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Leggett & Platt, Incorporated (LEG) CEO Karl Glassman on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-28-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $0.76 beats by $0.09 | Revenue of $1.24B (13.54% Y/Y) beats by $29.98M

Earning Call Audio

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Leggett & Platt, Incorporated (NYSE:LEG) Q3 2019 Earnings Conference Call October 29, 2019 8:30 AM ET

Company Participants

Wendy Watson - Director of Investor Relations

Karl Glassman - President & Chief Executive Officer

Jeff Tate - Executive Vice President & Chief Financial Officer

Mitch Doll off - Executive Vice President, Chief Operating Officer & President of the Furniture Products & Specialized Products

Perry Davis - Executive Vice President and President of Residential Products & Industrial Products

Susan McCoy - Senior Vice President, Investor Relations

Conference Call Participants

Bobby Griffin - Raymond James

John Baugh - Stifel

Stefanos Crist - CJS Securities

Keith Hughes - SunTrust

Bobby Friedner - Piper Jaffray

Wendy Watson

Good morning and thank you for taking part in Leggett & Platt third quarter conference call. I am Wendy Watson Director of Investor Relations. With me today are Karl Glassman, President and CEO; Jeff Tate, Executive Vice President & Chief Financial Officer; Mitch Dolloff, EVP Chief Operating Officer and President of the Furniture Products and Specialized Products segment; Perry Davis, EVP and President of the Residential Products and Industrial Products segment; Susan McCoy, Senior Vice President of Investor Relations; and Cassie Branscum, Manager of IR.

The agenda for our call this morning is as follows: Karl will start with a summary of the main points we made in yesterday's press release; Jeff will discuss financial details and address our outlook for the remainder of 2019, and finally, the Group will answer any questions that you have.

This conference call is being recorded for Leggett & Platt and is copyrighted material. This call may not be transcribed, recorded or broadcast, without our expressed permission. A replay is available from the IR portion of Leggett's website. We posted to the Investor Relations portion of the website yesterday's press release and a set of PowerPoint slides that contain summary financial information along with segment details. Those documents supplement the information we discuss on this call including non-GAAP reconciliations.

I need to remind you that remarks today concerning future expectations, events, objectives, strategies, trends or results, constitute forward-looking statements. Actual results or events may differ materially due to a number of risks and uncertainties and the

Company undertakes no obligation to update or revise these statements. For a summary of these Risk Factors and additional information, please refer to yesterday's press release and the section in our 10-K and 10-Q entitled Forward-Looking Statements and Risk Factors.

I'll now turn the call over to Karl.

Karl Glassman

Good morning and thank you for participating in our third quarter call. First, I want to welcome Jeff Tate, our new CFO to our team and to introduce him. As most of you are likely aware, Jeff joined Leggett & Platt in September from the Dow Chemical company where he most recently served as Vice President and Business CFO for the largest operating segment, Packaging and Specialty Plastics with combined revenue of over $24 billion.

Jeff was a member of the portfolio executives team where he drove financial discipline and provided financial counsel at the strategic and operational levels of the business. His responsibility is included portfolio analysis, value-based strategy development, business risk analysis, short and long-term financial planning, performance measurement and analysis and in ensuring proper internal controls.

In prior roles, Jeff Dow’s global internal audit activities and was Director of Investor Relations. Jeff is a certified public account with a BS in Accounting from the University of Alabama. He is a member of the Board of Directors of TCF Financial Corporation where he serves as Chair of the Finance Committee and as a member of their Audit, Risk Management and Compensation and Pension Committees.

He also previously served on the Public Company Accounting Oversight Board's Standing Advisory Group. Jeff brings tremendous strategic and financial capabilities to Leggett. He is well aligned with our culture and is a strong addition to our senior management team. Welcome Jeff, we are excited you are here.

I also want to recognize Perry Davis. As I mentioned last quarter, Perry is retiring in early 2020 after nearly 40 years with Leggett & Platt and this will be his last earnings call as a participant. We will miss you Perry and I suspect that you won't miss participating in these conference calls going forward.

We have several items to highlight in our third quarter results. Yesterday, we reported third quarter sales growth of 14%, third quarter EBIT growth of 16% and an adjusted EBIT growth of 19%. Third quarter earnings per share were $0.74 and adjusted EPS was $0.76, a 15% increase over third quarter 2018 adjusted EPS.

Operating cash flow in the quarter was a strong $213 million. Adjusted working capital as a percent of annualized sales for the quarter improved to 10.7%. Our results show the focus our teams have on cash generation. Your efforts are much appreciated.

Third quarter sales were $1.24 billion. Growth from ECS and other smaller acquisitions was 16% in the quarter. Organic sales were down 2%, 1% from volume and 1% from deflation and a negative currency impact.

Our Automotive, U.S. Spring, and Work Furniture businesses had solid third quarter sales growth offset by the planned exit of business Fashion Bed and Home Furniture which reduced sales 4% and weak trade demand for steel rod and wire.

Absent declines from exited business, volume was up 3%. Our bedding businesses continued to perform well with U.S. Spring sales up 6% in the quarter. Finished Mattress units were up 28% in the third quarter including year-over-year growth at ECS. Automotive sales were up 8% in the quarter and Work Furniture was up 6%.

Third quarter 2019 earnings per share were $0.74. This included $4 million of restructuring-related charges that reduced earnings $0.02 per share. Third quarter 2018 EPS of $0.67 included a $0.01 per share benefit due to the Tax Cut and Jobs Act.

Excluding these items, adjusted third quarter earnings of $0.76 were up $0.10 from adjusted 2018 third quarter earnings reflecting higher EBIT and a lower effective tax rate, partially offset by higher interest expense.

EBIT benefited from the ECS acquisition even after $12 million of amortization expense, lower raw material cost including a LIFO benefit and improved earnings performance in furniture products. Adjusted EBIT margin increased 50 basis points to 11.9% and adjusted EBITDA margin increased 130 basis points to 15.8%.

The restructuring activities we initiated in the fourth quarter of 2018 in our Home Furniture and Fashion Bed businesses are substantially complete. With the segment's adjusted EBIT of $12 million and adjusted EBIT margin up a notable 470 basis points in the quarter, we are already seeing a positive impact from the lower fixed cost and improved pricing.

We had further restructuring in the third quarter from the closure of a small machinery facility in our Residential Products segment and a wire drawing facility in our Industrial Products segment. We now expect full year restructuring-related charges of $14 million, $7 million of which is non-cash. We also wanted to update yon on the Automotive market.

Year-to-date, production in the global markets is down 6% and is expected to be down approximately 6% for the full year. Our Automotive business grew 8% versus third quarter 2018, exceeding global market growth by over 1,000 basis points. This year, we should exceed market growth by 600 to 700 basis points.

We've remained confident in our continued strong performance, ongoing disruption of the global markets makes it difficult to predict our relative performance with precision. Accordingly, we are moving away from our specific goal of exceeding market growth by a 1,000 basis points, although we still expect to significantly outperform the market over the long-term.

In mid-October, we received more positive news from the United States Mattress Industry's Anti-Dumping Petition on imported Chinese mattresses. The Department of Commerce made a final determination that Chinese mattresses are being sold at prices that violate the U.S. Trade Laws and imposed final Anti-Dumping duties that range from 57% to 1732%.

Importantly, approximately 90% of Chinese mattresses are now subject to Anti-Dumping duties in excess of a 160%. We expect the United States International Trade Commission to make a final determination in the Anti-Dumping matter no later than the first week of

December.

I'll now turn the call over to Jeff.

Jeff Tate

Thank you, Karl, and good morning everyone. As previously mentioned, operating cash flow was a strong $213 million in the third quarter, an increase of $86 million versus the same quarter last year, another quarter of keen focus on working capital levels was reflected by our quarter and adjusted working capital as a percentage of sales at 10.7%, an improvement versus 12.4% in the second quarter and 12% in the third quarter of 2018. We now expect our full year operating cash flow to exceed $550 million.

Demonstrating our ongoing capital discipline, we are reducing our full year capital expenditure estimate from $180 million to $160 million and dividend should require $205 million for the year.

Through the third quarter of 2019, we have returned over a $180 million of offshore cash and expect to bring back an additional $50 million before year end. This significantly exceeds our original full year expectations to bring back $170 million of offshore cash.

We ended the quarter with debt at 3.15 times, our trailing 12 month pro forma adjusted EBITDA, an improvement over second quarter's 3.45 times. As we announced yesterday, we are raising our full year earnings per share guidance range for 2019 to $2.40 to $2.55 from a range of $2.30 to $2.50 including approximately $0.08 per share of restructuring-related cost.

Accordingly, full year adjusted earnings per share is expected to be $2.48 to $2.63. Based upon this guidance framework, our full year adjusted EBIT margin range should be 11% to 11.3%.

Earnings per share guidance assumes a full year effective tax rate of 22%, full year depreciation and amortization of $200 million, net interest expense of $85 million and fully diluted shares of $136 million. We are narrowing our full year sales guidance expectations to $4.7 billion to $4.8 billion or up 10% to 12% over last year.

Acquisitions should add 15% year-over-year growth. We expect our organic sales to be down 3% to 5% including a 3% reduction from planned exited business in Fashion Bed and Home Furniture. We also expect full year sales growth in U.S. Spring, Automotive, Work Furniture, Adjustable Bed, and Aerospace.

And finally, as I close, we invite you to our Investor Day on Monday, November 18 in New York City. We will webcast the event which will take place from 8:30 A.M. to Noon Eastern Time. The webcast and slides will be available on the Investor Relations section of our website. Please contact Investor Relations for more information and to sign up.

With those comments, I'll turn the call back over to Wendy.

Wendy Watson

That concludes our prepared remarks. We thank you for your attention and we will be glad to answer your questions. We request that you ask only one question and then yield to the next participant. If you have additional questions, you are welcome to reenter the queue and we will answer those questions as well.

Jessie, we are ready to begin the Q&A session.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Bobby Griffin with Raymond James. Please proceed with your question.

Bobby Griffin

Good morning everybody. Congrats on the quarter and I appreciate you taking my questions. I guess, first, Perry, congrats on retirement and an impressive career. I have really enjoyed working with you over the years. So, I wish you, nothing but the best going forward.

Perry Davis

Thanks, Bobby. I appreciate that.

Bobby Griffin

And Jeff, welcome to the company. I look forward to meeting you at the Investor Day and getting to work with you, as well as we move forward.

Jeff Tate

Thank you, Bobby. Looking forward to it.

Bobby Griffin

So, my first question is really just kind of more of a high-level question on bedding and the shift that's going on from open innersprings into the ComfortCore pocketed units. Can you maybe update us on where you see the runway of that going in the U.S.? Is there still room for further penetration? And what's the penetration today versus the penetration of pocketed coil in Europe for instance?

Jeff Tate

All right, Bobby. It's – I'd probably be a poor one to ask. It's exceeded my expectations for sure over the last few years. In the third quarter, for Leggett, our growth in ComfortCore was up 20 – a little over 22% year-on-year. So, now as a percentage of total innersprings in our business, if you look at ComfortCore it's about 60% runrate in the third quarter.

And, of that, the ComfortCore, our Quantum Edge products are those products that have basically replaced foam with springs as a percent of ComfortCore Quantum Edge and Edge enhanced products are about 48% of the total ComfortCore. So it's almost half at this point, well beyond what I thought. I thought at one point, we might top out at about 40%.

That's not the case and more and more our customers are seeing the value both in their manufacturing efficiencies and in the true benefits that can be demonstrated to the consumer and in those spring-enhanced products.

By the way, it's not inconsequential. Also they were seeing more and more of that product in compressed, rolled mattresses as a built-in edge support. It really does provide a benefit that the customer can readily see.

Bobby Griffin

Okay. If there is still a few large customers that haven't adopted all the way to Quantum Edge?

Jeff Tate

There are. We will see more introductions as we go forward into January to Leggett's market and we expect that to further grow. It just makes too much sense from a manufacturing standpoint from a compression and packaging standpoint and from the consumer benefit.

Bobby Griffin

Okay. And then, lastly for me, I was hoping maybe just to get a little more detail around the moving parts with the updated full year guidance. We saw sales tick down slightly at the midpoint, but EPS actually come up versus prior expectations.

Can we maybe unpack a little bit of what's first driving the sales reduction at the midpoint? Is it further incremental deflation uncertainty around Auto or uncertainty around the external sales for wire? And then, maybe connect that on what's driving the EPS a little bit higher, as well?

Karl Glassman

Okay, good morning, Bobby. It's Karl. Really, the changes since we last issued guidance, which as you know was the end of July, sales midpoint that slight uncertainty is really the keyword. Deflation has become more apparent. Scrap has traded off more aggressively since we issued last guidance than we expected.

So, we are starting to see some reduced selling prices first in the Industrial segment that will ultimately move to Residential. That's actually good for margins, because of the delayed life. So it's kind of a negative positive, if that makes any sense and as we continue on, you hit it, that hit just that on Automotive continues to reduce at a kind of an accelerated rate.

We think the majority of that was caused by the GM strike. So, from our datapoint, we would have had the impact of the strike for just a couple of weeks in the third quarter, certainly, all of October in the fourth quarter and even though the auto workers have ratified the election that we don't know to what degree that the supply chain will ramp up.

So there is some uncertainty and with that slight downshift, we have allowed ourselves a little bit of cushion for that uncertainty. As it relates to EPS, we are dealing with a lower than expected tax rate. You'll notice that our third quarter tax rate came in very favorably to forecast and I really need to call out people.

They did a wonderful job of bringing back this offshore cash at a lower rate than we originally expected. So that drove lower tax rate, lower interest expense. Our people have done a great job of cash generation. So, we have more cash, lower interest rates from a mattress – from a macro perspective. So that's driving part of it.

We are also seeing an improved margins, again from the deflation and from the terrific job that our people have done on the restructuring of the Furniture Products segment. So, rolled out all together. Slight down draft on top-line. Again it's just a testament on macro uncertainty and a pickup in EPS for all the reasons I listed.

Bobby Griffin

I appreciate the detail, Karl. That's very helpful and I'll jump back in the queue. Best of luck in the fourth quarter.

Karl Glassman

Thank you, Bobby.

Operator

Thank you. Our next question is from John Baugh with Stifel. Please proceed with your question.

John Baugh

Good morning, Leggett team and Perry best wishes in the retirement.

Perry Davis

Thank you, John.

John Baugh

Let's see. So, could we maybe start either Perry or Karl with where you see assets tracking on a ECS-to-ECS year-over-year performance and maybe since you've acquired year-to-date? And then, comment on if pricing deflation has influenced that revenue figure at all? How is it tracking relative to expectations?

Karl Glassman

Well, John, in answering to your question, it has deflation – it definitely is impacted top-line there significantly. We kind of knew at the time of the acquisition in the months leading it up that were looking at some pretty historically high chemical input costs and that those were likely to fall over time.

But more importantly, we wanted to look at what ECS could generate in terms of margins through that downturn and as that began to turn around and we became comfortable with their ability to recoup those costs when and assuredly they will go up at some point over time. It's a commodity.

But we became really comfortable with the pricing power in the marketplace with the uniqueness of the product offerings that they had and the position they had in the value chain.

So, there is a comment in our release with regards to the 28% increase in their finished mattress products year-on-year. That's a total of you took the historical 2018 ECS and the Leggett pieces that were produced in terms of finished mattresses and then you just look at this year, the total amount is up 28%.

So that certainly met our expectations in terms of double-digit growth. It's just kind of hitting that a little bit, because of the massive deflation impacts that we've seen.

John Baugh

Okay, so…

Jeff Tate

Hi, John, I would only add.

John Baugh

Yes, go ahead.

Jeff Tate

The things that has most surprised us about ECS is certainly the rapid deflation that Perry made reference to. The other thing is, really kind of goes back to Bobby's question in the incredible rate of adoption of hybrid compressed mattresses in every channel of distribution in this country has been really remarkable.

So, that element of ECS has exceeded expectations. We are really, really pleased with the way ECS is tracking.

John Baugh

So, I don't know the Leggett finished mattress pieces from a year ago. But just the bottom-line is, ECS standalone is still tracking in a double-digit kind of Finished Mattress figure year-over-year, if I understood that correctly?

Karl Glassman

That's correct. The Leggett finished mattresses of a year while important to us were relatively insignificant to the total ECS number.

John Baugh

Okay. Rod and wire was down, I think, 12% in demand and I was wondering if you could tell us what areas are customers are weak there and what the prospects are there kind of near-term?

Perry Davis

John, it's trade. It's macro uncertainty in the United States. It's kind of all markets. You remember that about 30%, it's Perry, now it might even be a smaller number than that of our total production gets sold into the open market and it's just general softness in all of those Industrial markets.

John Baugh

Okay. And I – I saw that hydraulic sales were down 12%. It looks like pricing was up. Is there anything going on with that business I should believe it was newly acquired?

Karl Glassman

John, Perry and I are looking forward to Mitch talking. Go ahead Mitch

Mitch Dolloff

Yes, it's really more of a industry phenomenon there. We saw the global industrial truck unit volume is which includes material handling equipment, which is a core market for PHD. We are down about 5.4% year-over-year in Q3 and down almost 8% in the second quarter.

And our customers there which are generally the leading forklift producers are seeing demand drop into 15% in North America and 15% to 20% in Europe. So, we are seeing those declines in our business early as the supply chain catches up to the long lead times that we had in 2017 and 2018 when volumes were up over 15%.

They are going from an environment where we couldn't keep up to now one where we see pretty significant declines in demand. So, that's really the phenomenon there. Interestingly, our earnings were roughly flat, because last year, we were struggling to pass-through raw material cost inflation. So that's what relates to your pricing comment.

Basically, we just caught up our pricing to the material cost down which sort of offset that volume decline that we had this year. So, we are taking action to reduce headcount and take other cost outside in response to the volume declines that we see coming.

John Baugh

Okay. Thanks. And my last question is on, when will we anniversary the drag from exiting the Fashion Bed and parts of Home Furniture and the EBIT increase that was called out of furniture was just quite good. I know you said pricing and cost were down, but is this merely a function of exiting these businesses or the remaining legacy businesses stronger in addition of that?

Mitch Dolloff

I think it's both, John. I think that we are benefiting from exiting those large margin business, but also benefiting from making sort of structural improvements in that business. So we have better pricing discipline.

We are taking excess capacity offline and we've taken significant cost out from a manufacturing standpoint, but also from a pure overhead standpoint. So, we think that the restructuring that's had a contingent effect, but also put us in a position to be more stable and more profitable going forward.

To your anniversary, I think our Home Furniture, we probably see that we don't have full year this year of some of the business that we exited. So we will see a little bit impact from a sales standpoint next year, but I think we will see continued margin improvement and then from a Fashion Bed standpoint, we are pretty well wrapped down by the end of the third quarter from a sales standpoint.

So, I am trying to let me remember here. So, we will basically have no sales repeating next year. We have a small hospitality business that we are looking to exit. But that's about $15 million. So, I think our 2019 sales there will be $65 million to $70 million and so those won't repeat next year.

Perry Davis

John, this is Perry. There is one additional point. You had asked us as part of your original question and I just want to make sure that we answer it with regard to Europe and ComfortCore. So, as I said, ComfortCore in the U.S. for Leggett is approaching 60%. Bear in mind, in the U.S., we play in all the different areas of the value chain pretty strongly, whether it's promotional to premium.

In Europe, not so much the case. We tend to trend more towards the upper-end or the mid-upper-end part of the markets or ComfortCore as a percentage of total innersprings in Europe represents a higher percentage of our sales.

There are a lot of low-cost, Bonnell and Open Coil innersprings in that market that are imported, and we don't tend to play so much in that market and historically have not. So, ComfortCore would represent an even higher percentage of our sales in Europe.

John Baugh

Great. Thanks and good luck.

Karl Glassman

Thanks, John.

Operator

Thank you. Our next question is from Daniel Moore with CJS Securities. Please proceed with your question.

Stefanos Crist

Hi good morning. This is Stefanos Crist calling for Dan.

Karl Glassman

Good morning, Crist.

Stefanos Crist

In Residential, poor weather has impacted a lot of companies in Q2, particularly in housing and many of them have seen a come back? Do you think your customers experienced a shift in demand from Q2 to Q3 and what are you seeing so far in Q4?

Perry Davis

Yes, I think, in certain businesses, Crist, it has had an impact. We've seen a little bit of challenge in terms of – for instance in our flooring products group with volumes. But, that's a factor, a lot of that product gets sold into multifamily housing also.

But amongst our major customer groups, we have seen a bit of a negative impact on volumes. Some of that, which you likely could lay on to the weather although we normally don't like to do that. But yes, definitely in a few of those businesses, we would see that.

Karl Glassman

And there probably was some impact in our geocomponents business, but again, to Perry's point, Crist, we generally don't talk much about weather. In the sum total of things it's not significant.

Stefanos Crist

Got it. Thanks. And then, how much of a remaining volume headwind do you expect from divested businesses in Q4?

Wendy Watson

Stefanos, it's another 4% down in volume from the exited businesses in the quarter and Q4.

Stefanos Crist

Another 4%.

Wendy Watson

Basically, the same as history.

Stefanos Crist

Yes, got it. All right. Thank you. And that's it for me.

Operator

Thank you. Our next question is from Keith Hughes with SunTrust Robinson Humphrey. Please proceed with your question.

Keith Hughes

Thank you. A couple questions on Slide 14, your assumptions for the year. Specifically, in residential products you talked about flat organic sales which would mean – I assume it's a rough math kind of another negative organic number in the fourth quarter after a pretty solid number here in the third.

Can you talk about what's driving that down? It sounds like ECS may be part of that just kind of the nuts and bolts will be great.

Wendy Watson

Yes, sorry, Keith. It's Wendy. We expect to continue to see nice growth in U.S. Spring and Residential in the fourth quarter. But we've seen softness in a lot of our other businesses. Flooring has been down this year and we expect to see that continue. They've got some deflation in those numbers too. So that's the primary driver of flat organic sales in the fourth quarter in resi.

Susan McCoy

And deflation, it's a bigger issue

Wendy Watson

Yes.

Susan McCoy

In the fourth quarter to us, as that continues to roll through.

Karl Glassman

Keith, kind of thanks to Susan's point, think of deflation in 3Q having a greater impact in Industrial and in 4Q starting to have an impact in residential.

Keith Hughes

Okay. And specific to ECS you talked about it get better earlier. If you look at your projections for 2019, with the EBIT dollars at ECS, how would they compare to the EBIT dollars and I am not talking about margins, but just dollars.

Karl Glassman

EBIT dollars would be up compared to the original projection. Thank you but Wendy is going to test me on. Check me on it and probably does needs.

Wendy Watson

Yes. Yes, pretty, pretty close. I mean, there…

Keith Hughes

Not projections, but 18, how is it doing? And what I am trying to get to as you see deflation to this but of course, their inputs have gone down as well. Just trying to capture how the spread on this works.

Wendy Watson

It's going to be flat to…

Keith Hughes

Flat.

Wendy Watson

Yes, it's going to be flattish with the part that will be down, you could attribute absolutely to deflation.

Keith Hughes

Okay. So, when we see as these deflations in the end-user markets am I not seeing deflation and the inputs coming in as well?

Wendy Watson

Yes. In the Chemicals.

Keith Hughes

In the chemicals, yes.

Wendy Watson

Yes.

Keith Hughes

Okay. So the – so, I mean, there is a lot of growth in their business it sounds like in terms of units. So, had there just dollars not gone up. So notably in 2019 versus 2018?

Wendy Watson

In the – well.

Karl Glassman

I think, Keith, that's generally true. The number of pieces in the demand environment we are seeing in terms of just shared numbers, not only looking at mattresses, but in some of the other important parts of their business in finished foam products generally, toppers, pillows those types of things. Yes, we've seen tremendous demand growth there.

We have actually had certain points over the last quarter where we have throttled back some of our order acceptance, because we just simply had some capacity concerns, which we are addressing as we speak. We have added lines for additional mattress production. We changed some floor layouts and things in order to get better efficiencies within our manufacturing operations.

But, again, that handicapped when you look at it in terms of dollars by the overall pretty severe deflationary environment. Again, a little under half at last count of our mattress volume in that space was under contract.

So, we see much as we do in our steel-related businesses. We see a kind of a delayed deflation picture as we take those decreases down and they don't all happen. And once they happen over time, because, we saw an incremental step-down in our raw material inputs.

Wendy Watson

And just, Keith, we saw and that's our quarter, while sales dollars were up, that was even after a roughly a 11% drag from deflation.

Keith Hughes

Okay. Thank you. And that's all for me. Thanks.

Operator

Thank you. [Operator Instructions] Our next question comes from Peter Keith with Piper Jaffray. Please proceed with your question.

Bobby Friedner

Hey, good morning everyone. It's actually Bobby Friedner on for Peter. Thanks for taking our question and nice results. So I wanted to discuss gross margin, so, now seen two quarters with nice year-over-year improvement.

I was hoping if you could discuss in a little more detail the different buckets that are contributing to the improvement. But now when as we look to Q4 and early 2020, how do you think that sustainability of gross margin expansion? Thanks.

Wendy Watson

Hi, Bobby. This is Wendy. It's really the drivers between – behind our gross margin improvement had to do with volume growth and our profitable businesses. The puts and takes we talked about from exiting the low-margin business and then, the reverse lag and LIFO benefit we are seeing from deflation.

And then, relative to 2020, we certainly won't guide for 2020 until we get to February and we announce full year earnings, but we are – as Mitch discussed, we will continue to see some of the benefit in our Home

Furniture business from the improvements we are seeing and we expect to see those improvements ongoing and as we see our more profitable business is doing well. We would be pleased with that performance.

Bobby Friedner

Okay. And I guess, just as a follow-up still prices still seem to be running down significantly year-over-year. Should we expect continued LIFO benefits in Q4?

Wendy Watson

Yes. Our full year estimate is $24 million. So, we would expect a roughly $6 million benefit in the fourth quarter. As you know, in the fourth quarter we true it up to actual. So, that $6 million is an estimate. It will be wrong that we'll let you know what the actual is when we report for the full year.

Bobby Friedner

Okay. Thanks a lot.

Wendy Watson

You bet.

Operator

Thank you. It appears we have no additional questions at this time. So, I would like to pass the floor back over to Ms. Watson for any additional concluding comments.

Wendy Watson

Thank you everybody and we'll talk to you next quarter.

Operator

Ladies and gentlemen, this does conclude today's teleconference. We thank you for your participation and you may disconnect your lines at this time.