

Tempur Sealy International Inc.

4Q Preview: Our top pick on industry recovery, share gains, & margin recapture

Reiterate Rating: BUY | PO: 65.00 USD | Price: 50.29 USD

Mattress spending recovery still ahead

TPX is scheduled to report 4Q earnings on Thursday, February 8th. We're modeling \$0.53 EPS and flat revenue YoY, in line with consensus and what's implied by guidance. We expect 4Q gross margin to expand 328bp YoY (vs. consensus 271bp) to 44.9% and opex deleverage of 306bp (vs. consensus 218bp). We expect TPX will see a continued gross margin benefit from lower commodity costs but opex will deleverage on investments in stores, advertising, and product launches. TPX's 2023 guidance assumes US-produced industry volumes will be down low double digits YoY. 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 credit and debit card data \(1/11/24\)](#) which accelerated through 4Q on a 1yr basis but decelerated on a 4yr basis.

Expect in-line with Street guidance with upside potential

We're currently modeling 2024 EPS of \$2.89 on 3.8% revenue growth vs. Street \$2.82 on 3.5% revenue growth. 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 exceed Street EPS given raw material and supply chain tailwinds. Rising shipping costs due to the Red Sea disruption may 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 potential for \$3.72/4.30 of EPS in 2025/2026 which is 18/23% above Street estimates. TPX has complied with the FTC's second request for documents in November and will provide an update on the acquisition during the earnings call. We're encouraged that TPX is considering selling roughly 200 stores to address anti-trust concerns.

Confident in TPX's ability to take share

TPX is our top pick for 2024 as we believe the company will continue to outperform the industry. We're lowering our 2024E EPS as we're removing buybacks from our model given TPX's pending acquisition of Mattress Firm, but our other assumptions remain largely unchanged. We're raising our PO from \$57.5 to \$65 as we roll forward our valuation basis from 2024 to 2025 (still based on 19x P/E).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.19	2.60	2.40	2.89	3.43
EPS Change (YoY)	67.0%	-18.5%	-7.7%	20.4%	18.7%
Consensus EPS (Bloomberg)			2.42	2.82	3.15
DPS	0.31	0.39	0.44	0.47	0.50
Valuation (Dec)					
P/E	15.8x	19.3x	21.0x	17.4x	14.7x
Dividend Yield	0.6%	0.8%	0.9%	0.9%	1.0%
EV / EBITDA*	10.7x	13.1x	13.3x	11.7x	10.9x
Free Cash Flow Yield*	6.9%	0.8%	5.1%	6.5%	7.1%

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

05 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	57.50	65.00
2024E Rev (m)	5,132.1	5,131.9
2025E Rev (m)	5,369.8	5,369.6
2024E EPS	3.02	2.89

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Stock Data

Price	50.29 USD
Price Objective	65.00 USD
Date Established	5-Feb-2024
Investment Opinion	B-1-7
52-Week Range	34.98 USD - 52.41 USD
Mrkt Val (mn) / Shares Out (mn)	8,664 USD / 172.3
Free Float	96.4%
Average Daily Value (mn)	73.30 USD
BofA Ticker / Exchange	TPX / NYS
Bloomberg / Reuters	TPX US / TPX.N
ROE (2023E)	283.8%
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter TM	Medium

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Timestamp: 05 February 2024 05:00AM EST

iQprofileSM Tempur Sealy International Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	24.5%	16.2%	15.2%	16.4%	17.1%
Return on Equity	161.1%	331.0%	283.8%	92.7%	79.4%
Operating Margin	18.6%	14.5%	14.2%	15.8%	16.4%
Free Cash Flow	600	72	440	560	617

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	0.8x	1.5x	1.4x	1.3x
Asset Replacement Ratio	1.1x	2.4x	1.5x	1.1x	1.1x
Tax Rate	24.1%	22.7%	24.7%	24.7%	24.7%
Net Debt-to-Equity Ratio	NM	NM	NM	296.0%	403.5%
Interest Cover	15.0x	6.9x	5.4x	7.0x	7.6x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	4,931	4,921	4,943	5,132	5,370
% Change	34.1%	-0.2%	0.4%	3.8%	4.6%
Gross Profit	2,159	2,067	2,168	2,330	2,460
% Change	31.3%	-4.3%	4.9%	7.5%	5.6%
EBITDA	1,096	892	884	999	1,080
% Change	33.6%	-18.6%	-0.9%	13.0%	8.1%
Net Interest & Other Income	(62)	(103)	(129)	(116)	(116)
Net Income (Adjusted)	651	468	427	520	575
% Change	60.3%	-28.2%	-8.8%	21.9%	10.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	650	471	429	523	578
Depreciation & Amortization	113	127	137	132	139
Change in Working Capital	(91)	(262)	62	(2)	(7)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	50	43	12	57	57
Capital Expenditure	(123)	(307)	(200)	(150)	(150)
Free Cash Flow	600	72	440	560	617
% Change	10.4%	-87.9%	508.6%	27.3%	10.2%
Share / Issue Repurchase	(816)	(667)	(37)	0	(720)
Cost of Dividends Paid	(63)	(71)	(78)	(85)	(84)
Change in Debt	979	475	(305)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	301	69	89	565	378
Trade Receivables	420	423	413	429	449
Other Current Assets	555	703	650	661	688
Property, Plant & Equipment	584	791	854	872	883
Other Non-Current Assets	2,464	2,374	2,374	2,374	2,374
Total Assets	4,323	4,360	4,380	4,900	4,771
Short-Term Debt	53	70	70	70	70
Other Current Liabilities	1,000	911	911	935	975
Long-Term Debt	2,706	3,193	2,889	2,889	2,889
Other Non-Current Liabilities	270	198	198	198	198
Total Liabilities	4,028	4,372	4,067	4,092	4,131
Total Equity	295	(12)	313	809	640
Total Equity & Liabilities	4,323	4,360	4,380	4,900	4,771

* 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 1,457,509

Quarterly Earnings Estimates

	2022	2023
Q1	0.69A	0.53A
Q2	0.58A	0.58A
Q3	0.78A	0.77A
Q4	0.54A	0.53E

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				
	Arhaus, Inc.	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN 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	Elizabeth L. Suzuki
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc.	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Elizabeth L. Suzuki
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L. Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

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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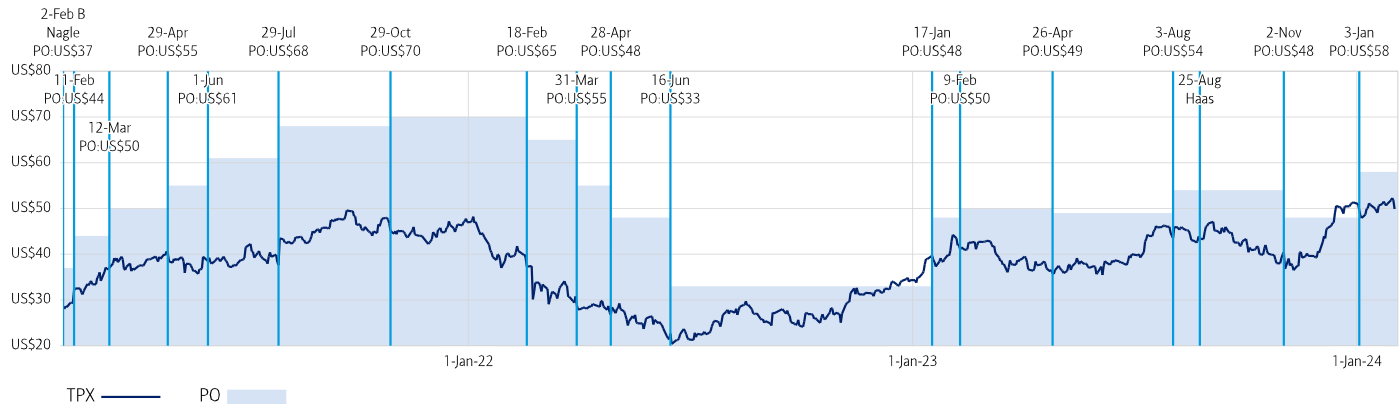
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Tempur Sealy (TPX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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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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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