

Tempur Sealy International Inc.

Lowering estimates on macro & FX; GM upside possible on inputs; Reiterate Buy

Reiterate Rating: BUY | PO: 33.00 USD | Price: 26.96 USD

3Q preview: lower ests on macro and FX; Maintain \$33 PO

Tempur-Sealy (TPX) will report 3Q22 earnings on Nov. 3rd before market open and a call will follow at 8am ET. We are lowering our estimates largely to reflect ongoing macro weakness and higher FX pressure (see detail on page 3). Our 3Q22e revenue/EPS estimates remain \$1.29bn/\$0.70 and versus \$1.29bn/0.75 for the Street. For 2022E, we now estimate revenue/EPS of \$4.98bn/2.68 from \$5.03bn/2.75 prior and versus \$4.99bn/2.72 for the Street. Our EPS estimate is below the midpoint of guidance of \$2.70. For 2023E, we now estimate revenue/EPS of \$5.00bn/2.83 from \$5.21bn/3.10 prior and versus \$5.07bn/2.93 for the Street. We maintain our \$33 PO which is now based on 12x 2023E EPS (11x prior). We believe a slightly higher multiple is warranted given our view that long-term earnings growth remains attractive for TPX.

Margin upside possible on sharp pullback in material costs

We are constructive on gross margin upside going into 2023 following price hikes over the past two years and now significantly lower steel and foam input costs. These materials historically cover nearly 30% of COGS are forecast to decline over 40% YoY on average in 4Q22 following triple digit percentage increases in 2021 (see ex. 4). Over the past two years, TPX gross margins declined over 200bps. We see upside to our forecast of 63bps of gross margin expansion in 2023, largely on favorable input costs.

See TPX as relatively insulated from competitor sales miss

Last week TPX competitor Sleep Number (SNBR, not covered) reported significantly lower than expected 4Q revenue guidance. The miss was attributed to weaker demand as well as issues sourcing semiconductors. We see read-through as relatively limited for TPX given sourcing challenges have been a much larger and more frequent headwind for SNBR over the past year. While consumer spending is volatile, per BAC aggregated credit and debit card data*, 3Q trends were slightly improved from 2Q as was TPX web traffic (see ex. 5 & 6).

Reiterate Buy on attractive valuation to growth

We are cautious on near term industry growth but we remain bullish on TPX's ability to outperform the industry given: 1) weak relative competition; 2) several important new high margin product launches including Steams & Foster (4Q22), Tempur international (1Q23) and Tempur Breeze (1Q23). Collectively, we believe these launches could add several hundred million per year to TPX's topline and offset softer industry growth over the next few quarters. We reiterate our Buy rating on an attractive valuation to growth.

Estimates (Dec) (US\$)	2020A	2021A	2022E	2023E	2024E
EPS	1.91	3.19	2.68	2.83	3.49
GAAP EPS	1.81	3.18	2.61	2.83	3.49
EPS Change (YoY)	91.0%	67.0%	-16.0%	5.6%	23.3%
Consensus EPS (Bloomberg)			2.72	2.93	3.43
DPS	0	0.31	0.40	0.47	0.54
Valuation (Dec)					
P/E	14.1x	8.5x	10.1x	9.5x	7.7x
GAAP P/E	14.9x	8.5x	10.3x	9.5x	7.7x
Dividend Yield	0%	1.1%	1.5%	1.7%	2.0%
EV / EBITDA*	9.4x	7.1x	8.5x	8.3x	7.3x
Free Cash Flow Yield*	11.7%	12.9%	8.2%	11.3%	13.5%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 02 November 2022 05:30AM EDT

02 November 2022

Equity

Key Changes

(US\$)	Previous	Current
2022E Rev (m)	5032.5	4980.3
2023E Rev (m)	5210.4	4997.4
2024E Rev (m)	5636.1	5400.5
2022E EPS	2.72	2.68
2023E EPS	3.10	2.83
2024E EPS	3.81	3.49

Curtis Nagle, CFA

Research Analyst
BofA
+1 646 855 2939
c.nagle@bofa.com

David Malinowski

Research Analyst
BofA
david.malinowski@bofa.com

Stock Data

Price	26.96 USD
Price Objective	33.00 USD
Date Established	16-Jun-2022
Investment Opinion	B-1-7
52-Week Range	20.03 USD - 48.97 USD
Mrkt Val (mn) / Shares Out (mn)	4,642 USD / 172.2
Average Daily Value (mn)	51.00 USD
BofA Ticker / Exchange	TPX / NYS
Bloomberg / Reuters	TPX US / TPX.N
ROE (2022E)	245.2%
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](#)".

* Please refer to [BofA on USA](#) for additional commentary on broader retail trends and a detailed explanation of the methodology, disclaimers, and limitations in connection with BAC card data

iQprofileSM Tempur Sealy International Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2020A	2021A	2022E	2023E	2024E
Return on Capital Employed	19.7%	24.5%	17.1%	17.1%	19.4%
Return on Equity	93.0%	161.1%	245.2%	274.7%	259.6%
Operating Margin	16.8%	18.6%	14.7%	15.0%	16.0%
Free Cash Flow	543	600	382	523	626

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2020A	2021A	2022E	2023E	2024E
Cash Realization Ratio	1.6x	1.1x	1.3x	1.4x	1.4x
Asset Replacement Ratio	0.5x	0.7x	1.4x	0.9x	0.9x
Tax Rate	24.8%	24.0%	24.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	253.5%	NM	NM	NM	NM
Interest Cover	7.5x	15.0x	7.5x	7.5x	8.6x

Income Statement Data (Dec)

(US\$ Millions)	2020A	2021A	2022E	2023E	2024E
Sales	3,677	4,931	4,980	4,997	5,400
% Change	18.4%	34.1%	1.0%	0.3%	8.1%
Gross Profit	1,644	2,159	2,110	2,149	2,340
% Change	22.4%	31.3%	-2.3%	1.8%	8.9%
EBITDA	820	1,093	911	932	1,063
% Change	61.2%	33.3%	-16.6%	2.3%	14.0%
Net Interest & Other Income	(80)	(60)	(97)	(100)	(100)
Net Income (Adjusted)	406	651	483	487	572
% Change	83.1%	60.3%	-25.9%	0.8%	17.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2020A	2021A	2022E	2023E	2024E
Net Income from Cont Operations (GAAP)	404	652	484	487	572
Depreciation & Amortization	203	175	178	184	200
Change in Working Capital	69	(91)	(16)	25	29
Deferred Taxation Charge	(9)	11	0	0	0
Other Adjustments, Net	(13)	(24)	(14)	(2)	(5)
Capital Expenditure	(111)	(123)	(250)	(170)	(170)
Free Cash Flow	543	600	382	523	626
% Change	139.8%	10.4%	-36.3%	36.9%	19.7%

Balance Sheet Data (Dec)

(US\$ Millions)	2020A	2021A	2022E	2023E	2024E
Cash & Equivalents	65	301	1	142	82
Trade Receivables	384	420	423	425	432
Other Current Assets	520	555	548	525	540
Property, Plant & Equipment	508	584	711	752	777
Other Non-Current Assets	1,832	2,464	2,496	2,496	2,505
Total Assets	3,309	4,323	4,179	4,340	4,336
Short-Term Debt	292	53	0	0	0
Other Current Liabilities	931	1,000	981	984	1,036
Long-Term Debt	1,075	2,279	2,354	2,354	2,354
Other Non-Current Liabilities	497	697	745	746	761
Total Liabilities	2,795	4,028	4,080	4,084	4,151
Total Equity	514	295	99	256	185
Total Equity & Liabilities	3,309	4,323	4,179	4,340	4,336

* For full definitions of iQmethodSM 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 generated \$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 1,891,600

Quarterly Earnings Estimates

	2021	2022
Q1	0.64A	0.69A
Q2	0.79A	0.58A
Q3	0.88A	0.70E
Q4	0.88A	0.71E

TPX 3Q22 earnings preview and charts

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Exhibit 1: BofA Estimates vs. Consensus

For 3Q'22 we forecast revenue/EBITDA of \$1.29bn/\$236mn vs. Street at \$1.29bn/\$255mn

Revenue (mn)	3Q22	4Q22	2022	2023	2024
BofA est.	\$1,288	\$1,242	\$4,980	\$4,997	\$5,400
Growth Y/Y%	-5%	-9%	1%	0%	8%
Street	\$1,289	\$1,250	\$4,989	\$5,072	\$5,241
BofA vs. Street	0.1% Below	0.6% Below	0.2% Below	1.5% Below	3.0% Above
EBITDA (mn)					
BofA est.	\$236	\$238	\$911	\$932	\$1,063
Street	\$255	\$244	\$936	\$975	\$1,092
BofA vs. Street	7.5% Below	2.4% Below	2.6% Below	4.4% Below	2.7% Below
Non-GAAP EPS					
BofA est.	\$0.70	\$0.71	\$2.68	\$2.83	\$3.49
Street	\$0.75	\$0.70	\$2.72	\$2.93	\$3.43
BofA vs. Street	6.8% Below	1.2% Above	1.5% Below	3.5% Below	1.7% Above

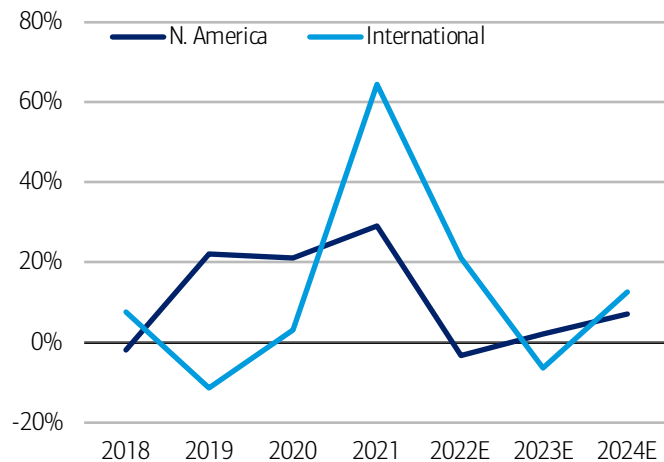
Source: BofA Global Research estimates, Bloomberg

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Approximately 20% of TPX sales are non-US and unhedged, with the largest exposure in the United Kingdom following the acquisition of Dreams UK in mid-2021 and Europe. As of late October, the British Pound/Euro are down 15/13% YoY. We forecast international sales to decline 6% YoY in 2023 vs. +21% in 2022 (up YoY solely due to an acquisition). We see international as one of TPX largest growth opportunities over the next five plus years and forecast international revenue growth of 12.5% in 2024. However in the near term, currency headwinds and a tough macro backdrop in Europe will weigh on growth. We expect FX pressure to peak in 3Q22 (we estimate -16ppts vs. -10bps in 2Q22) and dissipate by 3Q23, absent further dollar appreciation.

Exhibit 2: TPX revenue growth (YoY %): N. America vs. international

We expect growth to accelerate in 2024 and int'l to outpace N. America

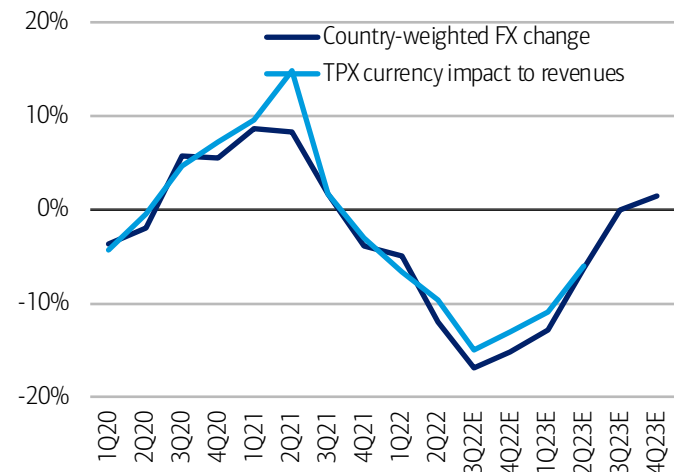


Source: BofA Global Research, Company reports

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Exhibit 3: Foreign exchange impact to TPX revenues

We expect FX pressure to peak in 3Q22



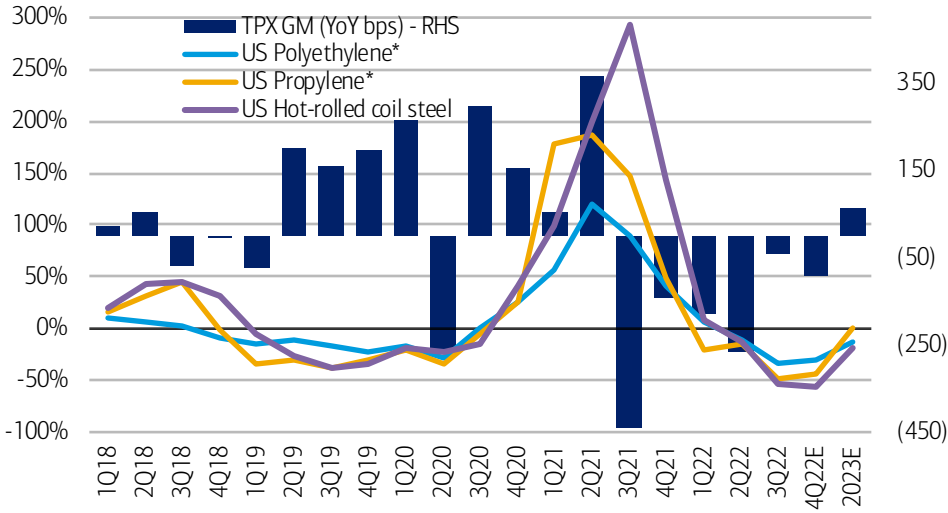
Source: BofA Global Research, Company reports, Bloomberg

BofA GLOBAL RESEARCH



Exhibit 4: TPX gross margin (YoY basis point change) vs. key bedding materials

Lower raw material costs could be a source of gross margin upside going into 2023

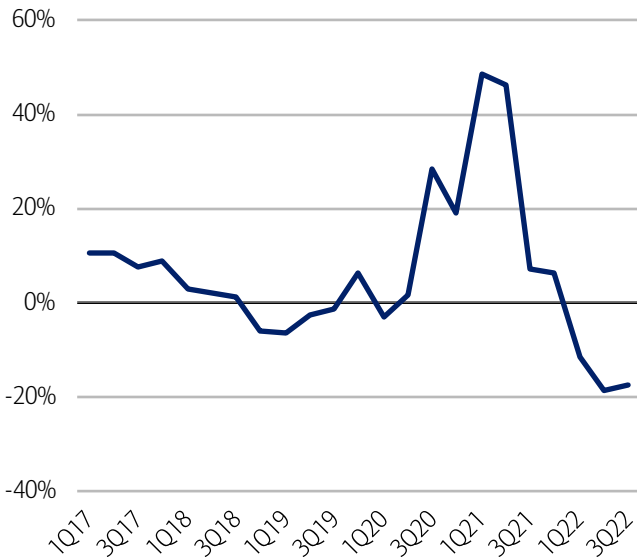


*input for bedding foam
 Source: OPIs, ICIS, BofA Global Research Estimates

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Exhibit 5: Quarterly bedding retail spending growth, YoY% change according to BAC aggregated credit and debit card data

3Q22 trends were slightly improved from 2Q22

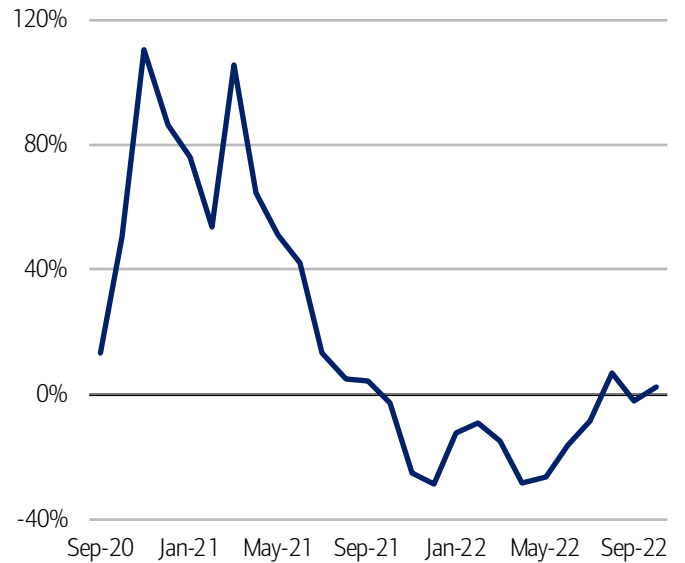


Source: BAC internal data

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Exhibit 6: Tempur-pedic web traffic (YoY %)

Trends have steadily improved since midyear



*Through Oct. 18th 2022

Source: SimilarWeb

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Price objective basis & risk

Tempur Sealy International Inc. (TPX)

Our PO of \$33 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
BUY				
	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
	AppLovin	APP	APP US	Omar Dessouky, CFA
	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
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	Duolingo	DUOL	DUOL US	Nat Schindler
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Fiverr	FVRR	FVRR US	Nat Schindler
	LendingTree	TREE	TREE US	Nat Schindler
	Match Group	MTCH	MTCH US	Nat Schindler
	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
	Squarespace Inc	SQSP	SQSP US	Nat Schindler
	System1	SST	SST US	Nat Schindler
	Tempur Sealy International Inc.	TPX	TPX US	Curtis Nagle, CFA
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Nat Schindler
	Upwork Inc	UPWK	UPWK US	Nat Schindler
	Viant	DSP	DSP US	Nat Schindler
	Wix.com	WIX	WIX US	Nat Schindler
	Xometry	XMTR	XMTR US	Nat Schindler
NEUTRAL				
	1stDibs.com	DIBS	DIBS US	Justin Post
	Airbnb	ABNB	ABNB US	Justin Post
	Beachbody	BODY	BODY US	Joanna Zhao
	eBay	EBAY	EBAY US	Curtis Nagle, CFA
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA



US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	LegalZoom	LZ	LZ US	Nat Schindler
	Meta Platforms Inc	META	META US	Justin Post
	Overstock.com Inc	OSTK	OSTK US	Curtis Nagle, CFA
	Pinterest	PINS	PINS US	Justin Post
	Snap	SNAP	SNAP US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Upstart	UPST	UPST US	Nat Schindler
UNDERPERFORM				
	Cardlytics	CDLX	CDLX US	Nat Schindler
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	PLAYSTUDIOS, Inc. Class A	MYPs	MYPs US	Omar Dessouky, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	SciPlay	SCPL	SCPL US	Omar Dessouky, CFA
	The RealReal	REAL	REAL US	Michael McGovern
	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

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
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
Return On Equity	Net Income	Amortization 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
Quality of Earnings	Numerator	Denominator
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	$\text{Net Debt} = \text{Total Debt} - \text{Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	Numerator	Denominator
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	$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$
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

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

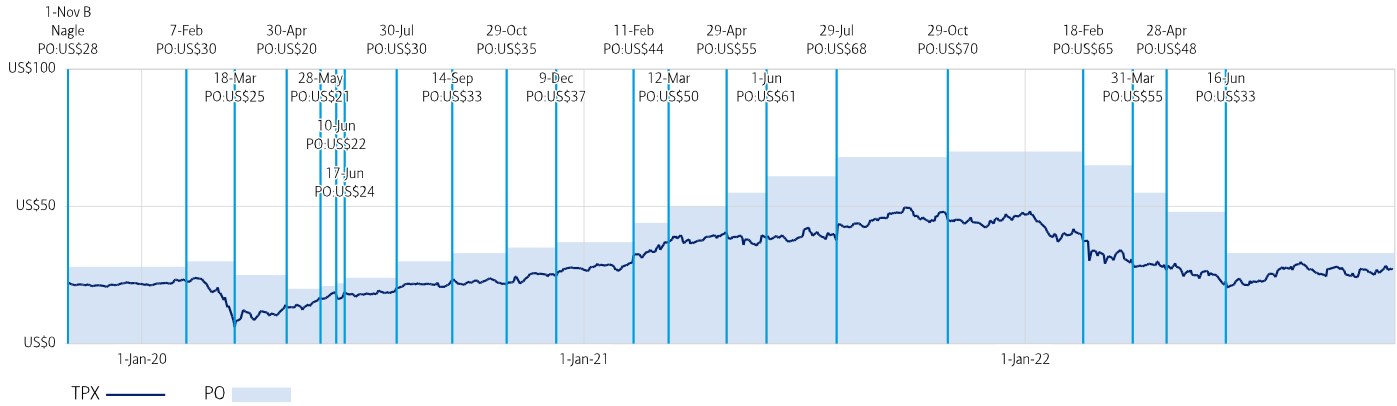
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Disclosures

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 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	85	55.92%	Buy	44	51.76%
Hold	27	17.76%	Hold	15	55.56%
Sell	40	26.32%	Sell	18	45.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1839	53.46%	Buy	1071	58.24%
Hold	800	23.26%	Hold	498	62.25%
Sell	801	23.28%	Sell	379	47.32%

^{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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