

## Tempur Sealy International Inc.

## 1Q22 earnings slightly ahead, we remain positive on LT growth and valuation

Reiterate Rating: BUY | PO: 48.00 USD | Price: 28.39 USD

## TPX well situated to navigate tougher industry conditions

Tempur Sealy International (TPX) reported 1Q EPS of \$0.69 and sales of \$1,240mn, slightly above our ests of \$1,200mn/\$0.62 and consensus of \$1,203mn/\$0.61. The beat was driven by better-than-expected revenues, lower SG&A, and partially offset by gross margin. TPX [had previously preannounced](#) (see report) 1Q sales of +15% growth. As expected, TPX cut its FY sales guidance largely due to a more volatile macro environment and higher input costs. We do see more uncertainty in overall industry growth this year and commentary on April being off to a soft start does give some pause. However, we continue to believe TPX is very well positioned to grow given a demonstrated track record of share gains (which could pick as weaker competitor struggle), pricing power and plenty of company specific growth initiatives (brand launches, direct-to-consumer “DTC” build out, int'l expansion). We lower our estimates on new guidance and our PO goes to \$48 from \$55. Our basis goes to 12x 2023 P/E (was 13x) on slightly lower forward growth. With shares trading at 8.5/7.1x 2022/23, we see valuation attractive relative to growth. We reiterate our Buy rating.

## FY22 sales and EPS guidance trimmed

TPX lowered full-year EPS to \$3.20-3.40 from \$3.65-3.85 and now based on revenue growth of at least 10% YoY (from +15-20% YoY prior). Sales guidance factors in a mid-single-digit (MSD) increase from the Dreams acquisition, MSD pricing, continued direct-to-consumer growth, and flat-to-slightly negative unit volumes. Guidance does not include any material contribution from product launches in 2022 (much more substantial impact in 2023). In terms of gross margin, rate will decline in 2Q on input costs but step-up in 2H from fixed-cost leverage and pricing. EPS guidance does not include anything beyond 10% of shares repurchased. For 2Q, sales growth will also be 10% (assumes a return to more seasonality in May/June) and EPS of ~\$0.60.

## TPX making the right investments for long term growth.

On the earnings call, TPX management described 2022 as an investment year. This includes a significant ramp in marketing, new product launches, new DTC stores and website and increased headcount. While this will pressure earnings flow through in 2022, we see it as the right strategic decision to drive growth over the next several years and further strengthen competitive positioning. We also see parallels to 2018, another investment year (mostly on new products) with muted industry growth that was then followed by share gains, double digit sales growth and stronger margins for TPX.

Estimates (Dec) (US\$)	2020A	2021A	2022E	2023E	2024E
EPS	1.91	3.19	3.35	4.04	4.79
GAAP EPS	1.81	3.18	3.35	4.04	4.79
EPS Change (YoY)	91.0%	67.0%	5.0%	20.6%	18.6%
Consensus EPS (Bloomberg)			3.36	3.80	4.12
DPS	0	0.31	0.40	0.47	0.54
Valuation (Dec)					
P/E	14.9x	8.9x	8.5x	7.0x	5.9x
GAAP P/E	15.7x	8.9x	8.5x	7.0x	5.9x
Dividend Yield	0%	1.1%	1.4%	1.7%	1.9%
EV / EBITDA*	10.0x	7.5x	7.4x	6.7x	6.0x
Free Cash Flow Yield*	10.7%	11.8%	10.3%	15.1%	16.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

28 April 2022

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	55.00	48.00
2022E Rev (m)	5421.7	5425.1
2023E Rev (m)	5808.1	5814.1
2024E Rev (m)	6153.1	6161.7
2022E EPS	3.56	3.35
2023E EPS	4.18	4.04
2024E EPS	4.91	4.79

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## Stock Data

Price	28.39 USD
Price Objective	48.00 USD
Date Established	28-Apr-2022
Investment Opinion	B-1-7
52-Week Range	26.60 USD - 50.51 USD
Mkt Val (mn) / Shares Out (mn)	5,082 USD / 179.0
Average Daily Value (mn)	96.89 USD
BofA Ticker / Exchange	TPX / NYS
Bloomberg / Reuters	TPX US / TPX.N
ROE (2022E)	312.4%
Net Dbt to Eqty (Dec-2021A)	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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# iQprofile<sup>SM</sup> Tempur Sealy International Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2020A	2021A	2022E	2023E	2024E
Return on Capital Employed	19.7%	24.5%	20.8%	23.5%	26.6%
Return on Equity	93.0%	161.1%	312.4%	770.7%	1,815.3%
Operating Margin	16.8%	18.6%	16.6%	17.3%	18.3%
Free Cash Flow	543	600	523	766	837

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2020A	2021A	2022E	2023E	2024E
Cash Realization Ratio	1.6x	1.1x	1.3x	1.4x	1.3x
Asset Replacement Ratio	0.5x	0.7x	1.4x	0.8x	0.7x
Tax Rate	24.8%	24.0%	24.5%	25.0%	25.0%
Net Debt-to-Equity Ratio	253.5%	NM	NM	NM	NM
Interest Cover	7.5x	15.0x	10.2x	12.0x	13.4x

## Income Statement Data (Dec)

(US\$ Millions)	2020A	2021A	2022E	2023E	2024E
Sales	3,677	4,931	5,425	5,814	6,162
% Change	18.4%	34.1%	10.0%	7.2%	6.0%
Gross Profit	1,644	2,159	2,324	2,578	2,755
% Change	22.4%	31.3%	7.7%	10.9%	6.9%
EBITDA	820	1,093	1,099	1,225	1,359
% Change	61.2%	33.3%	0.5%	11.5%	11.0%
Net Interest & Other Income	(80)	(60)	(87)	(84)	(84)
<b>Net Income (Adjusted)</b>	<b>406</b>	<b>651</b>	<b>614</b>	<b>691</b>	<b>784</b>
<b>% Change</b>	<b>83.1%</b>	<b>60.3%</b>	<b>-5.7%</b>	<b>12.4%</b>	<b>13.5%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2020A	2021A	2022E	2023E	2024E
Net Income from Cont Operations (GAAP)	404	652	615	691	784
Depreciation & Amortization	203	175	198	220	230
Change in Working Capital	69	(91)	(16)	29	1
Deferred Taxation Charge	(9)	11	0	0	0
Other Adjustments, Net	(13)	(24)	(3)	(4)	(7)
Capital Expenditure	(111)	(123)	(270)	(170)	(170)
<b>Free Cash Flow</b>	<b>543</b>	<b>600</b>	<b>523</b>	<b>766</b>	<b>837</b>
<b>% Change</b>	<b>139.8%</b>	<b>10.4%</b>	<b>-12.8%</b>	<b>46.4%</b>	<b>9.3%</b>

## Balance Sheet Data (Dec)

(US\$ Millions)	2020A	2021A	2022E	2023E	2024E
Cash & Equivalents	65	301	28	62	19
Trade Receivables	384	420	461	494	525
Other Current Assets	520	555	597	610	616
Property, Plant & Equipment	508	584	690	674	648
Other Non-Current Assets	1,832	2,464	2,506	2,515	2,522
<b>Total Assets</b>	<b>3,309</b>	<b>4,323</b>	<b>4,282</b>	<b>4,355</b>	<b>4,330</b>
Short-Term Debt	292	53	0	0	0
Other Current Liabilities	931	1,000	1,068	1,144	1,181
Long-Term Debt	1,075	2,279	2,354	2,354	2,354
Other Non-Current Liabilities	497	697	762	777	790
<b>Total Liabilities</b>	<b>2,795</b>	<b>4,028</b>	<b>4,184</b>	<b>4,274</b>	<b>4,324</b>
<b>Total Equity</b>	<b>514</b>	<b>295</b>	<b>98</b>	<b>81</b>	<b>5</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,309</b>	<b>4,323</b>	<b>4,282</b>	<b>4,355</b>	<b>4,330</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## 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 acquired Sealy in March 2013 and generated around \$4.9bn of sales in 2021.

## 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 3,412,836

## Quarterly Earnings Estimates

	2021	2022
Q1	0.64A	0.69A
Q2	0.79A	0.58E
Q3	0.88A	1.05E
Q4	0.88A	1.04E

**Exhibit 1: Tempur-Sealy Y/Y comparisons**

TPX EPS comes in at \$0.69, above street estimates of \$0.61. Revenues were up 18.7% Y/Y, beating our expectations by 3.3%

(Dollars and shares in millions)	1Q21	1Q22	Y/Y change	vs. BofA est	BofA 1Q22E	Street 1Q22E
Sales	\$1,044	\$1,240	18.7%	3.3%	\$1,200	\$1,203
Cost of sales	\$585	\$717	22.5%	6.0%	\$676	\$694
<b>Gross profit</b>	\$459	\$523	<b>13.9%</b>	<b>-0.3%</b>	<b>\$524</b>	<b>\$509</b>
SG&A expenses	\$271	\$334	23.5%	-3.7%	\$347	\$332
<b>Operating income</b>	\$188	\$189	0.1%	6.3%	\$177	\$177
Net int income (exp)	\$12	\$21	69.9%	-2.8%	\$22	
Other expenses	(\$0)	(\$1)	NM	NM	\$0	\$22
<b>Pretax income</b>	\$176	\$169	<b>-4.2%</b>	<b>8.4%</b>	<b>\$156</b>	<b>\$154</b>
Income tax expense	\$42	\$38	-8.4%	-2.3%	\$39	\$40
<b>Net income from cont ops</b>	\$135	\$131	<b>-3.0%</b>	<b>11.8%</b>	<b>\$117</b>	<b>\$114</b>
Extraordinary items (loss)	\$0	\$0			\$0.0	
<b>GAAP net income</b>	\$135	\$131	<b>-2.9%</b>	<b>11.8%</b>	<b>\$117</b>	
<b>Diluted EPS from cont ops</b>	\$0.64	\$0.69	<b>8.1%</b>	<b>12.1%</b>	<b>\$0.62</b>	<b>\$0.61</b>
GAAP EPS reported	\$0.64	\$0.69	8.2%	12.1%	\$0.62	
Average shares - diluted	210	189	-10.3%	-0.3%	189	
<b>Margin analysis</b>						
Gross margin	44.0%	42.2%	-179 bp	-150 bp	43.7%	42.3%
SG&A to sales	25.9%	27.0%	105 bp	-194 bp	28.9%	27.6%
Operating margin	18.0%	15.2%	-283 bp	43 bp	14.8%	14.7%
Pretax margin	16.9%	13.6%	-327 bp	64 bp	13.0%	12.8%
Net margin	12.9%	10.5%	-237 bp	80 bp	9.7%	9.5%
Tax rate	23.6%	22.5%	-104 bp	-246 bp	25.0%	25.7%

Source: BofA Global Research Estimates, Company Filings, Bloomberg

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## Price objective basis & risk

### Tempur Sealy International Inc. (TPX)

Our PO of \$48 is based on 12x our 2023E EPS, slightly lower than TPX's 5yr average of 13.5x. We believe this is warranted given strong and sustainable sales and earnings growth, and TPX's strong competitive position but a less uncertain industry outlook in the medium term.

Upside risks to our PO are stronger-than-expected sales growth from new products, upside from a new Mattress Firm partnership, 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, and general macroeconomic risk.

## Analyst Certification

I, Curtis Nagle, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	ACV Auctions	ACVA	ACVA US	Nat Schindler
	AdTheorent	ADTH	ADTH US	Nat Schindler
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	Arhaus, Inc	ARHS	ARHS US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Carvana Co	CVNA	CVNA US	Nat Schindler
	Chewy Inc	CHWY	CHWY US	Nat Schindler
	DoorDash	DASH	DASH US	Michael McGovern
	Duolingo	DUOL	DUOL US	Nat Schindler
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Experia	EXPE	EXPE US	Justin Post
	Fiverr	FVRR	FVRR US	Nat Schindler
	LendingTree	TREE	TREE US	Nat Schindler
	Match Group	MTCH	MTCH US	Nat Schindler
	Meta Platforms	FB	FB US	Justin Post
	NerdWallet Inc	NRDS	NRDS US	Nat Schindler
	Peloton	PTON	PTON US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Shutterstock	SSTK	SSTK US	Nat Schindler
	Snap	SNAP	SNAP US	Justin Post
	Squarespace Inc	SQSP	SQSP US	Nat Schindler
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Curtis Nagle, CFA
	The RealReal	REAL	REAL US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Nat Schindler
	Upstart	UPST	UPST US	Nat Schindler
	Upwork Inc	UPWK	UPWK US	Nat Schindler
	Viant	DSP	DSP US	Nat Schindler
	Vroom Inc.	VRM	VRM US	Nat Schindler
	Wix.com	WIX	WIX US	Nat Schindler
	Xometry	XMTR	XMTR US	Nat Schindler
<b>NEUTRAL</b>				
	1stDibs.com	DIBS	DIBS US	Justin Post
	Airbnb	ABNB	ABNB US	Justin Post
	Beachbody	BODY	BODY US	Joanna Zhao
	Cardlytics	CDLX	CDLX US	Nat Schindler
	eBay	EBAY	EBAY US	Justin Post
	Everquote	EVER	EVER US	Nat Schindler
	GoodRx	GDRX	GDRX US	Justin Post
	LegalZoom	LZ	LZ US	Nat Schindler
	Overstock.com Inc	OSTK	OSTK US	Curtis Nagle, CFA
	Pinterest	PINS	PINS US	Justin Post
<b>UNDERPERFORM</b>				
	Netflix, Inc.	NFLX	NFLX US	Nat Schindler
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Purple Innovation	PRPL	PRPL US	Curtis Nagle, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Sleep Number Corp	SNBR	SNBR US	Curtis Nagle, CFA
	TripAdvisor	TRIP	TRIP US	Nat Schindler
	Trivago NV	TRVG	TRVG US	Nat Schindler
	Wayfair	W	W US	Curtis Nagle, CFA
	Wish	WISH	WISH US	Michael McGovern
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA
<b>RSTR</b>				
	Twitter	TWTR	TWTR US	Justin Post



## iQmethod<sup>SM</sup> Measures Definitions

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>	<b>Numerator</b>	<b>Denominator</b>
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>	<b>Numerator</b>	<b>Denominator</b>
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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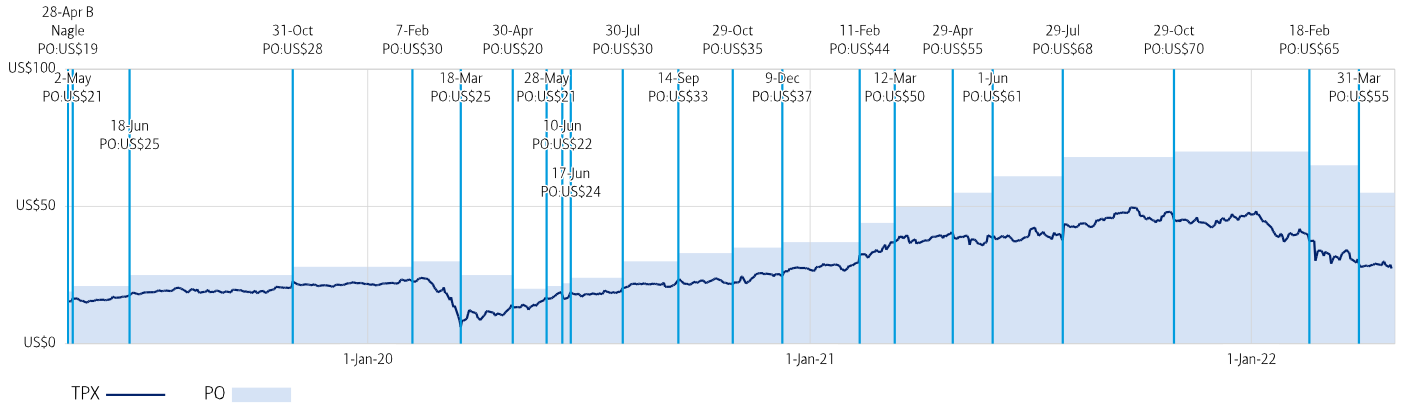
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# Disclosures

## Important Disclosures

### 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 Mar 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	88	56.77%	Buy	46	52.27%
Hold	27	17.42%	Hold	15	55.56%
Sell	40	25.81%	Sell	18	45.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Mar 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1916	57.18%	Buy	1207	63.00%
Hold	705	21.04%	Hold	452	64.11%
Sell	730	21.78%	Sell	362	49.59%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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