

TEMPUR SEALY INTERNATIONAL, INC.
Form DEFA14A
March 18, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934
(Amendment No. __)

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
- ☐ Definitive Proxy Statement
- ☒ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to § 240.14a-12

TEMPUR SEALY INTERNATIONAL, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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(4) Proposed maximum aggregate value of transaction:

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Explanatory Note:

Filed herewith is an updated investor presentation to be used by Tempur Sealy International, Inc. in connection with meetings with investors on or after March 18, 2015.

Tempur Sealy International, Inc.

March 18, 2015

Improving the Sleep of More People Every Night,
All Around the World

2
Forward-Looking Statements
Note
Regarding
Trademarks,
Trade
Names
and
Service
Marks:
TEMPUR,
Tempur-Pedic,
TEMPUR-Cloud,

TEMPUR-Choice,
TEMPUR-Weightless,
TEMPUR-Contour,
TEMPUR-Rhapsody,
TEMPUR-Flex,
GrandBed,
TEMPUR-Simplicity,
TEMPUR-Ergo,
TEMPUR-UP,
TEMPUR-Neck,
TEMPUR-Symphony,
TEMPUR-Comfort,
TEMPUR-Traditional,
TEMPUR-Home,
Sealy,
Sealy
Posturepedic,
Stearns
&
Foster,
and
Optimum
are
trademarks,
trade
names
or
service
marks
of
Tempur
Sealy
International,
Inc.
and/or
its
subsidiaries.
All
other
trademarks,
trade
names
and
service
marks
in
this
presentation
are
the

property
of
the
respective
owners.
This
investor
presentation
contains
"forward-looking
statements, within
the
meaning
of
the
federal
securities
laws, which
include
information
concerning
one
or
more
of
the
Company's
plans,
objectives,
goals,
strategies,
and
other
information
that
is
not
historical
information.
When
used
in
this
presentation,
the
words
"assumes,"
"estimates,"
"expects,"
guidance,

"anticipates,"
"projects,"
"plans,"
proposed,
"intends,"
"believes,"
and
variations
of
such
words
or
similar
expressions
are
intended
to
identify
forward-looking
statements.
These
forward-looking
statements
include,
without
limitation,
statements
relating
to
the
Company's
expectations
regarding
its
key
strategic
growth
initiatives
and
strategic
priorities,
expectations
regarding
the
Company's
net
sales,
revenue
performance,
adjusted

EBITDA,
adjusted
EPS,
operating
cash
flow,
free
cash
flow,
synergies
and
pricing
increases
and
related
assumptions
for
2015
and
subsequent
years,
expectations
regarding
net
sales
growth
rates,
sales
growth
opportunities
for
Sealy
in
international
markets
and
for
the
TEMPUR-Flex
line
of
products,
margin
improvements,
expansion
of
distribution,
AUSP
growth,
the

impact
of
foreign
exchange,
the
Company's
leverage
ratio,
and
expectations
regarding
growth
opportunities
relating
to
acquisitions
and
returning
value
to
stockholders.

All
forward
looking
statements
are
based
upon
current
expectations
and
beliefs
and
various
assumptions.

There
can
be
no
assurance
that
the
Company
will
realize
these
expectations
or
that
these

beliefs
will
prove
correct.
Numerous
factors,
many
of
which
are
beyond
the
Company's
control,
could
cause
actual
results
to
differ
materially
from
those
expressed
as
forward-looking
statements
in
this
investor
presentation.
These
risk
factors
include
risks
associated
with
the
Company's
capital
structure
and
increased
debt
level;
the
ability
to
successfully

integrate
Sealy
into
the
Company's
operations
and
realize
cost
and
revenue
synergies
and
other
benefits
from
the
transaction;
whether
the
Company
will
realize
the
anticipated
benefits
from
its
asset
dispositions
in
2014
and
the
acquisition
of
brand
rights
in
certain
international
markets
in
2014;
general
economic,
financial
and
industry
conditions,

particularly
in
the
retail
sector,
as
well
as
consumer
confidence
and
the
availability
of
consumer
financing;
changes
in
product
and
channel
mix
and
the
impact
on
the
Company's
gross
margin;
changes
in
interest
rates;
the
impact
of
the
macroeconomic
environment
in
both
the
U.S.
and
internationally
on
the
Company's
business

segments;
uncertainties
arising
from
global
events;
the
effects
of
changes
in
foreign
exchange
rates
on
the
Company's
reported
net
sales
and
earnings;
consumer
acceptance
of
the
Company's
products;
industry
competition;
the
efficiency
and
effectiveness
of
the
Company's
advertising
campaigns
and
other
marketing
programs;
the
Company's
ability
to
increase
sales
productivity

within
existing
retail
accounts
and
to
further
penetrate
the
Company's
retail
channel,
including
the
timing
of
opening
or
expanding
within
large
retail
accounts
and
the
timing
and
success
of
product
launches;
the
effects
of
consolidation
of
retailers
on
revenues
and
costs;
the
Company's
ability
to
expand
brand
awareness,
distribution
and

new
products;
the
Company's
ability
to
continuously
improve
and
expand
its
product
line,
maintain
and
improve
efficient,
timely
and
cost-effective
production
and
delivery
of
its
products,
and
manage
its
growth;
the
effects
of
strategic
investments
on
the
Company's
operations;
changes
in
foreign
tax
rates
and
changes
in
tax
laws
generally,

including
the
ability
to
utilize
tax
loss
carry
forwards;
the
outcome
of
various
pending
tax
audits
or
other
tax,
regulatory
or
litigation
proceedings;
changing
commodity
costs;
and
the
effect
of
future
legislative
or
regulatory
changes.
Additional
information
concerning
these
and
other
risks
and
uncertainties
are
discussed
in
the
Company's
filings

with
the
Securities
and
Exchange
Commission,
including
without
limitation
the
Company's
2014
Annual
Report
on
Form
10-K
filed
on
February
13,
2015
with
the
SEC,
under
the
headings
"Special
Note
Regarding
Forward-Looking
Statements"
and
"Risk
Factors."
Any
forward-looking
statement
speaks
only
as
of
the
date
on
which
it
is
made,

and
the
Company
undertakes
no
obligation
to
update
any
forward-looking
statements
for
any
reason,
including
to
reflect
events
or
circumstances
after
the
date
on
which
such
statements
are
made
or
to
reflect
the
occurrence
of
anticipated
or
unanticipated
events
or
circumstances.
Note
Regarding
Historical
Financial
Information:
In
this
investor
presentation

we
provide
or
refer
to
certain
historical
information
for
the
Company.
For
a
more
detailed
discussion
of
the
Company's
financial
performance
please
refer
to
the
Company's
SEC
filings.

3

Largest And Only Truly Global Bedding Company
Comprehensive Portfolio of Iconic Brands
Complete and Complementary Product Offering
Strong Management Team, Executing A Compelling Strategy
Significant Sales, Margin and Earnings Growth Opportunity
Strong Cash Flow

The Industry's Only Truly Global Company

,

Tempur Sealy Presence

Note: Presence includes subsidiaries, joint ventures, third party, and licensee markets.

4

Complete and Complementary Portfolio of Brands

Luxury

Premium

Mid-Price

Value

5

Tempur-Pedic

#1 US Brand People Are Most Interested In Purchasing

Sealy

#1 US Brand In Total Awareness

#1 US Brand People Are Most Likely To Buy

Stearns

&

Foster

#1 US Brand In Luxury Innerspring Sales

Note

1:

2014

Mattress

Industry

Consumer

Research

U.S.

Market

Note

2:

Stearns

&

Foster

#1

US

Brand

in

Luxury

Innerspring

Sales

based

on

management

estimates.

Complete Range Of Products

Innerspring

Hybrid

Stearns & Foster

TEMPUR-Flex

Adjustable Comfort

TEMPUR-Cloud

Memory Foam, Gel Visco, Latex

Tempur Material

Other Specialty

6

Adjustable Bases

TEMPUR-Ergo Plus

Pillows

TEMPUR Pillows

Strong, Established Management Team

7

Experienced Management Team With Proven Track

Record Of Execution

Years with

Consumer

Tempur

Name

Position

Prior Experience

Products

Inter'l

Sealy

Mark Sarvary
President and CEO
President, Campbell Soup North America
CEO, J. Crew Group
6
President, Stouffer's Frozen Food Division at Nestle
Tim Yaggi
COO
Group President, Masco Corporation
EVP, Whirlpool Corporation
2
Norelco (Philips)
Dale Williams
EVP and CFO
CFO, Honeywell Control Products
CFO, Saga Systems
11
CFO, GE Information Systems
Rick Anderson
EVP and President,
VP, Gillette
North America
Gillette / Procter & Gamble
8
David Montgomery
EVP and President,
President, Rubbermaid Europe
International
VP, Black & Decker Europe, Middle East, Africa
12
Jay Spenchian
EVP and Chief Marketing
EVP and CMO, Olive Garden and Red Lobster
Officer
Executive Director, Marketing, General Motors
Prior Experience
Joined in
2014

Key Priorities 2012

2014

Return Tempur North America to growth and improve operating margins

Revamped entire product offering (2012-2014) and improved retailer economics (August 2012)

Sales growth resumed and margins expanded significantly in 2H-2014 and expected to further expand in 2015

Maintain Sealy sales growth momentum and margins

Sales growth had just begun prior to the acquisition in 2013, and growth continued in 2013 and accelerated in 2014

Margins, however, declined in 2014 and are a primary area of focus in 2015 and beyond

Integrate Sealy

Organizational integration with Sealy essentially complete in North America

Cost synergies realized from the acquisition are ahead of our projections

Capitalizing on strategic growth initiatives of complementary brand and product portfolio

Position International business for future growth

Acquired Sealy brand rights in Europe (ex. UK) and Japan, and commenced roll-out in 3Q 2014

(Weakness in Central Europe affected overall International performance)

Reinvested A Significant Portion Of Cost Synergies Realized

From Sealy Acquisition To Support These Key Priorities

8

9

Tempur Sealy Strategic Priorities

Leverage and Strengthen Our Comprehensive
Portfolio Of Iconic Brands & Products

Expand Distribution And Seek Highest Dealer
Advocacy

Expand Margins With Focus On Driving

Significant Cost Improvement

Accretive Acquisitions Of Licensees And Joint
Ventures

Leverage Global Scale For Competitive
Advantage

Base
Annual
Targets:
Net
Sales
Growth
Of
6%
And
Adjusted
EPS
Growth
Of
15%

Strong
Cash
Flow
To
Reduce
Debt
And
Return
Value
to
Stockholders
Delivering Value
For Stockholders
Note

1:
Management
estimates.

Please
refer
to

Forward
Looking
Statements .

Note

2:
Targets
are
based
on
constant
currency.

For
information
on
the

methodology
used
to
present
constant
currency
information
please
refer
to
slide
27.
Note
3:
Adjusted
EPS
(which
is
a
non-GAAP
financial
measure)
is
EPS
adjusted
for
Sealy
transaction
and
integration
costs,
loss
on
disposal
of
business
related
to
the
disposition
of
the
three
U.S.
innerspring
component
facilities
and
related
equipment,

interest
and
fees
incurred
in
connection
with
debt
amendments
and
refinancings,
normalized
tax
rate
adjustments
and
to
exclude
certain
non-recurring
items.
Please
refer
to
the
reconciliations
on
slide
21
and
the
Company's
SEC
filings
for
more
information
regarding
the
definition
of
adjusted
EPS.

US
Canada
Europe
Asia Pacific
Latin America
10
Growth Drivers By Geography
Marketing
Product
Innovation
Opening Own
Stores
Leveraging

Distribution
Synergies
Leverage
JV
(CR)

Expand Margins With Focus On Driving Significant
Cost Improvement

11

Note 1: Represents initiatives to be achieved by 2018. Our expectation is that they will ramp through the period. Approximate
Forward Looking Statements .

Note 2: Refers to Sealy gross margin in the U.S. of 30% in 2014. Sealy US gross margin improvement excludes the benefit from

Note 3: Adjusted operating expense leverage is a non-GAAP financial measure. For information on the methodology used to p
leverage please refer to slide 24.

Note 4: Cost synergies reflect annualized cost synergies realized from the Sealy transaction.

2015 -2018

Objective

2014

Annual

Incremental

Operating

Income

1

Initiative

Sealy US Gross Margin Improvement

2

30%

33%

\$45 million

Cost Synergies

4

\$45 million

\$70 million

\$25 million

Adjusted Operating Expense Leverage

3

29%

28%

\$30 million

\$125 million

2015 Pricing

\$25 million

\$25 million

These

Initiatives

Alone

Provide

More

Than

300bps

Of

Operating

Margin

Improvement

Leverage Global Scale For Competitive Advantage
Tempur Sealy Is Uniquely Positioned To Capitalize On Its
Integrated Product And Brand Portfolio On A Global Basis

Procurement

R&D

Engineering and design
Product Development

Cloud and Breeze Beds

Stearns & Foster

Posturepedic Hybrid

Distribution

Brand

12

Globally Diverse Bedding Provider Largely Sold In
The Retail Channel

2014 Net Sales

By Segment

International

North America

13

By Geographic Region

Europe

US

Canada

Asia Pacific

Latin America

Other
Retail
By Channel
Other
By Product
Bedding

2014 Net Sales increased 21%

Estimated net sales growth would have been +8% had we owned Sealy for all of 2013

2015 Net Sales growth guidance of 2% to 5%, and includes unfavorable FX of 3.5%

Net Sales

Note

1:

Please

refer

to

Forward

Looking

Statements .

Note

2:
Estimated
net
sales
growth
of
8%
for
2014
is
based
on
Tempur
Sealy
International
consolidated
net
sales
for
2013
plus
management's
estimates
for
Sealy
sales
for
the
period
of
January
1,
2013
to
March
17,
2013.
The
Sealy
acquisition
was
completed
on
March
18,
2013.
Net
sales
for
2013

only
include
Sealy
from
March
18,
2013
to
December
31,
2013,
while
2014
and
2015
results
include
Sealy
for
the
full
year
and
as
a
result
information
may
not
be
comparable.
Note
3:
2015P
is
the
Company's
Net
Sales
guidance
issued
on
February
5,
2015,
which
consisted
of
full
year

2015
Net
Sales
of
\$3.050
billion
to
\$3.150
billion.
Note
4:
For
information
on
the
methodology
used
to
present
constant
currency
information
please
refer
to
slide
27.
14
(\$ in millions)
Net Sales

15
(GAAP Reported Operating Margin)
2014
GAAP
operating
margin
includes
\$43.8
million
of
integration
costs
(1.5%

of
net
sales)
Adjusted
operating
margin
is
expected
to
be
up
10bps
to
80bps
in
2015
On
a
constant
currency
basis,
adjusted
operating
margin
is
expected
to
be
up
75bps
to
150bps
in
2015
Operating Margin
Note
1:
2015
operating
margin
improvement
based
on
management
estimates.
Please
refer
to
Forward
Looking

Statements .
Note
2:
Adjusted
operating
margin
is
a
non-GAAP
financial
measure.
For
information
on
the
methodology
used
to
present
Adjusted
operating
margin
and
a
reconciliation
to
GAAP
operating
margin
please
refer
to
slide
25.
Note
3:
For
information
on
the
methodology
used
to
present
constant
currency
information
please
refer
to

slide

27.

Adjusted Operating

Margin

Adjusted Operating

Margin

16
Adjusted EPS
Note
1:
Adjusted
EPS
amounts
for
2015
based
on
management
estimates.

On
February
5,
2015,
the
Company
issued
guidance
for
Adjusted
EPS
for
full
year
2015
of
\$2.70
to
\$3.10.
Please
refer
to
Forward
Looking
Statements .
Note
2:
GAAP
EPS
for
2013
was
\$1.28
and
GAAP
EPS
for
2014
was
\$1.75.
Adjusted
EPS
for
2013
only
include
Sealy
from
March
18,

2013
to
December
31,
2013,
while
2014
and
2015
results
include
Sealy
for
the
full
year
and
as
a
result
information
may
not
be
comparable.
Note
3:
Base
Annual
Adjusted
EPS
Growth
Target
is
based
on
constant
currency.
For
information
on
the
methodology
used
to
present
constant
currency
information
please

refer
to
slide
27.
Note
4:
Adjusted
EPS
(which
is
a
non-GAAP
financial
measure)
is
EPS
adjusted
for
Sealy
transaction
and
integration
costs,
loss
on
disposal
of
business
related
to
the
disposition
of
the
three
U.S.
innerspring
component
facilities
and
related
equipment,
interest
and
fees
incurred
in
connection
with
debt

refinancings,
normalized
tax
rate
adjustments
and
to
exclude
certain
non-recurring
items.
Please
refer
to
the
reconciliations
on
slide
21
and
the
Company's
SEC
filings
for
more
information
regarding
the
definition
of
adjusted
EPS.

2014 Adjusted EPS increased 11%; on a constant currency basis would have increased 18%

2015 Adjusted EPS is expected to grow 12% to 27% on a constant currency basis

Strong Cash Flow Characteristics

17

(\$ in millions)

Operating and Free Cash Flow

Note 1: Operating and free cash flow for 2013 only include Sealy from March 18, 2013 to December 31, 2013, while 2014 res

Note 2: Free cash flow is a non-GAAP financial measure. For information on the methodology used to present free cash flow

Note 3: For information on the methodology used to present constant currency information please refer to slide 27.

Multi-year add back to net income as D&A should continue to exceed annual Capex by \$30M+

Expect continued growth in operating and free cash flow in 2015

18
Improving Capital Structure
(\$ in millions)
Consolidated Funded Debt Less
Qualified Cash to Adjusted EBITDA
Note
1:
Information
for
2015
based
on
management

estimates.
Please
refer
to
Forward
Looking
Statements .
Note
2:
Adjusted
EBITDA
(which
is
a
non-GAAP
financial
measure)
represents
EBITDA
adjusted
for
the
loss
on
disposal
of
business,
Sealy
transaction
and
integration
costs,
and
purchase
price
allocation
(PPA)
inventory
adjustments
related
to
the
Sealy
acquisition,
financing
and
refinancing
costs,
non-cash
compensation,

restructuring
and
other.
Please
refer
to
the
reconciliation
included
on
slides
22-23
of
this
presentation
and
the
Company's
SEC
filings
for
more
information
regarding
the
definition
of
adjusted
EBITDA
and
the
calculation
of
consolidated
funded
debt
less
qualified
cash
(which
are
non-GAAP
financial
measures)
and
the
calculation
of
the
leverage

ratio
for
purposes
of
the
Company's
senior
secured
facility.

As a larger more stable company, our optimal capital structure is 3x
2014 credit agreement amendment allows cash utilization flexibility below 3.5x
Value creation generated through deleverage and/or returning value to shareholders

Appendix

19

*
*
*
*
*
*
*

Use of Non-GAAP Financial Measures

In
this
investor
presentation
and
certain
of
its
press
releases
and
SEC

filings,
the
Company
provides
information
regarding
adjusted
net
income,
adjusted
earnings
per
share,
earnings
before
interest,
taxes,
depreciation,
and
amortization
(EBITDA),
adjusted
EBITDA,
and
consolidated
funded
debt
and
consolidated
funded
debt
less
qualified
cash,
adjusted
operating
expenses,
adjusted
operating
income
and
operating
margin
and
free
cash
flow,
which
are
not

recognized
terms
under
U.S.
Generally
Accepted
Accounting
Principles
(GAAP)
and
do
not
purport
to
be
alternatives
to
net
income
as
a
measure
of
operating
performance
or
total
debt.
Because
not
all
companies
use
identical
calculations,
these
presentations
may
not
be
comparable
to
other
similarly
titled
measures
of
other
companies.
Adjusted

Net
Income/Adjusted
EPS
A
reconciliation
of
adjusted
net
income
and
adjusted
earnings
per
share
is
provided
on
slide
21.
Management
believes
that
the
use
of
these
non-GAAP
financial
measures
provides
investors
with
additional
useful
information
with
respect
to
the
impact
of
various
costs
associated
with
the
Sealy
acquisition
and
the

disposal
of
the
three
U.S.
innerspring
component
facilities
and
financing
costs
incurred
in
connection
with
the
amendment
and
refinancing
of
our
senior
secured
credit
facility
in
2014
and
2013,
other
income
related
to
certain
other
non-recurring
items,
including
income
from
a
partial
settlement
of
a
legal
dispute,
and
adjustment
of

taxes
to
a
normalized
rate
related
to
the
aforementioned
items
and
other
discrete
income
tax
events.
EBITDA/Adjusted
EBITDA
A
reconciliation
of
EBITDA
and
adjusted
EBITDA
to
the
Company's
net
income
and
a
reconciliation
of
total
debt
to
consolidated
funded
debt
and
consolidated
funded
debt
less
qualified
cash
are
provided
on

slides
22
and
23.
Management
believes
that
the
use
of
EBITDA
and
adjusted
EBITDA
also
provides
investors
with
useful
information
with
respect
to
the
terms
of
the
Company's
senior
secured
credit
facility
and
the
Company's
compliance
with
key
financial
covenants.
For
more
information
regarding
adjusted
EPS,
adjusted
EBITDA
and
other

terms
used
in
the
Company's
senior
secured
facility,
please
refer
to
the
Company's
SEC
filings.
Adjusted
Operating
Expenses
A
reconciliation
of
GAAP
operating
expenses
to
adjusted
operating
expenses,
which
is
GAAP
operating
expenses
less
integration
and
financing
costs,
is
provided
on
slide
24.
Management
believes
that
the
use
of
this

non-GAAP
financial
measure
provides
investors
with
additional
useful
information
with
respect
to
the
Company's
operating
performance
and
initiative
to
deleverage
operating
expenses
during
2015-2018.
The
reconciliation
provides
information
on
the
methodology
used
to
present
operating
expenses,
including
the
exclusion
of
integration
and
financing
costs
related
to
the
Sealy
acquisition.
Adjusted

Operating
Income
and
Margin
A
reconciliation
of
GAAP
operating
income
and
operating
margin
to
adjusted
operating
income
and
operating
margin,
which
are
GAAP
operating
income
and
GAAP
operating
margin
less
integration
and
financing
costs,
is
provided
on
slide
25.
Management
believes
that
the
use
of
these
non-GAAP
financial
measures
provides

investors
with
additional
useful
information
with
respect
to
the
Company's
operating
income
and
margin
performance
excluding
the
impact
of
integration
and
financing
costs
related
to
the
Sealy
acquisition.
Free
Cash
Flow
A
reconciliation
of
cash
provided
by
operating
activities
to
free
cash
flow,
which
is
cash
provided
by
operating
activities

less
purchases
of
property,
plant
and
equipment,
is
presented
on
slide
26.
Management
believes
that
the
use
of
this
non-GAAP
financial
measure
provides
investors
with
additional
useful
information
with
respect
to
the
Company's
cash
generation
and
financial
strength.
20

2014

Adjusted EPS Reconciliation

2013 and 2014 Adjusted EPS

(1) Loss on disposal of business represents costs associated with the disposition of the three U.S. innerspring component facilities

(2) Transaction and integration represents costs, including legal fees, professional fees and other charges to align the businesses

(3) Financing costs represent costs incurred in connection with the amendment and refinancing of our senior secured credit facilities

(4)

Other

income

includes

certain

other

non-recurring

items,
including
income
from
a
partial
settlement
of
a
legal
dispute.

(5) Adjustment of taxes to normalized rate represents adjustments associated with the aforementioned items and other discrete

Note: 2013 includes Sealy from March 18 to December 31, 2013.

21

Year Ended

Year Ended

(in millions, except per share amounts)

December 31,

December 31,

2013

2014

Net income

78.6

\$

108.9

\$

Plus:

Loss on disposal of business, net of tax

(1)

--

16.7

Transaction costs, net of tax

(2)

13.2

--

Integration costs, net of tax

(2)

37.2

30.6

Financing costs, net of tax

(3)

6.5

3.4

Other income, net of tax

(4)

--

(11.3)

Adjustment of taxes to normalized rate

(5)

10.9

16.3
 Adjusted net income
 146.4
 \$
 164.6
 \$
 Earnings per share, diluted
 1.28
 \$
 1.75
 \$
 Loss on disposal of business, net of tax
 (1)
 --
 0.27
 Transaction costs, net of tax
 (2)
 0.21
 --
 Integration costs, net of tax
 (2)
 0.60
 0.49
 Financing costs, net of tax
 (3)
 0.11
 0.05
 Other income, net of tax
 (4)
 --
 (0.18)
 Adjustment of taxes to normalized rate
 (5)
 0.18
 0.27
 Adjusted earnings per share, diluted
 2.38
 \$
 2.65
 \$
 Diluted shares outstanding
 61.6
 62.1

Adjusted EBITDA Reconciliation
2013 and 2014 Adjusted EBITDA
22

(1)
2013
is
presented
according
to
the
methodology
used
for

the
Company's
senior
secured
facilities
and
is
based
on
the
mathematical
combination
of
the
Company's
historical
financial
results
for
the
twelve
months
ended
December
31,
2013
and
Sealy's
historical
financial
results
for
the
pre-acquisition
period
from
December
3,
2012
through
March
3,
2013.
(2)
Transaction
and
integration
represent
costs
related

to
the
Sealy
acquisition,
including
legal
fees,
professional
fees
and
other
charges
to
align
the
businesses.

(3)
Financing
costs
represent
costs
incurred
in
connection
with
the
amendment
of
our
senior
secured
credit
facility
and
refinancing
charges
represent
costs
associated
with
debt
refinanced
by
Sealy
prior
to
the
Sealy
acquisition.

(4)

Non-cash
compensation
represent
costs
associated
with
various
share-based
awards.

(5)
Restructuring
and
impairment
represent
costs
related
to
restructuring
the
Tempur
Sealy
business
and
asset
impairment
costs
recognized
by
Sealy
prior
to
the
Sealy
acquisition.

(6)
Loss
on
disposal
of
business
represents
costs
associated
with
the
disposition
of
the
three
U.S.

innerspring
component
production
facilities
and
related
equipment
and
discontinued
operations
represent
losses
from
Sealy's
divested
operation
prior
to
the
Sealy
acquisition.

(7)
Other
income
in
2014
includes
certain
other
non-recurring
items,
including
income
from
a
partial
settlement
of
a
legal
dispute.

Year Ended
Year Ended
(in millions)
December 31,
December 31,
2013

(1)
2014
Net income attributable to Tempur Sealy International, Inc.

75.6
 \$
 108.9
 \$
 Interest expense
 133.2
 91.9
 Income taxes
 39.0
 64.9
 Depreciation & amortization
 98.6
 89.7
 EBITDA
 346.4
 \$
 355.4
 \$
 Adjustments for financial covenant purposes:
 Transaction costs
 (2)
 25.2
 Integration costs
 (2)
 15.3
 40.3
 Financing and Refinancing charges
 (3)
 2.4
 1.3
 Non-cash compensation
 (4)
 5.8
 Restructuring and impairment related charges
 (5)
 7.8
 Loss on disposal of business and discontinued operations
 (6)
 0.6
 23.2
 Other
 (7)
 7.6
 (15.6)
 Adjusted EBITDA
 411.1
 \$
 404.6
 \$

Debt Reconciliation and Leverage Ratio Calculation

Reconciliation of Total Debt to Consolidated Funded Debt Less Qualified Cash

(1)

Qualified

cash

as

defined

in

the

Company's

senior

secured

credit

facility
equals
100.0%
of
unrestricted
domestic
cash
plus
60.0%
of
unrestricted
foreign
cash.

For
purposes
of
calculating
leverage
ratios,
qualified
cash
is
capped
at
\$150.0
million.

(2)
The
ratio
of
consolidated
debt
less
qualified
cash
to
adjusted
EBITDA
was
3.89
times,
within
the
Company's
covenant,
which
requires
this
ratio
to

be
less
than
4.75
times
at
December
31,
2014.
Note:
For
more
details
regarding
consolidated
funded
debt,
consolidated
funded
debt
less
qualified
cash
and
Adjusted
EBITDA,
please
refer
to
the
Company's
SEC
filings.
23
As of
(in millions, except ratio)
December 31,
2014
Total debt
1,602.3
\$
Plus:
Letters of credit outstanding
18.2
Consolidated funded debt
1,620.5
Less:
Domestic qualified cash
(1)
25.9

Foreign qualified cash

(1)

21.9

Consolidated funded debt less qualified cash

1,572.7

\$

Adjusted EBITDA

404.6

\$

Consolidated funded debt less qualified cash to Adjusted EBITDA

(2)

3.89 times

Adjusted Operating Expenses
2014 Adjusted Operating Expenses
24
Note
1:
Integration
costs
represents
costs,
including
legal
fees,
professional

fees
and
other
charges
to
align
the
businesses
related
to
the
Sealy
acquisition.

Note
2:
Financing
costs
represent
costs
incurred
in
connection
with
the
amendment
of
our
senior
secured
credit
facility.

Tempur Sealy International, Inc.

Year Ended

(in millions, except percentage amounts)

December 31,

2014

Consolidated net sales

\$2,989.8

Selling and marketing expenses

619.9

General, administrative and other expenses

280.6

Operating Expenses

900.5

Operating Expenses as a % of Consolidated Net Sales

30%

Operating Expenses

\$900.5

Less: Integration and financing costs

43.8

Operating Expenses less Integration and financing costs

\$856.7

Adjusted Operating Expenses as a % of Consolidated Net Sales

29%

Adjusted Operating Margin

2014 Adjusted Operating Income and Margin

25

Note 1: Integration costs represents costs, including legal fees, professional fees and other charges to align the businesses relat

Note 2: Financing costs represent costs incurred in connection with the amendment of our senior secured credit facility.

Tempur Sealy International, Inc.

Year Ended

(in millions, except percentage amounts)

December 31,

2014

Operating Income, Tempur Sealy International, Inc.

\$276.3

Consolidated net sales

2,989.8

Operating Margin (GAAP)

9.2%

Operating Income, Tempur Sealy International, Inc.

\$276.3

Plus: Integration and financing costs

43.8

Adjusted Operating Income

\$320.1

Consolidated net sales

2,989.8

Adjusted Operating Margin (Non-GAAP)

10.7%

Free Cash Flow

2014 Free Cash Flow

26

Tempur Sealy International, Inc.

Year Ended

Year Ended

(in millions)

December 31,

December 31,

2013

2014

Net cash provided by operating activities

\$98.5

\$225.2

Less: Purchases of property, plant and equipment

40.0

47.5

Free Cash Flow

\$58.5

\$177.7

Constant Currency Information

In
this
investor
presentation
the
Company
refers
to,
and
in
other
press

releases
and
other
communications
with
investors
the
Company
may
refer
to,
net
sales
or
earnings
or
other
historical
financial
information
on
a
constant
currency
basis
or
excluding
FX ,
which
is
a
non-GAAP
measure.
These
references
to
constant
currency
basis
do
not
include
operational
impacts
that
could
result
from
fluctuations
in

foreign
currency
rates.
To
provide
information
on
a
constant
currency
basis,
the
applicable
financial
results
are
adjusted
based
on
a
simple
mathematical
model
that
translates
current
period
results
in
local
currency
using
the
comparable
prior
year
period's
currency
conversion
rate.
This
approach
is
used
for
countries
where
the
functional
currency

is
the
local
country
currency.
This
information
is
provided
so
that
certain
financial
results
can
be
viewed
without
the
impact
of
fluctuations
in
foreign
currency
rates,
thereby
facilitating
period-to-period
comparisons
of
business
performance.
The
information
presented
on
a
constant
currency
basis
is
not
recognized
under
U.S.
GAAP,
and
this
information

is
not
intended
as
a
substitute
for
reviewing
information
presented
on
a
GAAP
basis.
27