temperature. You could customize the way your bed responds to you—either just your presence or a specific action.”

### Opportunities for LP Sense: Moving Motion Furniture Forward

As a proprietary feature owned by Leggett & Platt, LP Sense is being added to products offered by other Leggett businesses. LP Sense will soon be introduced in a power recliner produced by our Home Furniture Components (HFC) unit. “As with adjustable beds, LP Sense helps make motorized furniture safer by being able to shut off movement as soon as there is contact with a living thing,” said Niels Mossbeck, Vice President—Business Development.

LP Sense could be particularly attractive in commercial applications in which customers want to be able to operate large numbers of power chairs automatically and safely. HFC is working with high-end theater customers to incorporate LP Sense into power-reclining theater seats. “We see a big opportunity in high-end theater seating,” said Randy Ford, HFC Unit President. “LP Sense can tell whether a seat is occupied, which would allow theaters to automatically close unoccupied seats.”

“Extending LP Sense from adjustable beds to recliners is just the first step,” said Niels. “We’re currently working on applying LP Sense to height-adjustable desks.” As customers begin to expect and demand more responsive and customizable products, LP Sense could provide a competitive advantage for Leggett in many product lines.



# Launching Growth through Aerospace Acquisitions

Leggett & Platt first took to the skies in 2012 when we entered the aerospace business, and we've been gaining altitude ever since. With sales reaching \$150 million this year, L&P Aerospace continues to aim high to achieve lofty goals for revenue growth and extend our capabilities.

In February, L&P Aerospace made another giant leap forward with the acquisition of Pegasus Manufacturing, a Connecticut-based producer of fabricated tube and duct assemblies.

"Pegasus fits multiple strategic needs," explained Shannon Ukena, Director of Corporate Development. "This business takes us a step deeper into the supply value chain, gives us a new geographic foothold in a major aerospace hub in the Northeast, and opens us up to some complementary markets for our products."

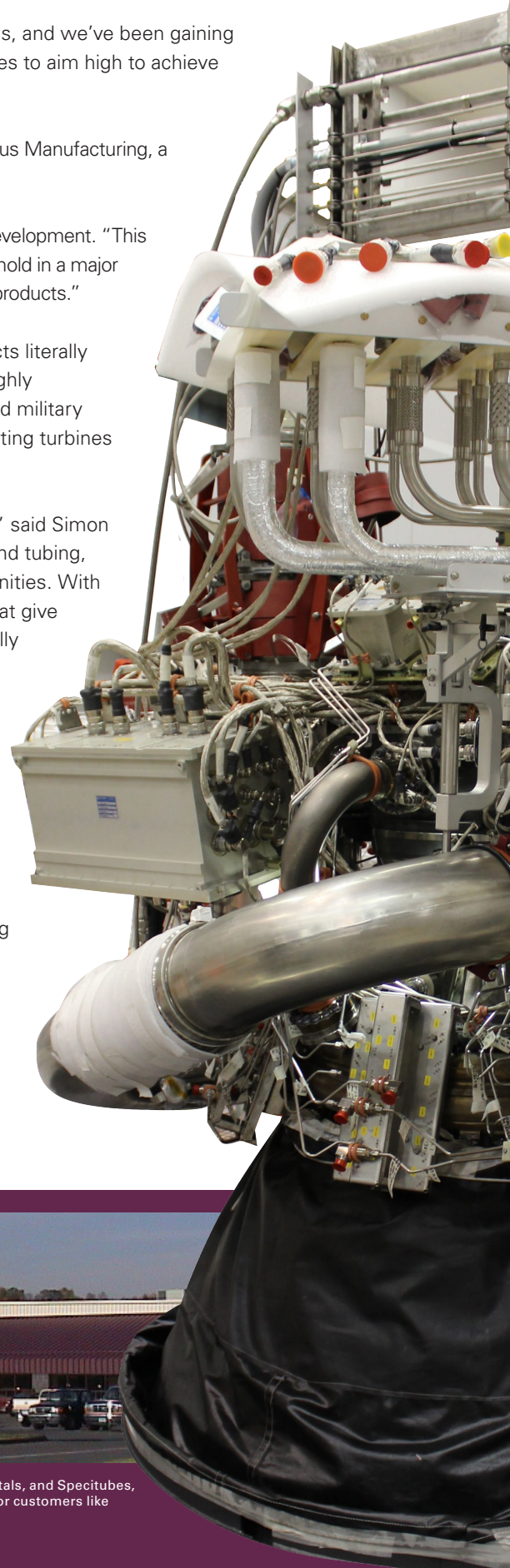
Pegasus serves a different market than our other aerospace operations, and its products literally reach the whole universe—space, air, land, sea, and subsurface. They manufacture highly specialized assemblies for an incredible range of applications, including commercial and military airframes and engines, spacecraft, submarines and aircraft carriers, and power-generating turbines and fuel cells.

"Technological progress is one of the keys to advancement in the aerospace industry," said Simon Prior, Aerospace Group President. "Originally, aerospace at L&P meant straight pipe and tubing, where we enjoy really good market share, but have somewhat limited growth opportunities. With Pegasus, we are finding new ways forward with complex 'value-added' assemblies that give us opportunities to not only engage on a deeper level with existing customers, but really broaden the pool of potentials."

Chris DiPentima, Pegasus Branch Manager, said, "The opportunities are substantial in moving from a strong, but small, family-owned operation to a global company with access to more resources and a larger sales team. All of the benefits we expected pre-acquisition are generating new prospects and programs much faster than we even anticipated."

With rapid growth come a few growing pains, but, as Chris explained, "The challenge is in finding ways to intertwine Leggett's and Pegasus' policies, so we aren't just layering one over the other. But in terms of operations, it has been pretty seamless. Our team continues to focus on being faster, more flexible, and very accurate at what we do."

"Even with Pegasus and DHAP, L&P is still a relatively small player in the formed tube and pipe and duct assemblies markets," said Simon. "With the huge potential for growth here, we will definitely look for ways to continue to expand our aerospace platform in this direction."



Similar to David Hart Aerospace Pipes (DHAP), Pegasus takes tubing manufactured by Western Pneumatic, Valley Metals, and Specitubes, and utilizes on-site welding, brazing, pressure testing, and other technologies to fabricate sophisticated assemblies for customers like Rolls-Royce, General Electric, Boeing and Airbus, Newport News Shipbuilders, and the US Government.