

Tempur Sealy International Inc.

Bullish on industry recovery, Mattress Firm acquisition, & new product launches

Maintain Rating: BUY | PO: 65.00 USD | Price: 54.40 USD

Mattress spending recovery still ahead

We believe total US industry units have been tracking down roughly 18% vs. 2019 which implies pent-up demand and the potential for outsized growth in future quarters. That said, we continue to see soft mattress spending currently per [BAC aggregated credit and debit card data \(02/08/2024\)](#) which accelerated through 4Q on a 1yr basis but decelerated in January to -17.8% yoy. A rebound in housing could lead to a pick-up in industry demand through 2024. Absent that, we still think the industry could stabilize and TPX could benefit from raw material and supply chain tailwinds. Rising shipping costs due to the Red Sea disruption may slightly limit margin upside.

Mattress Firm acquisition could meaningfully lift EPS

TPX announced its intent to acquire Mattress Firm in May 2023 with an expected close in 2H24. We recently analyzed [the impact of the Mattress Firm acquisition \(1/3/24\)](#) and see solid potential for upside to Street estimates. TPX has complied with the FTC's second request for documents in November, and we're encouraged that TPX is proactively considering selling roughly 200 stores including a mix of Sleep Outfitters (owned by TPX) and Mattress Firm stores as this indicates a path to address anti-trust concerns. According to TPX, Mattress Firm has 8% share of the North America retail bedding market.

Confident in TPX's ability to take share

We believe the company will continue to outperform the industry. We're maintaining our Buy rating and PO of \$65 based on 19x P/E as we remain very confident in TPX's ability to continue to take share with potential upside from a stabilization in mattress industry demand and an added benefit from a successful Mattress Firm acquisition closure. The recent launch of an all-new lineup of Tempur mattresses, pillows and bed cases in over 90 markets introduced innovation and expanded the company's total addressable market globally. TPX also received positive reaction to the new products.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.60	2.40	2.75	3.28	3.72
EPS Change (YoY)	-18.5%	-7.7%	14.6%	19.3%	13.4%
Consensus EPS (Bloomberg)			2.73	3.16	3.34
DPS	0.39	0.04	0.49	0.52	0.56
Valuation (Dec)					
P/E	20.9x	22.7x	19.8x	16.6x	14.6x
Dividend Yield	0.7%	0.1%	0.9%	1.0%	1.0%
EV / EBITDA*	13.7x	13.9x	12.2x	11.4x	10.6x
Free Cash Flow Yield*	0.8%	4.1%	5.9%	6.3%	7.0%

* For full definitions of *IQmethod*SM measures, see page 4.

05 March 2024

Equity

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Stock Data

Price	54.40 USD
Price Objective	65.00 USD
Date Established	5-Feb-2024
Investment Opinion	B-1-7
52-Week Range	34.98 USD - 55.27 USD
Mrkt Val (mn) / Shares Out (mn)	9,373 USD / 172.3
Free Float	96.4%
Average Daily Value (mn)	104.98 USD
BofA Ticker / Exchange	TPX / NYS
Bloomberg / Reuters	TPX US / TPX.N
ROE (2024E)	86.6%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Refer to important disclosures on page 5 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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iQprofileSM Tempur Sealy International Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.2%	14.8%	15.2%	16.1%	17.4%
Return on Equity	331.0%	265.1%	86.6%	77.9%	85.5%
Operating Margin	14.5%	14.1%	15.7%	16.3%	16.9%
Free Cash Flow	72	385	552	592	655

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.3x	1.4x	1.4x	1.3x
Asset Replacement Ratio	2.4x	1.4x	1.0x	1.0x	1.0x
Tax Rate	22.7%	24.2%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	NM	NM	324.6%	472.3%	325.1%
Interest Cover	6.9x	5.4x	5.8x	6.3x	6.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,921	4,925	5,098	5,334	5,582
% Change	-0.2%	0.1%	3.5%	4.6%	4.6%
Gross Profit	2,067	2,152	2,309	2,437	2,569
% Change	-4.3%	4.1%	7.3%	5.6%	5.4%
EBITDA	892	877	1,003	1,068	1,150
% Change	-18.6%	-1.7%	14.3%	6.5%	7.6%
Net Interest & Other Income	(103)	(130)	(138)	(138)	(138)
Net Income (Adjusted)	468	426	492	546	600
% Change	-28.2%	-9.0%	15.6%	10.9%	9.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	471	428	495	549	603
Depreciation & Amortization	127	135	145	147	153
Change in Working Capital	(262)	(2)	(1)	(7)	(7)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	43	9	62	53	55
Capital Expenditure	(307)	(185)	(150)	(150)	(150)
Free Cash Flow	72	385	552	592	655
% Change	-87.9%	432.4%	43.4%	7.2%	10.6%
Share / Issue Repurchase	(667)	(36)	0	(720)	(360)
Cost of Dividends Paid	(71)	(7)	(88)	(87)	(91)
Change in Debt	475	(251)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	69	75	539	323	527
Trade Receivables	423	431	446	467	489
Other Current Assets	703	597	604	628	654
Property, Plant & Equipment	791	878	883	887	883
Other Non-Current Assets	2,374	2,572	2,572	2,572	2,572
Total Assets	4,360	4,554	5,045	4,878	5,126
Short-Term Debt	70	45	45	45	45
Other Current Liabilities	911	863	884	923	963
Long-Term Debt	3,193	3,102	3,102	3,102	3,102
Other Non-Current Liabilities	198	211	211	211	211
Total Liabilities	4,372	4,221	4,241	4,280	4,320
Total Equity	(12)	333	803	598	806
Total Equity & Liabilities	4,360	4,554	5,045	4,878	5,126

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Retailing-Hardlines

Company Description

Tempur Sealy International is the leading global manufacturer and distributor of bedding products, which includes mattresses, foundations, adjustable bases, and other accessories including pillows. The majority of the company's sales are in the US, of which the company has nearly 40% market share. The company generated \$4.9bn of sales in 2022.

Investment Rationale

In our view, TPX is an attractive multi-year earnings and cash flow growth story. Over the next several years we see several opportunities globally to expand revenues through market share gains, channel DTC expansion and new expanded wholesale partnerships. We see a continued opportunity for dramatically improved margins in all segments under a profit oriented management team and ample internal opportunities.

Stock Data

Average Daily Volume 1,934,141

Quarterly Earnings Estimates

	2023	2024
Q1	0.53A	0.48E
Q2	0.58A	0.67E
Q3	0.77A	0.93E
Q4	0.53A	0.67E

Price objective basis & risk

Tempur Sealy International Inc. (TPX)

Our price objective (PO) of \$65 is based on 19x our 2024E EPS, which is above TPX's five-year average of 13.5x. We believe this is warranted given TPX's strong competitive position, our expectation that industry trends return to growth next year and TPX can generate over 20% EPS growth in 2024.

Upside risks to our PO are stronger-than-expected sales growth from new products, greater-than-expected margin growth, and quicker than expected growth of direct channels. Downside risks to our PO are unsuccessful new product launches, volatility related to an industry that remains competitive, failure of the pending Mattress Firm acquisition to close and general macroeconomic risk.

Analyst Certification

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US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Robert F. Ohmes, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Robert F. Ohmes, CFA
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
UNDERPERFORM				
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L. Suzuki



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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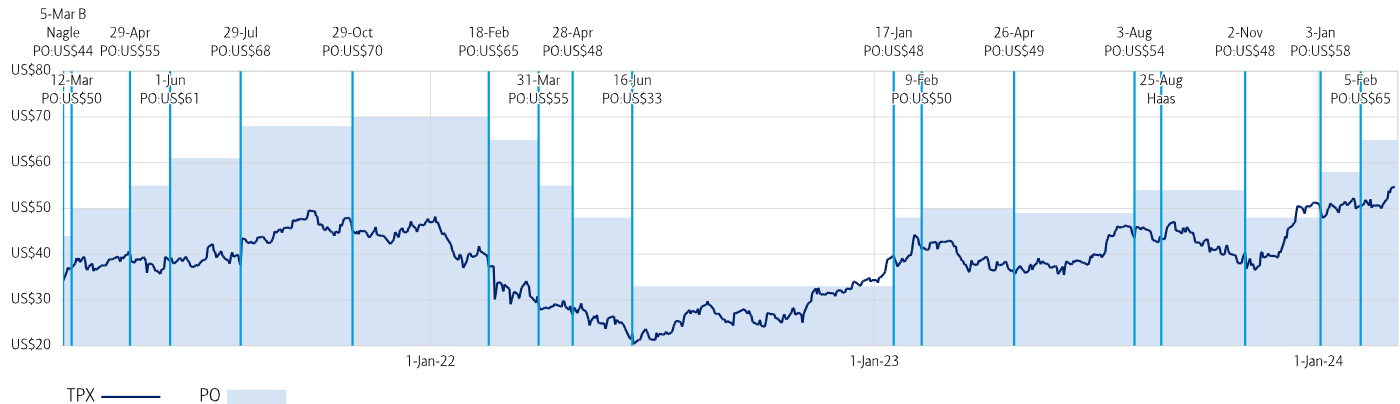
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Tempur Sealy (TPX) Price Chart



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Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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