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R E S E A R C H

Outperform *May 20, 2008*

Leggett & Platt, Incorporated
NYSE-LEG $17.87

Leggett & Platt, Inc is a manufacturer of engineered products, including: bedding components, residential and office furniture components, store fixtures, point of sale fixtures, drawn wire, welded steel tubing, auto seating suspension, lumbar support and control cable systems. The company headquartered in Carthage, Missouri is included in the S & P 500.

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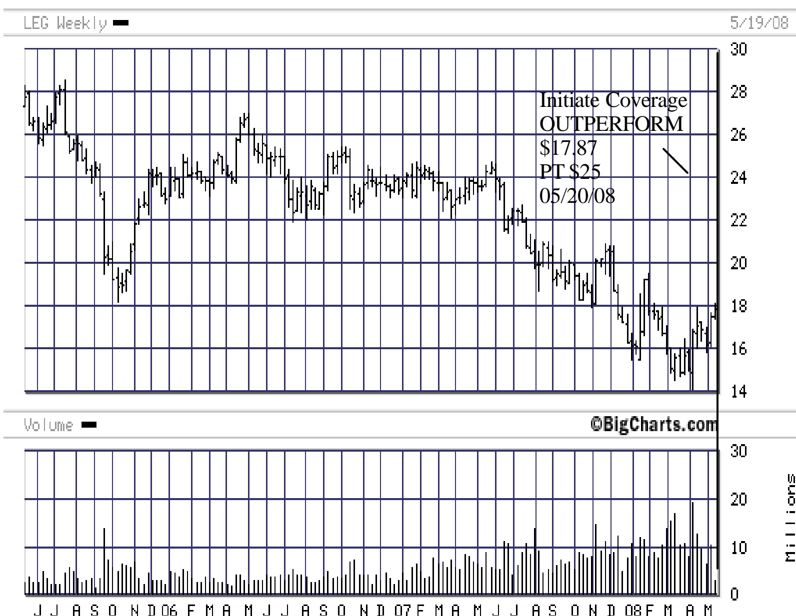
EPS	2008E	$1.19
	2009E	$1.68
	2010E	$2.31
P/E	2008E	15.01x
	2009E:	10.63x
	2010E	7.74x
Est 3-5 yr EPS CAGR:		10-15%
Dividend Per Share		$1.00
Dividend Yield:		5.6%
Shares Outstd. (FD):		173.2mm
Market Capitalization:		$3,095mm
Insider Ownership:		5%
Institutional Ownership:		87%
Avg. Daily Volume:		2,333,000
LT Debt/Total Capital:		37.3%%
Fiscal Year End:		December



Recommendation

Diversified manufacturer Leggett & Platt has recently unveiled a restructuring program designed to downsize by approximately 20% in both sales and shares outstanding. The result is anticipated to be a company more concerned with returns than sales growth. We argue that limited downside exists due to the dividend and potential upside over the next two years exists if management successfully executes the plan. We are initiating coverage with an Outperform rating and establishing a 12- to 18-month target price of $25, as of May 20.

Key Investment Points

The essence of the new plan involves divesting lower return businesses and rationalizing others to assure they fit the company's new product focus.

The company expects to return cash to shareholders in the form of dividends and share repurchase. The company recently increased the dividend from $0.72 to $1.00 per share. Besides

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a standing repurchase authorization of 10 million shares annually, the company expects to use $400 million derived from divested businesses this year to repurchase additional shares.

Capital expenditures and acquisitions are expected to be reduced to increase free cash flow. LEG is also expected to shutter or otherwise dispose of some manufacturing facilities that are not efficient.

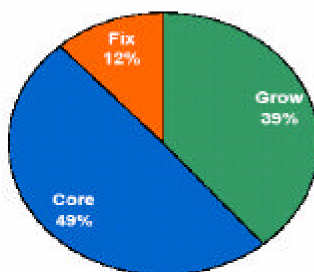
Management indicates the restructuring will leave the financial condition intact with a debt/equity ratio of 30% to 40% at the end of 2010, similar to its current ratio.

Background

In February 2008 Harry Cornell Jr., grandson of company founder, J. P. Leggett, announced he would not sit for re-election to the board of directors this year. He was joined by Felix Wright with the company since 1959. Together these two men had provided the leadership of the company since 1960. Leggett & Platt has recently handed the management reins to a new regime. The new group began forming in the 1990s so the transition is expected to be smooth. This new team has changed the direction of the company.

Restructuring Plan Splits LEG into Core, Growth and Fix Units

Since hiring Boston Consulting Group early in 2007, the company has entered a restructuring plan that will lead to the elimination 8 of 29 business units with the remaining 21 being categorized into core, growth and fix categories. Core units are expected to efficiently operate to maximize cash flow but will not receive much capital to grow their operations. Growth units are areas where the company feels their growth opportunities are best and will be first in line to receive new capital to expand their facilities or make acquisitions. The fix category is for business units that offer promise but are not currently generating returns the company requires. In the past, LEG has been too patient with faltering business units, and part of the new strategic restructuring is to continuously evaluate operations to identify potential problems and opportunities. The company is currently allowing the one business in the fix category 12 months to show improvement or be divested. The longer term goal is to have 50% of revenues coming from business units in the grow category and 50% from the core segment.



Source: Company Data

Now that the restructuring plan is in place, the company expects to divest $1.2 billion of its 2007 revenue base (approximately 20%). The company anticipates proceeds from the divestitures to be in the neighborhood of $400 million and hopes to close on these sales in 2008. The proceeds of these sales are earmarked to repurchase shares. These operations are now carried as assets held for sale. The company expects that the total costs

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and impairment charges with the exit activities will be between $302 and $312 million, most non-cash. LEG incurred $287 million of these charges during Q4 2007. Besides the divestitures, the company operates some facilities acquired over the years that are part of the core and growth operations that are no longer profitable. The company anticipates disposing of or closing these facilities which would lead to an additional $200 million reduction in revenue.

Prior to the announcement of the strategic plan the company had 29 separate business units. The largest portion of the revenue reduction (approximately $900 million) will come from divestiture of the Aluminum Products segment and six additional business units. The Store Fixtures business unit will prune about $100 million of its least profitable revenue. The remainder of this unit has been placed in the Fix category and given a 12-month deadline to show improvement. The company's measure of success is an after-tax return on capital at least as high as its own cost of capital. Management has indicated this is currently 10%. Last week at an analyst day the company indicated that it was on plan in improving this business units returns.

Historically, the company's objective was profitable growth. With the new direction management uses total shareholder return (TSR) as a key statistic. LEG defines TSR as change in stock price plus dividends divided by beginning share price. Beginning in 2008 Leggett introduced TSR based incentives for senior executives. They also modified business unit management bonuses to include a link to return on assets.

Continuing Operations

Continuing business operations are organized into 22 business units, which are divided into 10 groups under four product segments: Residential Furnishings; Commercial Fixturing & Components; Industrial Materials; and Specialized Products.

Residential Furnishings accounted for 52.7% of sales from continuing operations in 2007 and over 52% of EBIT. This segment began in 1885 with the award of a patent of the steel coil bedspring, and bedsprings remain a significant product for the company today. The home furnishing businesses also manufacture mechanisms and hardware enabling furniture to recline, tilt, swivel, rock and elevate for reclining chairs and sleeper sofas. The company also manufactures bed frames, ornamental beds, comforters, and other top of the bed accessories. Another business unit of the Residential Furnishings segment makes structural fabrics for mattresses, carpet underlay and landscaping components used in ground stabilization, weed control and silt fencing. Most of the customers for this segment are manufacturers of finished bedding products, upholstered furniture for residential use and landscaping organizations.

The company believes it possesses the largest market share in components for residential furniture and bedding, adjustable beds and bedding industry machinery for wire forming sewing and quilting. The company is the largest manufacturer in North America of carpet underlay.

Commercial Fixture and Components include business units manufacturing store fixtures for retailers including shelving counters, garment racks and decorative woodwork. This segment accounted for 19.3% of 2007 continuing operations revenues and about 13% of EBIT. The customers for these products include large retailers, grocery stores and discount chains. The company also manufactures point of purchase displays for brand name marketers and distributors of consumer products. Another business unit in this segment manufactures chair bases columns, casters and frames for office chairs and controls that allow the seating to tilt, swivel and elevate. These are sold to office, institutional and commercial furniture manufacturers.

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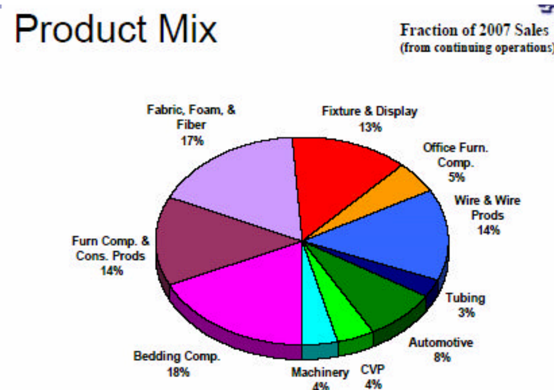
The company believes that it has a dominant market share retail store fixtures and point of purchase display systems.

The **Industrial Materials Segment** has five business units in two groups that are related to the home furnishings segment. The company is the leading North American supplier of drawn steel wire and a large factor in welded steel tubing. This segment accounted for 12.3% of 2007 continuing operations revenues and 15% of EBIT. However since the residential furnishings is a large internal customer the scale of the operation is larger than indicated by those statistics. The company operates a steel rod mill with an annual output of approximately 500,000 tons. Its six wire mills supply virtually all the wire consumed by Leggett's other businesses. The Tubing group operates two major plants that supply the company's needs for steel tubing. Outside customers include automotive seating makers, other furniture and bedding manufacturers, waste recyclers, cotton balers and medical supply businesses.

The company believes it is the leader in drawn steel wire in North America, as well as holding the dominant supplier role for other users of wire as a raw material input.

The **Specialized Products Segment** is involved in automotive seating, specialized machinery and equipment and service van interiors. This segment accounted for 15.7% of 2007 continuing operations revenues and 19% of EBIT. Products for the automobile industry include manual and power lumbar support and massage systems for automotive seating, seating suspension control cables such as shift cables seat control cables and latch release cables. Low voltage motors and actuation assemblies are also manufactured and sold for use in automobiles. The machinery business unit makes a full range of quilting machines for mattress covers. The company also manufactures machines used to shape wire into various types of springs as well as other equipment for bedding factory automation. The commercial vehicle products group makes racks, shelving and cabinets installed in service vans. They also manufacture docking stations for computers and electronics in vehicles. Specialty trailers used by telecom, cable and utility companies are part of this segment. The customers for this segment include auto seating manufacturers, bedding manufacturers and telecom, cable, and delivery services.

It is the largest independent manufacture in North America of automotive seat support and lumbar systems and it is also the leader in bedding industry machinery used by the manufacturers.



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Source: Company Data

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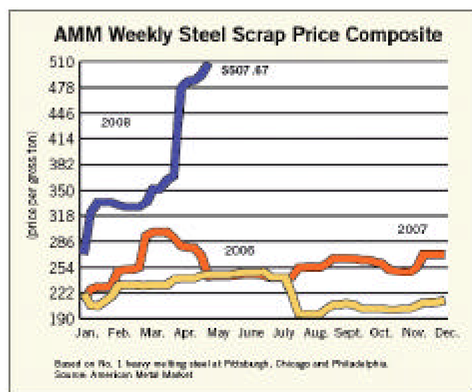
Raw Materials

The most important input materials the company must use are various types of steel, foam scrap and woven and non-woven fabrics. Over the past few years scrap steel and foam scrap have been volatile. The cost of steel scrap increased consistently throughout 2007, beginning the year at around $250 per ton and ending the year at around $300 per ton. This trend has continued in 2008, as the March prices were around $500 per ton. The company is generally able to pass on these raw material costs to customers but the lag in an environment like the current one can cause temporary margin shrink.



The price of foam scrap doubled in 2006 from the beginning to the end. Proving the adage that what goes up must come down, the prices declined in 2007 leading to lower sales for carpet underlay for the year as the prices were adjusted to match the commodity.

While the scrap steel is the main input, the company's mill currently provides 66% of its steel rod requirements. Its wire drawing mills supply nearly all of the requirements for steel wire. Leggett also produces welded steel tubing both for their own needs and sale to external customers.

Foreign Operations

The company has manufacturing facilities in Asia, North America, Europe and South Africa and Brazil. Products manufactured offshore accounted for 26% of 2007 sales.
Foreign sales accounted for about 26% of 2007 sales from continuing operations. The company has 12 manufacturing facilities in China. Sales of products produced in China are sold into the Chinese and Australian markets.

Earnings Forecast

The company provides reasonably detailed guidance as to earnings expectations for the current year. This year the company anticipates earnings will be between $1.00 and $1.30 on sales from continuing operations similar to 2007. Besides the rate of improvement in margins, the timing of the share buyback can impact EPS. Our estimate is for earnings per share of $1.19 compared to $1.20 last year. Management has indicated the sales will be relatively flat this year and next. After the restructuring plan has been completed sales growth of 4% to 5% would be their target on a longer term basis. The company has indicated organic growth in most of their business units has been relatively flat to down for the past year. Any divergence from expectations this year would likely result from higher prices as the company attempts to

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pass on the higher cost of steel.

In our model we are anticipating an EBIT margin of 8.1% in 2008 down from the 8.5% achieved last year. This modest margin decline can be attributed to the reorganization this year as well as a potential lag in price increases due to the rapid rise in the price of scrap steel. On a longer term basis management has indicated they have a goal of achieving an 11% EBIT margin by 2010. There was a time in Leggett's history that this margin had been 13%.

The improved EBITDA margin we anticipate beginning in the second half of this year coupled with the reduced share count as a result of the continuing buy back program is expected to lead to EPS growth through 2010. Our expectations on a quarterly basis are shown on page 8.

Financial Condition

At the end of the first quarter the company had a long-term liability to total capital ratio of 37.3%. As part of the restructuring the company plans to lower capital expenditures from the past levels. Management indicates maintenance capital expenditures for the continuing operations is $90 million, annually. The company has earmarked $135 million for capital expenditures in 2008 with an additional $25 million for potential acquisitions. The company has a two-part stock repurchase program. There is a standing authorization of 10 million shares a year. Recently, with the restructuring plans, the board authorized an additional 20 million shares to be accomplished using funds from the divestiture. Our earnings model follows the company's guidance of receiving the proceeds of $400 million and using the funds to reduce shares outstanding this year, albeit weighted toward the end of the year. Should this not occur as expected, it would negatively impact our 2008 EPS estimate. We further anticipate the company will continue to repurchase the additional 10 million shares annually.

Our analysis of cash flow indicates the company can fund their projected capital expenses and the dividend and repurchase activity with cash flow from operations and additional borrowings of approximately $350 million through the end of 2010. The debt to total capital in our analysis would rise to 42% during 2009 and end the period at 40.5%. This is in line with management's guidance of maintaining this ratio between 30% and 40%.

Dividend and Cash Flow

The company increased its dividend in November of last year from $0.72 to $1.00. This marked the 37th consecutive year of dividend increases, a record we anticipate the management team hopes to maintain. We would anticipate the growth in the dividend rate going forward to approximate a 4% to 5%. The company plans to maintain a 50% to 60% pay out ratio. At current prices the stock has a dividend yield of 5.6%

Intellectual Property

At the end of the year the company held approximately 1,100 patents and about 650 in process for its current product lines. Leggett has registered over 750 trademarks and more than 200 are in process. The company indicates no single patent or trademark is material to their continuing operations, however, margins are generally higher on protected products.

The company maintains research, engineering and testing centers in Carthage, MO, known as The Idea Center. They do not precisely calculate the cost of their R&D because staffers involved

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will also perform other functions in different parts of the company. The company does estimate the last three years expenditures on R&D have approximated $25 million to $30 million.

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Additional Information is Available Upon Request

INCOME STATEMENT	Q407	Q108	Q2E08	Q3E08	Q4E08	Q1E09	Q2E09	Q3E09	Q4E09
Net Sales									
Residential Furnishings	530.0	518.3	533.9	535.8	503.5	528.7	544.6	546.5	513.6
Commercial Fixtures	182.0	187.3	204.7	228.9	176.5	187.3	204.7	228.9	176.5
Industrial Materials	137.0	139.9	144.1	147.4	150.7	148.3	152.7	156.2	159.7
Specialized Products	192.0	152.8	182.6	174.9	211.2	162.0	193.6	185.4	223.9
Total	1041.0	998.3	1065.3	1087.0	1041.9	1026.2	1095.6	1117.1	1073.7
Total EBIT	69.0	69.1	85.2	87.0	88.6	90.3	96.4	98.3	96.6
Interest Expense	16.0	13.3	15.2	15.9	16.5	17.0	17.6	18.1	18.6
Interest Income	3.0	2.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Pretax Income	56.0	58.1	72.5	73.6	74.6	75.8	81.3	82.7	80.5
Tax Rate	33.9%	32.5%	33.0%	33.0%	33.0%	34.0%	34.0%	34.0%	34.0%
Net Income	37.0	39.2	48.6	49.3	50.0	50.0	53.7	54.6	53.2
EPS	$ 0.21	$ 0.23	$ 0.30	$ 0.32	$ 0.36	$ 0.38	$ 0.42	$ 0.44	$ 0.45
Shares Outstanding	175.0	173.2	163.2	155.7	138.2	133.2	128.2	123.2	118.2
Margin Analysis									
Net Sales									
Residential Furnishings	50.9%	51.9%	50.1%	49.3%	48.3%	51.5%	49.7%	48.9%	47.8%
Commercial Fixtures	17.5%	18.8%	19.2%	21.1%	16.9%	18.3%	18.7%	20.5%	16.4%
Industrial Materials	13.2%	14.0%	13.5%	13.6%	14.5%	14.5%	13.9%	14.0%	14.9%
Specialized Products	18.4%	15.3%	17.1%	16.1%	20.3%	15.8%	17.7%	16.6%	20.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total EBIT	6.6%	6.9%	8.0%	8.0%	8.5%	8.8%	8.8%	8.8%	9.0%
Pretax Income	5.4%	5.8%	6.8%	6.8%	7.2%	7.4%	7.4%	7.4%	7.5%
Net Income	3.6%	3.9%	4.6%	4.5%	4.8%	4.9%	4.9%	4.9%	5.0%
Growth Analysis									
Net Sales									
Residential Furnishings	-5.9%	-11.3%	-5.0%	-5.0%	-5.0%	2.0%	2.0%	2.0%	2.0%
Commercial Fixtures	-1.6%	-1.9%	-3.0%	-3.0%	-3.0%	0.0%	0.0%	0.0%	0.0%
Industrial Materials	9.6%	15.6%	10.0%	10.0%	10.0%	6.0%	6.0%	6.0%	6.0%
Specialized Products	25.5%	0.5%	10.0%	10.0%	10.0%	6.0%	6.0%	6.0%	6.0%
Total	1.5%	-4.7%	-0.4%	-0.5%	0.1%	2.8%	2.8%	2.8%	3.1%
Total EBIT	-30.3%	-27.3%	-7.4%	-17.2%	28.4%	30.7%	13.1%	13.0%	9.1%
Interest Expense	6.7%	-5.0%	8.6%	5.8%	3.0%	28.0%	15.8%	14.2%	12.9%
Pretax Income	-34.9%	-30.0%	-9.4%	-20.9%	33.2%	30.4%	12.1%	12.3%	8.0%
Net Income	-32.7%	-32.4%	-11.7%	-25.3%	35.1%	27.6%	10.4%	10.7%	6.4%
EPS	-28.9%	-28.2%	-1.0%	-15.1%	71.0%	65.9%	40.6%	39.9%	24.4%
Shares Outstanding	-5.4%	-5.9%	-10.8%	-12.0%	-21.0%	-23.1%	-21.4%	-20.9%	-14.5%

Source: Company Data and Kansas City Capital Associates Estimates

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Balance Sheet	Q407	Q108	Q2E08	Q3E08	Q4E08	Q1E09	Q2E09	Q3E09	Q4E09	A1E10	Q2E10	Q3E10	Q4E10
Cash	205.4	188.1	188.1	188.1	188.1	188.1	188.1	188.1	188.1	188.1	188.1	188.1	188.1
Receivables	640.2	666.4	666.4	666.4	666.4	666.4	666.4	666.4	666.4	666.4	666.4	666.4	666.4
Inventory	599.2	599.2	599.2	599.2	599.2	599.2	599.2	599.2	599.2	599.2	599.2	599.2	599.2
Other Current	104.6	96.4	96.4	96.4	96.4	96.4	96.4	96.4	96.4	96.4	96.4	96.4	96.4
C.A. held for sale	285.0	320.5	320.5	320.5	320.5	320.5	320.5	320.5	320.5	320.5	320.5	320.5	320.5
Current Assets	1834.4	1870.6	1870.6	1870.6	1870.6	1870.6	1870.6	1870.6	1870.6	1870.6	1870.6	1870.6	1870.6
Net Fixed Assets	726.9	736.4	750.6	764.4	777.6	795.4	812.5	829.1	845.1	860.5	875.4	889.8	903.6
Goodwill and other	1241.7	1239.2	1239.2	1239.2	1239.2	1239.2	1239.2	1239.2	1239.2	1239.2	1239.2	1239.2	1239.2
Other Assets held for sale	269.5	256.8	191.2	227.2	61.2	135.3	216.9	294.4	368.4	443.7	520.6	600.8	668.0
Total Assets	4072.5	4103.0	4051.6	4101.3	3948.7	4040.5	4139.2	4233.3	4323.3	4414.0	4505.8	4600.4	4681.4
Accounts Payable	227.6	242.2	242.2	242.2	242.2	242.2	242.2	242.2	242.2	242.2	242.2	242.2	242.2
Current Portion LTD	88.7	74.2	74.2	74.2	74.2	74.2	74.2	74.2	74.2	74.2	74.2	74.2	74.2
other Current	483.3	456.1	456.1	456.1	456.1	456.1	456.1	456.1	456.1	456.1	456.1	456.1	456.1
Current Liabilities	799.6	772.5	772.5	772.5	772.5	772.5	772.5	772.5	772.5	772.5	772.5	772.5	772.5
LTD	1000.6	1095.8	1095.8	1146.2	1193.6	1235.4	1280.5	1320.0	1356.8	1393.2	1426.6	1454.1	1471.2
Def taxes and other	139.6	147.5	147.5	147.5	147.5	147.5	147.5	147.5	147.5	147.5	147.5	147.5	147.5
Share holders Equity	2132.7	2087.2	2035.8	2035.1	1835.1	1885.1	1938.7	1993.3	2046.5	2100.8	2159.2	2226.3	2290.2
Total Liabilities & Equity	4072.5	4103.0	4051.6	4101.3	3948.7	4040.5	4139.2	4233.3	4323.3	4414.0	4505.8	4600.4	4681.4
LT Liab as % total capital	56.2%	52.9%	52.9%	51.7%	50.7%	49.9%	49.0%	48.2%	47.5%	46.9%	46.3%	45.8%	45.5%

Source: Company Data and Kansas City Capital Associates Estimates

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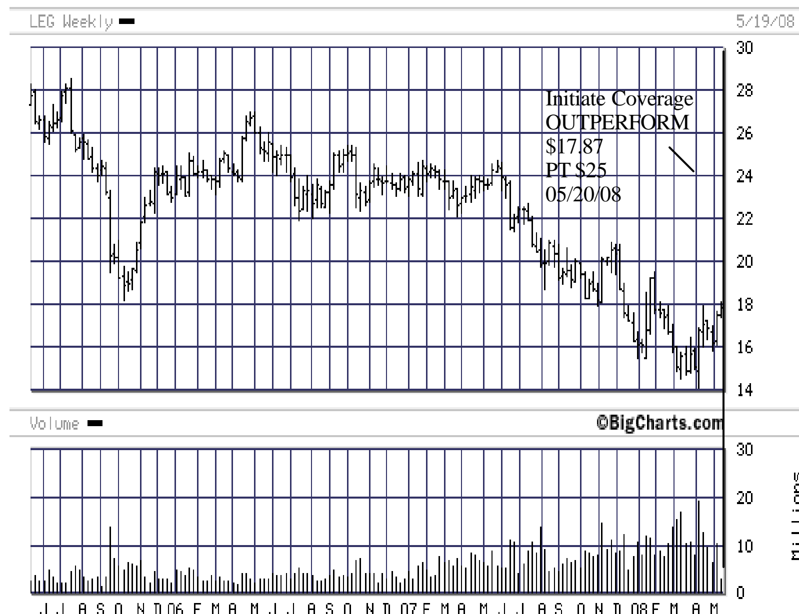
Important Disclosures and Certifications



Valuation

Our 12-18 month price target is $25.

Price Target Valuation

Our 12-18 month price target is $25. This equates to an EV to EBITDA ratio of 9.8X our next twelve month expectations. This is within the historic range. The impetus for the stock rising to our target is some confirmation the restructuring program is achieving the desired results.

Risk Factors

There are several risk factors to our price target. A prolonged period of economic weakness could limit demand for products and services provide by the company. Also, failure to effectively integrate acquisitions or adverse FAA rulings could negatively impact operating results at the company.

Important Disclosures

Analyst Certification - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report. The author certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. Potential Conflicts of Interest: Equity research analysts employed by Oppenheimer & Co. Inc. are compensated from revenues generated by the firm including the Oppenheimer & Co. Inc. Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. Oppenheimer & Co. Inc. generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, Oppenheimer & Co. Inc. generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers. In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, Oppenheimer & Co. Inc. may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest. averages or stocks within its particular industry sector.

Oppenheimer & Co. Inc. Rating System as of January 14th, 2008:

Outperform(O) - Stock expected to outperform the S&P 500 within the next 12-18 months.

Perform (P) - Stock expected to perform in line with the S&P 500 within the next 12-18 months.

Underperform (U) - Stock expected to underperform the S&P 500 within the next 12-18 months.

Not Rated (NR) - Oppenheimer & Co. Inc. does not maintain coverage of the stock or is restricted from doing so due to a potential conflict of interest.

Oppenheimer & Co. Inc. Rating System prior to January 14th, 2008:
Buy - anticipates appreciation of 10% or more within the next 12 months, and/or a total return of 10% including dividend payments, and/or the ability of the shares to perform better than the leading stock market averages or stocks within its particular industry sector.

Neutral - anticipates that the shares will trade at or near their current price and generally in line with the leading market averages due to a perceived absence of strong dynamics that would cause volatility either to the upside or downside, and/or will perform less well than higher rated companies within its peer group. Our readers should be aware that when a rating change occurs to Neutral from Buy, aggressive trading accounts might decide to liquidate their positions to employ the funds elsewhere.

Sell - anticipates that the shares will depreciate 10% or more in price within the next 12 months, due to fundamental weakness perceived in the company or for valuation reasons, or are expected to perform significantly worse than equities within the peer group.

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