Tempur-Sealy (TPX) Investment Deck – March 2016

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Executive Summary

Tempur-Sealy (TPX) is a LONG because:

- **Tempur-Sealy is the dominant global player in the rapidly-consolidating mattress industry.** The business is high quality as evidenced by a long history of pricing power, margin stability and impressive returns on capital through all parts of the cycle. TPX's cost structure is mostly variable (~85% of COGS), allowing them to easily flex down expenses in a downturn.
- **TPX requires minimal incremental capital to grow and is highly free cash flow generative,** with capex running at just 2% of sales. This has allowed the firm to rapidly de-lever following the 2013 Sealy acquisition, retiring more than 35% of outstanding debt over the trailing eight quarters.
- **Margins and ROIC are at an inflection point, having been temporarily depressed by the $1.3B Sealy acquisition.** This transformational acquisition expanded TPX's scale while consolidating the industry (top two players have ~70% market share) and diversifies their business model from being a pure-play aspirational brand into one that can now attack every price point with complementary offerings.
- **The mattress industry is currently benefitting from multiple macro tailwinds** as consumer confidence and household formation lead to increased spending on home-related goods. TPX's largest customer (Mattress Firm) has also been aggressively taking share amongst specialty retailers.
- **New CEO Scott Thompson has a long track record of successful M&A integration** from his time at Dollar-Thrifty, where he expanded EBIT margins from 3% to 22% in under four years. Thompson has bought $5M of stock since he was hired and is properly incentivized with over $50m of performance-restricted RSU's that vest should TPX hit a "stretch" EBITDA goal of $650m (40% above FY15 guidance) in either 2017 or 2018.

Event Path:

- Mid-single digit revenue growth, driven by price lifts and a slight uptick in units, is combined with proper execution of promised synergies and leads to 250-350 bps of EBITDA margin expansion over the next 2-3 years (12-18% EBITDA CAGR).
- Free cash flow per share grows at a high-teens CAGR and TPX repurchases 5-10% of market cap over the the next eight quarters.
- **Base case:** TPX's EBITDA multiple compresses one turn to reflect slowing growth **for a 12-18 month target of $80 (36% upside)** based on 9x FY17 EBITDA of $597m. **Alternatively, TPX will generate ~$5.50/share in FY17 FCF,** for a 12-18 month target of $80 based on a 7% FCF yield.
- **Bull case:** If CEO Thompson is able to execute on his FY17 target of $650m EBITDA, returns on investment approach 100% ($100+ price target).

Executive Summary

Variant View

- The threat from disruptive technology is overstated, as the direct-to-consumer "bed in a box" model is not enough to overcome the defensibility of TPX's market share nor the stability of industry-wide margins. The target demographic for these VC-funded startups is different than TPX's as well.
- Share gains by TPX's largest customer Mattress Firm (MFRM) will not erode margins and is in fact a slight positive as they implement best practices.
- The street is too low on margin expansion and underestimates the combined effect of price increases and declining raw material costs. Analysts are also not modeling the potential for rapid debt pay-down to accrue to FCFE via lowered interest expense, nor the implementation of accelerated share repurchases – TPX has the option to repurchase nearly 25% of the float over the next eight quarters.

Risks & Mitigants:

- E-commerce "bed-in-a-box" startups and Chinese memory foam mattresses take significant share
  - **Mitigant:** The e-commerce market is growing fast, but "one size fits all" appeals to a limited demographic. TPX's target demographic is older and willing to pay more for a high-quality mattress that they can try before buying. The Chinese threat is mitigated by labor comprising only 5% of COGS - Transportation is a larger component (15%) which makes shipping abroad an unattractive proposition.
- Economic downturn affects TPX disproportionately due to reliance on higher-margin Tempur mattresses
  - **Mitigant:** While this is true, TPX does not have a heavy fixed cost base and can easily flex down their largest expenses. 70% of operating expenses consist of selling/marketing and R&D expense, and the firm can reduce production costs as 85% of COGS are variable. Margins and ROIC held up well in 2008-2009 as a result of this flexibility and TPX still generated substantial free cash flow in the recession. Current demographic and household formation trends are also favorable for TPX as America's largest age group (mid-20's) purchases starter homes.
- Sealy merger synergies will never be fully realized and standalone Sealy & Tempur peak margins may not be achievable again
  - **Mitigant:** Blended Tempur-Sealy margins will never be as high as standalone Tempur was as Sealy is inherently lower margin. As far as synergies, TPX's prior CEO was ousted in May by activist fund H Partners for a multi-year series of operational miscues and missed estimates - TPX's new CEO has a demonstrable track record of margin expansion and synergy realization from his time at Dollar-Thrifty.

Financial Dashboard

TPX

Dashboard Summary

$M, unless otherwise stated

TRADING STATISTICS	
Share price ($) - 3/9/2016	$58.84
Shares outstanding (M)	62.6
Market cap	3,683.4
Net debt	1,300.9
Underfunded pension	25.3
Minority interest	12.4
Enterprise value	5,022.0

FCF VALUATION	Base	Upside	Downside
FCF/share 2017	$5.38	$6.47	$4.16
FCF Yield	7.0%	6.0%	10.0%
Implied price ($)	**76.82**	**107.89**	**41.57**
Premium/(Discount)	30.6%	83.4%	(29.4%)
Probability	50.0%	30.0%	20.0%

Weighted average price ($)	**$79.09**
Premium/(Discount)	**34.4%**

EBITDA VALUATION	Base	Upside	Downside
EBITDA 2017	595.7	658.2	507.2
EV/EBITDA	9.0x	10.0x	7.0x
EV	5,361.4	6,582.1	3,550.1
Net Debt (2017)	928.6	1,073.5	805.1
Market Cap	4,432.8	5,508.6	2,744.9
Shares Outstanding	57.1	54.6	59.7
Implied price ($)	**77.57**	**100.95**	**45.96**
Premium/(Discount)	31.8%	71.6%	(21.9%)
Probability	50.0%	30.0%	20.0%

Weighted average price ($)	**$78.26**
Premium/(Discount)	**33.0%**

						Projected	
BASE CASE FINANCIALS	2011	2012	2013	2014	2015	2016	2017
Revenue	1,417.9	1,402.9	2,464.3	2,989.8	3,151.2	3,324.6	3,495.4
Consensus						*3,305.3*	*3,464.2*
EBITDA	391.0	302.6	411.1	404.6	455.8	524.4	595.7
Consensus						*523.0*	*579.0*
EPS ($)	$3.18	$2.61	$2.38	$2.65	$3.18	$3.92	$5.00
Consensus						*$3.86*	*$4.44*
Free Cash Flow ($)	258.0	114.2	250.1	192.7	185.9	250.6	309.8
FCF/share ($)	$3.73	$1.82	$4.06	$3.10	$2.97	$4.12	$5.38
Revenue growth	28.3%	(1.1%)	75.7%	21.3%	5.4%	5.5%	5.1%
EBITDA growth	34.8%	(22.6%)	35.9%	(1.6%)	12.7%	15.0%	13.6%
EPS growth	47.2%	(17.9%)	(8.8%)	11.3%	20.0%	23.3%	27.6%
FCF/share growth	25.5%	(51.4%)	123.6%	(23.6%)	(4.3%)	38.9%	30.4%
Gross margin %	52.4%	50.9%	41.2%	38.5%	39.6%	41.6%	42.6%
EBITDA margin %	27.6%	21.6%	16.7%	13.5%	14.5%	15.8%	17.0%
FCF / EBITDA %	66.0%	37.7%	60.8%	47.6%	40.8%	47.8%	52.0%
FCF / net income %	117.5%	69.6%	170.7%	117.1%	93.0%	106.6%	108.8%
Capex / sales %	2.1%	3.6%	1.6%	1.6%	2.1%	2.3%	1.9%
EV/EBITDA				12.4x	11.0x	9.6x	8.4x
P/E				22.2x	18.5x	15.0x	11.8x
Levered FCF Yield				5.3%	5.0%	7.0%	9.1%
Net Debt	473.6	845.7	1,755.5	1,539.8	1,300.9	1,144.5	928.6
Net Debt / EBITDA	1.2x	2.8x	4.3x	3.8x	2.9x	2.2x	1.6x
ROIC	47.5%	24.6%	14.3%	13.9%	15.6%	18.7%	23.6%
ROIC (ex-Goodwill)	96.7%	39.0%	34.9%	51.3%	58.0%	80.9%	148.3%

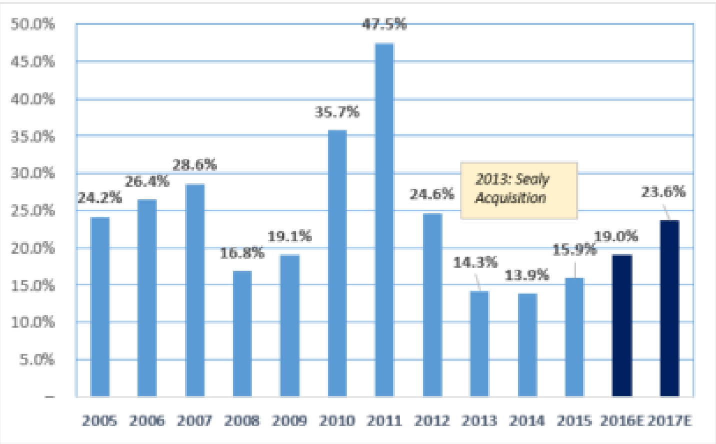
Investment Characteristics: TPX is an attractive, high-quality business with durable margins and stable returns on capital

- **Tempur-Sealy's historical operating performance speaks to the quality of the business model.** Resilient through all parts of the cycle, TPX's low capital intensity and flexible cost structure are evidenced in their 10-year average gross margins and ROIC of 47% and 24%, respectively.

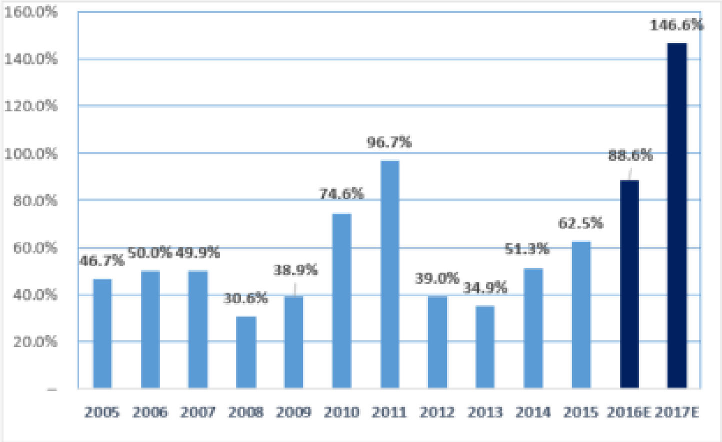
- **TPX's performance in 2008-2009, as extreme a stress test as any, is particularly impressive.** Even in the midst of a housing crash featuring the worst year-over-year decline in mattress sales in 20 years, TPX averaged high-teens returns on capital, 45% gross margins, and ~$100m of free cash flow generation per year.

- **Margins and ROIC are currently inflecting as TPX finishes working through the $1.3B Sealy acquisition in 2013.** While Sealy's gross margins are inherently lower and will bring down the blended average, TPX has outlined a series of sourcing, manufacturing, and distribution synergies that prior management was unable to execute on. These cost-out initiatives will help to expand gross margins by ~300bps through FY17.

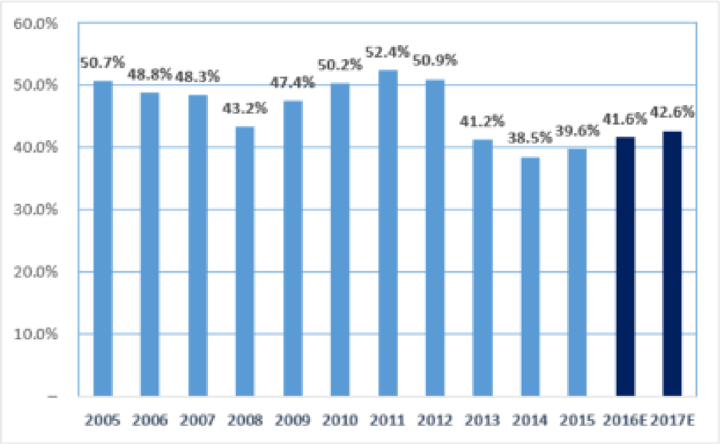
Return on Invested Capital



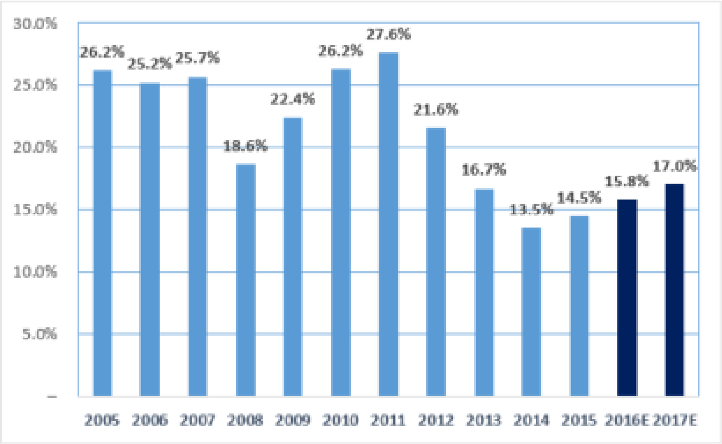
Return on Invested Capital (ex-goodwill & intangibles)



Gross Margin %



Adj. EBITDA Margin %



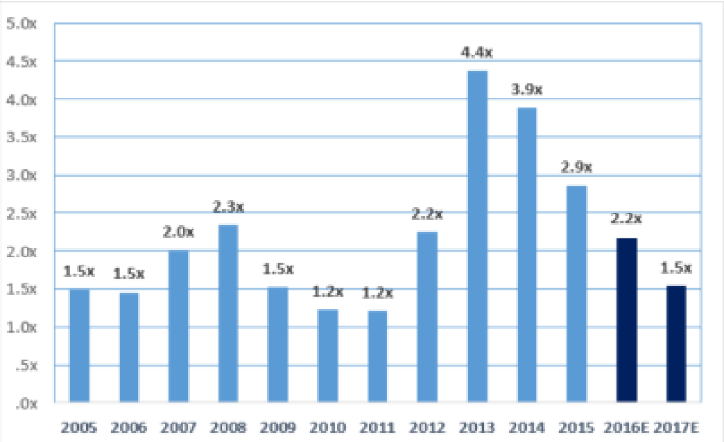
Investment Characteristics: TPX reliably throws off excess capital and is in position to begin capital return to shareholders

- **Due to minimal capex and working capital requirements, TPX throws off substantial free cash even during downturns**.
  - TPX converts ~50% of EBITDA and 100%+ of net income to free cash flow, aided by a $30m capex/D&A mismatch from intangible amortization.
  - The firm will generate roughly $5.50/share in levered FCF in 2017, or a 10% yield on today's price.

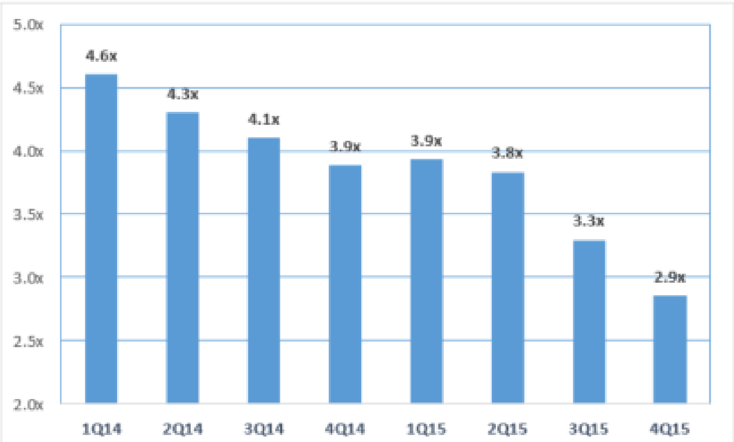
- **The cash-generative nature of the business has allowed TPX to rapidly pay down debt since acquiring Sealy.**
  - Since 2013, the firm has retired over $700m in long-term debt (35% of the outstanding balance) – de-levering from 4.6x EBITDA to 2.9x today.
  - TPX is below their target leverage ratio of 3.5x. A $200m buyback has been announced and Thompson stated more is likely to follow.

- **CEO Thompson has stated that he is willing to return cash to shareholders in the absence of satisfactory reinvestment opportunities.**
  - Tempur-Sealy generates enough free cash internally to repurchase 6 million shares (10% of market cap) over the next two years and still have ample cash leftover for acquisitions, a dividend, or to reinvest back into the business.
  - The firm has a long history of capital return, with a total of 49 million shares ($1.3B) repurchased from 2005 to 2012 (average price of $26.)

Net Debt / EBITDA



Quarterly Net Debt / EBITDA



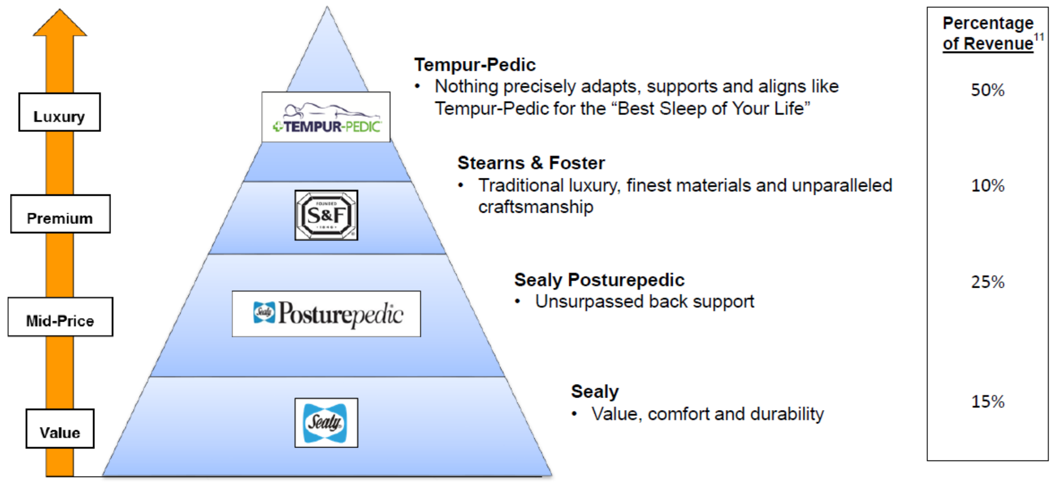
FCF per share + Capex as % of sales

Investment Characteristics: Acquisition of Sealy in 2013 allows TPX to attack all price points

- **One of Tempur's miscues in 2012 was attempting to go down-market and introduce an entry-level Tempur memory foam mattress.** This occurred right as competitors debuted their own copycat memory foam offering. Mark Sarvary, TPX's prior CEO, was overly complacent and assumed entry-level mattress buyers would trade up when the inverse happened – higher-end Tempur buyers purchased the less expensive Tempur product. The combination of negative mix-shift and market share loss led to TPX shedding ~50% of market cap ($1.9B) over the course of 2012.

- **The company learned from their mistakes and acquired Sealy, a lower-priced brand, in order to offer an entry-level mattress without sacrificing the aspirational nature of Tempur's product**. Tempur also lacked an offering for the budget-conscious consumer in 2008-2009 – most of Sealy's mattresses sell in the $500-1,000 price range and some even cheaper, which should provide a buffer during the next downturn.

Well Established Global Brands



Brands are complementary and fully cover the market

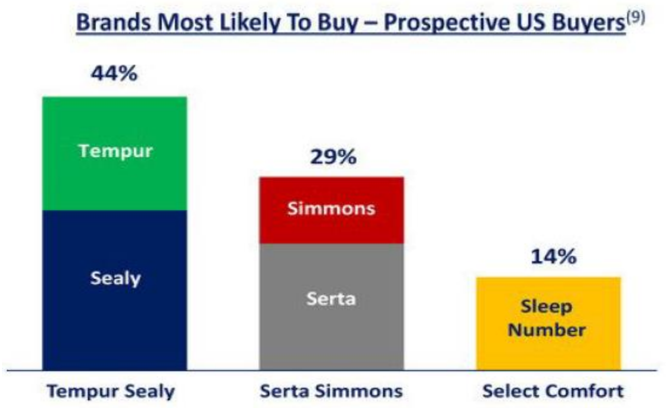
Figure 2 Tempur Brand Architecture

	Firm	Medium	Soft	Cooling	Responsive	Adjustable
Best	Contour Rhapsody Luxe ($3,799)	Grand ($7,999) Contour Allura ($4,599)	Cloud Luxe ($3,999)	Cloud Luxe Breeze ($4,999) Contour Rhapsody Breeze ($3,999)	Flex Elite ($3,499)	Choice Luxe ($3,999)
Better	Contour Elite ($3,199) Contour Supreme ($2,499)		Cloud Elite ($3,399) Cloud Supreme ($2,799)	Cloud Supreme Breeze ($3,499)	Flex Supreme ($2,899)	Choice Supreme ($3,499)
Good		Cloud Prima ($1,999)			Flex Prima ($2,299)	

Competitive Advantages: Unit economics and brand awareness

- **The mattress industry enjoys outsized margins at both the OEM and the retail level.** Sources indicate there is little difference in cost between lower and higher-end mattresses, averaging $300 to $500 per unit. Not only does this leave plenty of room for mark-up at both the OEM and retail level, but TPX's price hikes become a welcome proposition for dealers as they too will capture some of the increase.

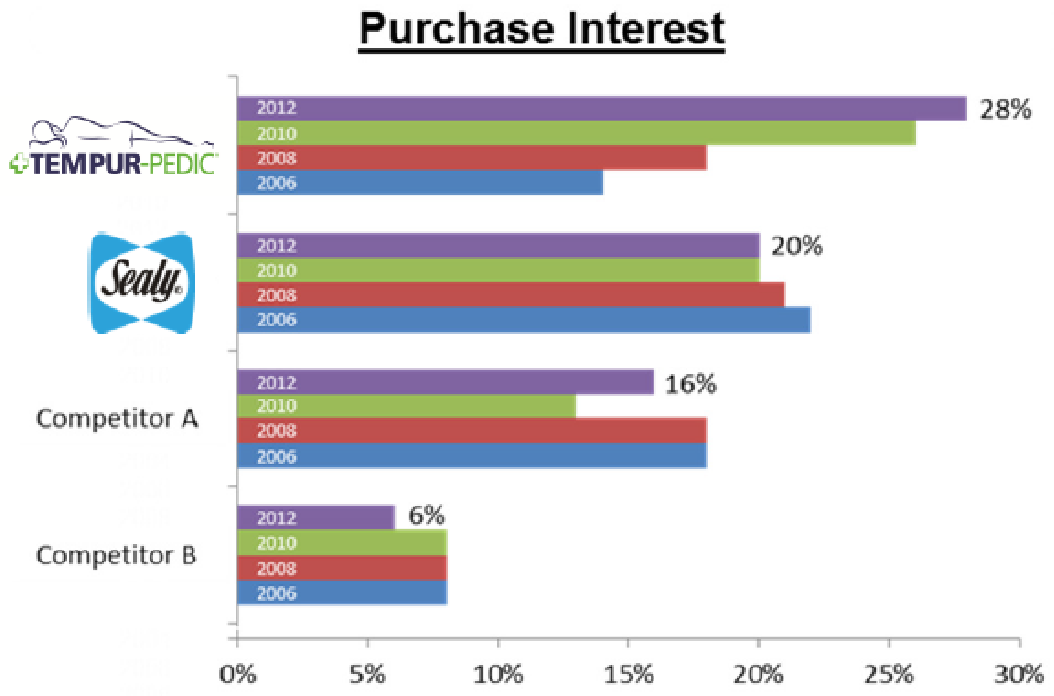
- **Tempur-Sealy is in position to continue gaining disproportionate share of the industry's secular growth.** While TPX is known as the industry's innovator, with double the R&D spend of comps, the product is still largely commoditized and whoever spends the most on sales & marketing typically wins the battle for market share. Tempur-Sealy is a veritable marketing machine, with selling, marketing & advertising running at ~20% of revenue. The firm has spent nearly $2B in advertising since 2005, far outpacing competitors.



(source: 2014 Mattress Industry Consumer Research)

Economics of One Mattress - ~85% variable COGS		
Manufacturing/Overhead	15%	$75
Labor	5%	$25
Transportation	15%	$75
Springs (steel)	15%	$75
Chemicals (oil derivatives)	15%	$75
Other Materials	35%	$175
Total Raw Materials:	65%	$325
Total cost of one mattress:	**100%**	**$500**

Retail Economics:	
Retail Sale Price:	$2,000
Cash to TPX:	$1,000
TPX Wholesale price	$1,000
(-) Cost of Sales	$500
Gross Profit	$500
Gross Margin %:	**50%**



(source: 2012 Mattress Industry Consumer Research)

Competitive Advantages: Tempur's brand and quality are unparalleled

- **Is Tempur's brand a sustainable competitive advantage?** A brand is defined as adding value only if it "increases customer willingness to pay or if it reduces the cost to provide the good or service" (Mauboussin). Tempur benefits from both of these.
  - **A history of price increases in excess of the industry is indicative of higher customer willingness to pay.** Channel checks at Sleepy's show that customers often come in looking for "the wine glass mattress," from the famous Tempur commercial featuring a couple jumping up and down on one side of a bed while a full wine glass remains unperturbed on the other side.
  - **TPX is able to wield power over both suppliers and dealers, reducing costs.** Tempur-Sealy benefits from economies of scale and the sourcing advantages that ensue. The brand also carries cachet as Tempur mattresses are an aspirational good, implying social status and enhanced public perception of the retailer selling TPX product. Parts suppliers regularly trumpet the fact that they are officially a component in new high-end Tempur-Pedic mattresses.

TV

Digital

Joint Marketing

Internet & Mobile

	SLEEP NUMBER	COMFOR-PEDIC	iCOMFORT	OPTIMUM	TEMPUR-PEDIC	SEALY	SERTA	SIMMONS	STEARNS FOSTER
Type	air	foam	foam	foam	foam	spring	spring	spring	spring
Owner satisfaction	B-	C+	C+	B-	B	D+	D	D	D
Price	D+	C	C-	C-	D	C+	C+	C	C-
Lifespan	B+	C-	C-	C-	B	D+	D+	D+	D
Less pain	B+	B-	B-	B-	B	C	C	C	C
Motion isolation	B-	A-	A-	A	A	C+	C+	B	B
No off gas odor	C+	C+	C+	C-	C-	B-	B-	B-	C
No noise	C-	A	A	A	A	C+	C+	B-	B
Not heat trap	C	C-	C	D+	D+	B-	B-	B-	C
Easy to move on	B-	C	C-	C	C-	B-	B-	B-	B-
Sex friendly	C	C	C	C	C	B-	B-	C+	C
Not too heavy	B	D+	D	D+	D	B-	B-	C	D
Low main-tenance	C+	B	B	B	B+	C+	C+	C+	C
Warranty	D+	C	C	C	C	C	C	C	C
Customer service	C+	C	C	C	C+	C	C	C	C
Discloses specs	C+	C	D	C	D	C	C-	B-	B
BBB rating	A+	A+	A+	A	A+	A	A+	A+	A
BBB rating stability*	A	C-	C+	B-	A	B-	C+	C-	B-
SLTD rating**	C	C-	C	C	C	C	C	C-	C

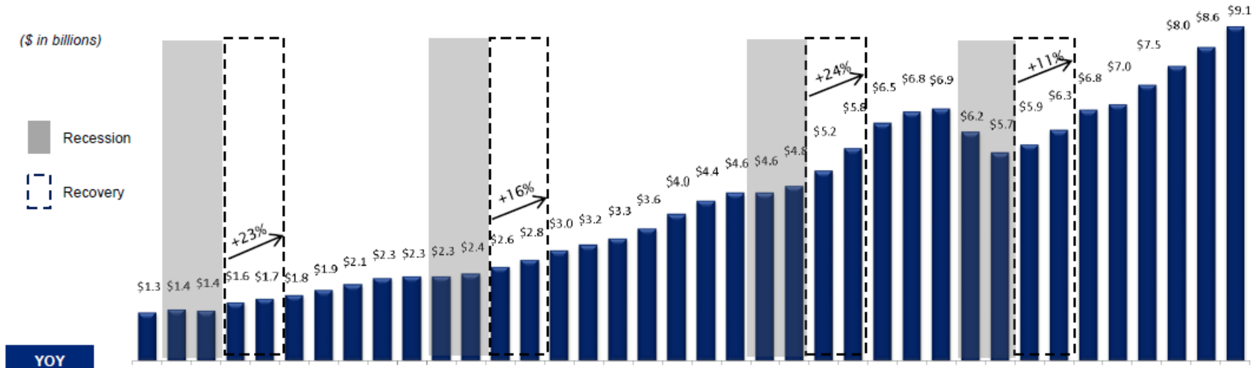
Above: unbiased reviews from *sleeplikethedead.com* – the premier mattress review site – reveal that Tempur-Pedic ranks highest in owner satisfaction

Industry Overview: "Everybody sleeps"

- **The mattress industry is a defensive one and marked by relative stability.** 70% of mattress sales are driven by the replacement cycle, with the average mattress having a useful life of 8-10 years. Sales have grown at a long-term CAGR of 5% driven primarily by price, and Tempur-Sealy over time has displayed one hallmark competitive advantage of a great business: <u>the ability to regularly raise price in excess of cost inflation.</u>

- **Pent-up demand:** In 2008-2009, the industry witnessed the greatest sales decline in 20 years. The increase in units sold has been slower than years following past recessions but has accelerated year-to-date: suggestive of pent-up demand. While unit sales tend to be lumpy and hard to predict, even a 1-2% "catch-up" in units is enough for TPX to hit their stretch EBITDA goal by 2017.

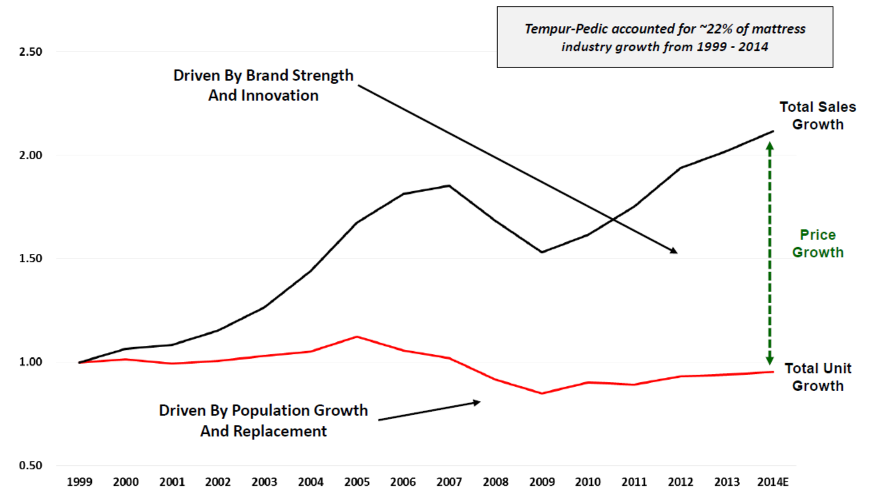
U.S. Wholesale Bedding Sales Significantly Rebound After Prior Recessions(1)



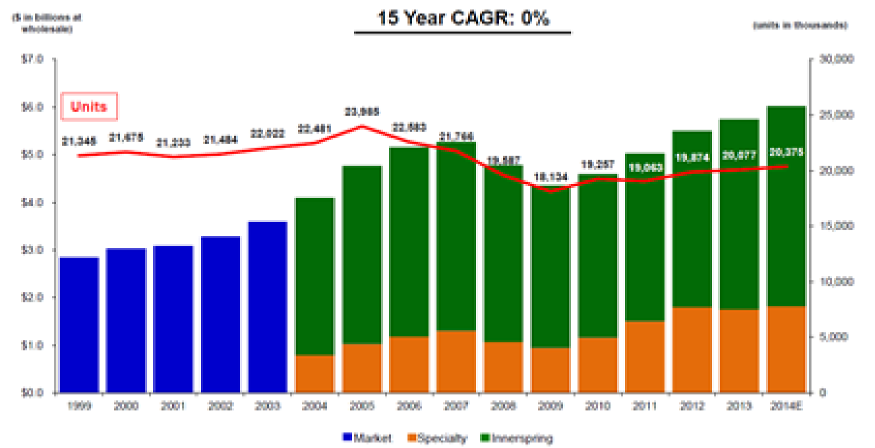
YOY Growth	'80	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98
Dollar Value	9%	5%	-2%	16%	7%	6%	7%	9%	8%	2%	0%	3%	8%	8%	9%	5%	5%	8%	11%
Units												1%	5%	6%	5%	0%	4%	5%	4%
Avg. Unit Price (AUP)												2%	2%	2%	5%	5%	2%	3%	7%

YOY Growth	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15F	'16F	'17F
Dollar Value	9%	5%	0%	4%	8%	12%	12%	5%	1%	-9%	-9%	4%	8%	9%	2%	8%	7%	7%	7%
Units	6%	2%	-2%	1%	2%	3%	6%	-1%	-2%	-11%	-9%	6%	0%	4%	1%	4%	4%	4%	4%
Avg. Unit Price (AUP)	3%	3%	2%	3%	5%	9%	6%	6%	4%	2%	-1%	-2%	8%	5%	1%	4%	3%	3%	3%

Drivers Of Mattress Industry Growth



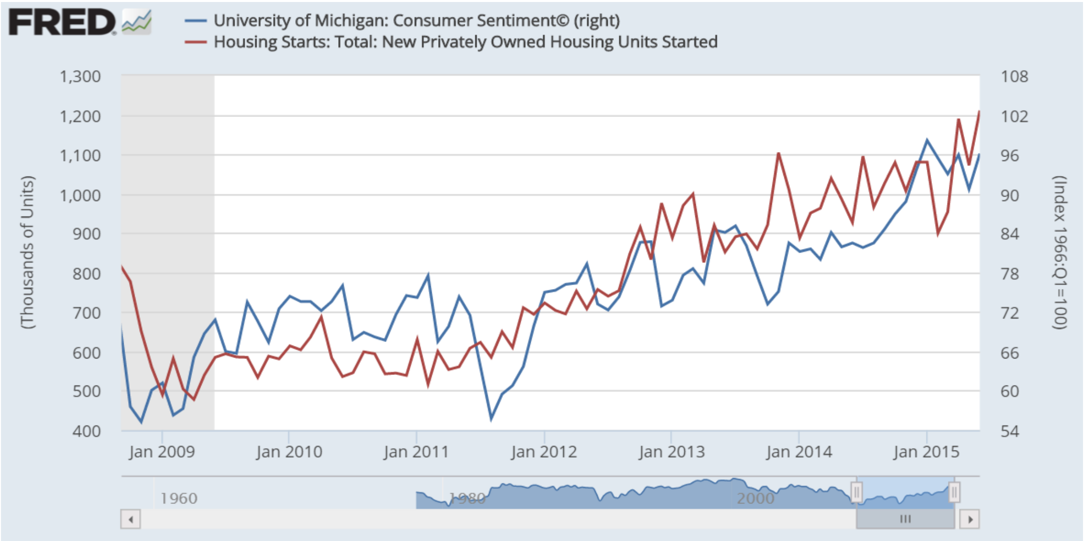
US Mattress Industry Units Well Below Prior Peak

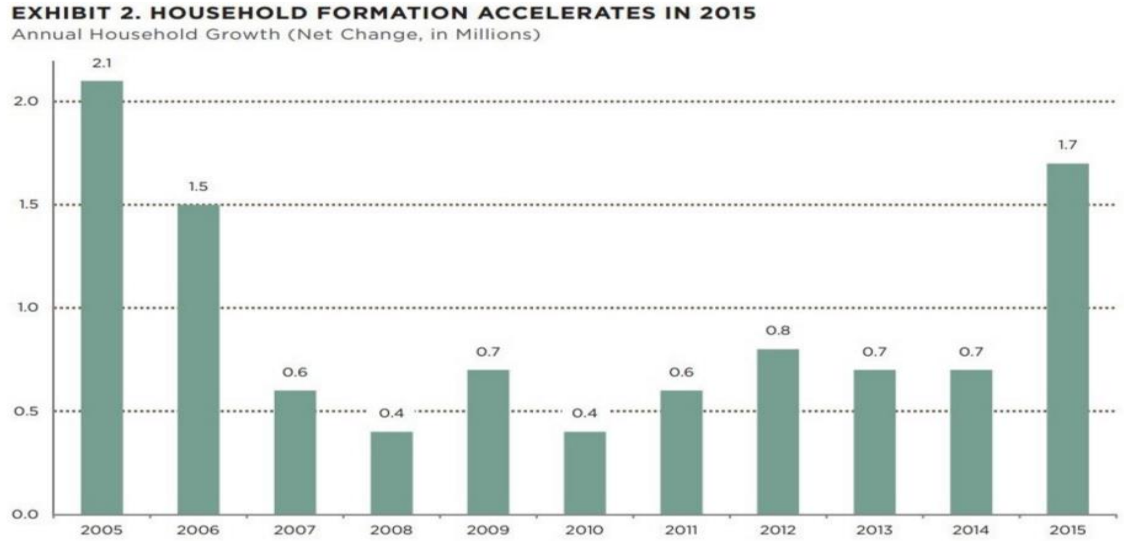


Industry Overview: Favorable macro and demographic tailwinds

- **Attempting to time the business cycle is difficult and not worth the effort, which is part of what makes TPX a great investment: proven durability through all phases of the cycle.** However, it is worth noting that the current macro overlay is favorable for the mattress industry on multiple timeframes and answers the question "why is now the right time to invest in TPX?"

- **Bedding sales are historically correlated to consumer sentiment and housing starts, both of which are five-year highs. Household formation is accelerating and set to continue, driven by increased purchasing power of Americans in their mid-20's – the country's largest age group by segment.**
- Recent retail earnings confirm this data and disproportionately high spending in furniture & home-goods bodes well for TPX.
    - Home Depot and Lowe's both reported stellar quarters and TJX's HomeGoods division reported a +6% comp.
    - Macy's: "…our furniture and mattress business was very strong."
    - La-Z-Boy: "With sales trends accelerating throughout the period, we are pleased to enter the quarter with momentum."
    - Urban Outfitters: "…the home category in Anthropologie has been really off the charts."
- **This spending is especially notable in what many would describe as a lackluster retail environment, full of missed estimates and lowered guidance.**

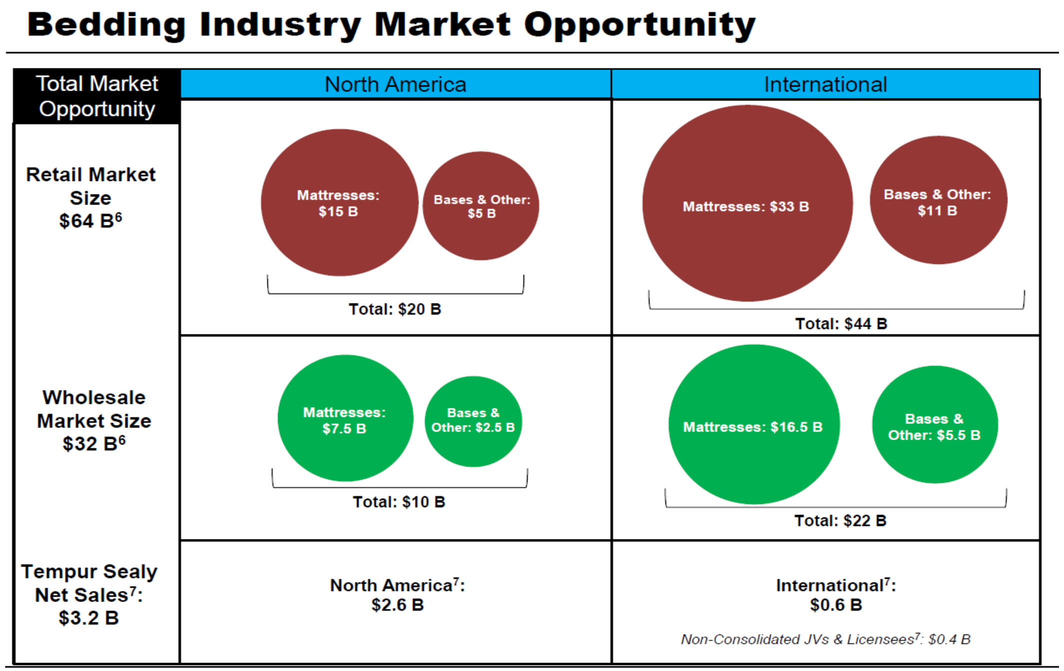


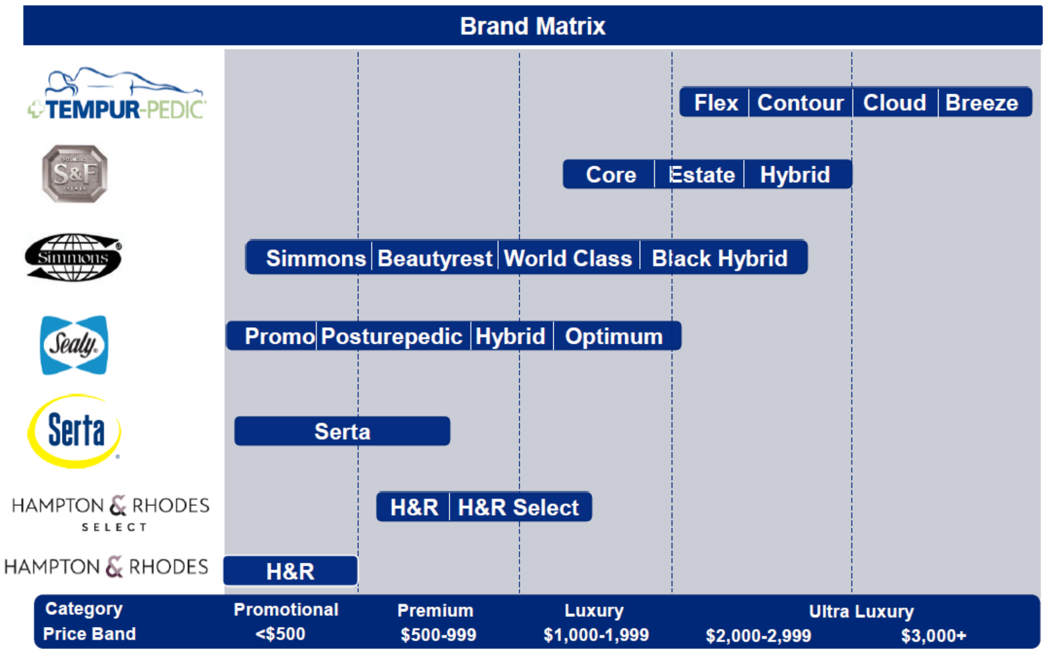


Market Structure: A fragmented and consolidating industry

- **For a long time, the mattress industry was comprised of "the three S's" - Serta, Simmons, and Sealy.** Each held ~15-20% market share with Tempur emerging in the 2000's as a small but growing player, taking share amongst high-end specialty mattresses.
  - Since then, the industry has rapidly consolidated. Serta and Simmons (both private) merged in 2009, followed by Tempur acquiring Sealy in 2013. All four brands had continued to gain individual market share during this five year span.

- **As a result, Tempur-Sealy and Serta-Simmons now control 70% (~$5.2B) of wholesale dollar market share in North America, and well above 70% in the higher-end specialty mattress category where TPX makes the majority of their profits.** This duopoly structure has led to increased pricing power, <u>with Tempur growing average transaction value at a 9% CAGR from 2011-2014 – well in excess of the industry.</u>
  - High-end mattresses have also been taking share from cheaper ones in recent years: the $2000+ category is currently 21% of total sales up from 18% in 2009. This bodes well for Tempur as their "ultra-luxury" offerings face little competition and are TPX's highest-margin product.





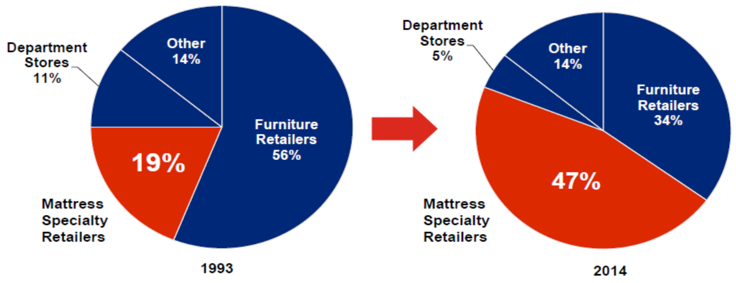
Market Structure: Dealer consolidation and OEM relationships

- **Consolidation has taken place at the dealer level as well.** TPX's largest customer is Mattress Firm (20%+ of sales), a specialty retailer who has been aggressively rolling up the industry. MFRM recently acquired the second-largest player (Sleepy's) and is now nationwide with 3,500 stores vs. 500 five years ago. Scale advantages have accrued and MFRM has actively taken share from traditional furniture retailers and department stores.
- **While it is true that TPX does rely heavily on MFRM's distribution network, this recent consolidation is not a problem for Tempur-Sealy and is in fact a slight positive.** The OEM/specialty retailer relationship is a delicate and symbiotic one where they combine spend on advertising, hold quarterly meetings to discuss strategy, and collaborate rather than squeeze one another for better terms.
  - **How does the OEM/retailer balance work?** TPX cannot lean on MFRM too hard as mattresses are largely a commodity product and competition for "prime" floor space is intense. OEM incentives and volume-based rebates determine which are placed in front and pushed hardest by salesmen; MFRM is very reliant on these rebates to fund their aggressive expansion strategy.
  - Channel checks indicate MFRM staff are paid a cut of gross profit dollars and thus incentivized to sell higher-margin items. Selling one or two high-end Tempur beds can make an entire month. MFRM plans to implement their best practices at Sleepy's, which works to TPX's advantage.
- **Another mitigant is that 77% of MFRM's FY14 mattress product costs came from TPX and Serta-Simmons.** MFRM is now over 6x levered post-Sleepy's acquisition and not currently in a position to "rock the boat." TPX CEO Thompson is also unlikely to concede on price given "stretch" EBITDA targets.
- **In sum, this consolidation at all levels of the supply chain is a powerful dynamic**. Dealers rely on OEM's for rebates and so switching costs are high, and small dealers cannot affordably stock TPX product. MFRM also matches all competitors' prices plus a 10% discount. On the OEM side, smaller players cannot afford incentives and thus prime floor space at MFRM. **These barriers make it increasingly hard for new players to enter the market.**

Top Mattress Specialty Retailers

Rank	Company	2014 Stores	2014 Sales	YoY Growth	Market Share [2]
1	Mattress Firm	3,232	$3,018	26.4%	21.3%
2	Sleep Number	463	1,120	21.4%	7.9%
3	America's Mattress	405	326	3.8%	2.3%
4	Sit 'n Sleep	32	114	14.9%	0.8%
5	Innovative Mattress Solutions	155	102	6.3%	0.7%
6	Mattress Warehouse	179	100	9.9%	0.7%
7	American Mattress	95	68	1.5%	0.5%
Top 7 Mattress Specialty Retailers		**4,561**	**$4,848**	**21.9%**	**34.1%**

Mattress specialty retailers continue to take share from furniture retailers and department stores [1]



Market Structure: Why are margins both high and sustainable?

A large part of the Tempur-Sealy investment thesis rests upon consumer behavior and mattress purchasing habits. Here are six factors explaining why TPX and the industry writ large will continue to enjoy durable margins and sustainable pricing power.

1. **Mattresses last eight to ten years – amortized cost per day of use is very low.** Mattresses are a big-ticket item that consumers will spend 1/3rd of their life on, a product that someone may only buy seven or eight of in their entire lifetime. This leads to price inelasticity of demand, especially at the upper levels ($3,000-$5,000) where a buyer has no qualms with paying a little extra for what they perceive to be the perfect night's sleep. Essentially: the price of a mattress is whatever the market is willing to bear, and so stores continue to charge what consumers are willing to pay.
    - One salesman offered the following quote: *"My Grandma always said there are two things you don't skimp on--mattresses and shoes, because when you aren't in one, you're in the other."*

2. **Consolidation all the way up the supply chain**. Beyond the dealer/OEM dynamics previously mentioned, a company named Leggett and Platt (LEG) has the sole patent on coiled springs and supplies nearly every mattress OEM in the country. Other materials up the value chain are similarly monopolistic or fragmented, with the latex used by all OEM's in their beds made by just two companies.

3. **No comparison shopping** – manufacturers have tens of thousands of SKU's for what is essentially the same bed but with different covers and names. A "Sealy ComforPedic Crown Jewel Ultra Plush" at a Mattress Firm in California will have a different name at the same store in New York despite being nearly identical. Stores enforce minimum pricing ("MMAP" or "Integrity Pricing") to mitigate the threat of showrooming.

4. **No used market** - no one wants to sleep on a used mattress, which stabilizes new unit pricing. MFRM also offers financing options (through Wells Fargo) like 0% APR for 60 months or 90-day payment options with no credit required. This makes "buying new" an affordable proposition.

5. **Very little info on what exactly is inside a mattress.** Consumers don't know what they're sleeping on and so it is easy to advertise and upsell. A good mattress salesman is also able to add value by determining the size, specialty and fit of a mattress for a given customer's sleeping habits.

6. **Last, consumers buy when they need, not when they want.** Mattresses are more of a last minute purchase compared to a car. If a consumer enters Sleepy's, it's safe to assume their goal is to leave with a mattress – and they will likely spend more than anticipated once there.

Competition: The bed-in-a-box / e-commerce "disruptive" threat

- **One key component of the Tempur-Sealy bear case revolves around the white-hot growth of direct to consumer offerings such as Casper.** The business model is simple – by cutting out the middleman (i.e. MFRM), these VC-funded startups can deliver a quality, one-size-fits-all bed to your door in just a couple of days for a low price (~$850 average). The bed arrives in a box and naturally expands when taken out and unwrapped.
- **Unit economics are attractive.** Tuft and Needle, a comp for Casper, discloses their variable costs which are assumed to be the same as Casper's. Casper's EBIT margins today are similar to what Tempur-Pedic's were in 2005, but could scale higher as they leverage fixed costs and reduce ad spend.
- **While the business model is solid, the space has received an outsized amount of media attention** relative to actual market share due to a VC-funded marketing blitz, plenty of celebrity endorsements, and news of Casper's valuation ($550m).
- **The sector's torrid pace of growth will cool** in coming years as the target market (millennials living in urban areas) becomes more and more penetrated.
- **By 2018, bed-in-a-box startups will have taken just over 5% market share in dollars**, and an even smaller percentage of units – with 35 million beds sold per year, 1 million units equates to 3%.

Tuft & Needle (est)	
Core	$150
Cover	$80
Sewing	$40
Cutting	$15
Finishing	$15
Total Cost	$300

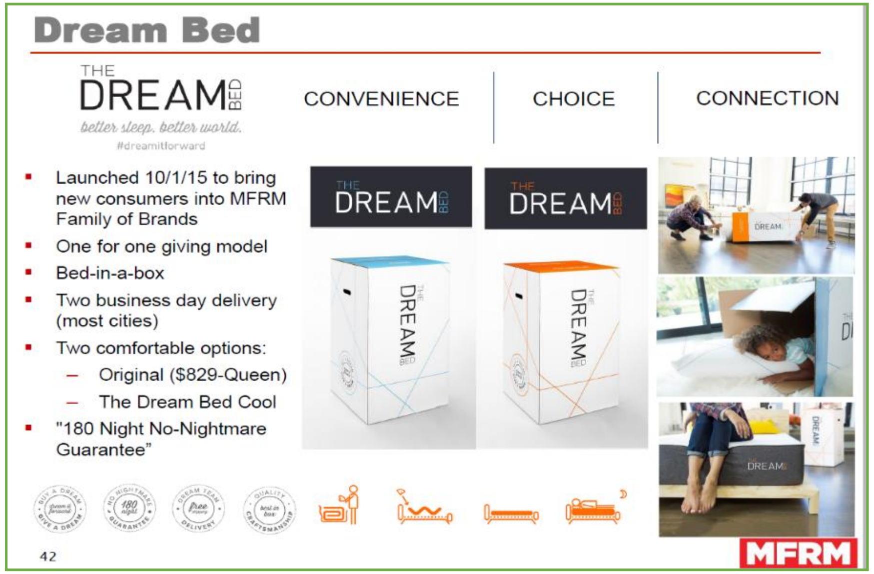
Normalized Casper Unit Economics (est)		Notes
Average Selling Price	$850	Queen size - default option
(-)Variable COGS	$300	Assume same as Tuft & Needle
(-)Overhead/Manufacturing	$40	Less overhead than TPX ($75/unit)
Gross Profit	$510	
Gross Margin %	60%	
(-)Advertising + Marketing	$170	20% of sales - will scale over time
(-)Other G&A	$170	20% of sales - will scale over time
EBIT	$170	
EBIT Margin %	20%	TPX = 15% today - was 20-25% a decade ago

Bed-In-A-Box Estimates	2014	2015E	2016E	2017E	2018E
Casper	30	100	175	250	300
Leesa	8	30	60	80	110
Saatva	28	85	140	175	215
Tuft & Needle	9	40	75	100	125
Others	5	15	50	75	100
Total Revenue	80	270	500	680	850
y/y growth %	*321.2%*	*236.2%*	*85.2%*	*36.0%*	*25.0%*
Units @ $800 AUP	100k	338k	625k	850k	1063k

Retail Mattress Industry Size ($m)	13,750	14,200	14,910	15,656	16,438
Startup Market Share % (in $)	*0.6%*	*1.9%*	*3.4%*	*4.3%*	*5.2%*
Startup Market Share % (in units)	*0.3%*	*1.0%*	*1.8%*	*2.4%*	*3.0%*

Competition: Why the "bed-in-a-box" concept is not a threat

- The mattress industry has enjoyed fat margins and returns on capital for many years and someday these will mean-revert as competition emerges. **However, the "bed-in-a-box" concept will not be the catalyst for change, for seven reasons:**
- **First,** the lack of overlap in target demographics. Tempur-Sealy's high-quality and high-margin products are not aimed at millennials, but for adults (average age 49) and families for whom a mattress is a significant purchase – one they'd prefer to try before buying.
- **Second**, incumbents are not taking this threat sitting down. Mattress Firm has introduced their own "Casper" clone titled the **Dream Bed (right)** which is identical in every single way. TPX and MFRM have also teamed up with sites like Wayfair which are geared towards a younger audience, and offer an option where you can purchase a Tempur-Sealy product on Wayfair and have a Mattress Firm employee come set it up for you, free, in 48 hours.
- **Third,** the truth about mattresses is that they are simply not a one-size-fits-all type of product. Consumers have unique sleeping habits and may prefer a firmer or softer mattress along with potential health issues. In-person expertise is often crucial in selecting the appropriate mattress.



- **Fourth,** the recent influx of attention on mattresses and sleep science is bullish for the industry as a whole. In 2014, the CDC labeled the U.S. sleep deficiency as a public health concern. "Sleep technology" is taking off, with 22% of adults using wearables or biometric apps. Today's Casper owner is likely to trade up to a higher-quality Tempur product in 5-10 years as they marry and settle down, having been educated on the benefits of a good night's sleep.
- **Fifth**, it is important to remember that Tempur is highly cash-generative and acquired Sealy for $1.3B just a few years ago. If management deemed Casper to be a serious threat, acquiring them once TPX de-levers could be a key defensive acquisition and provide a crucial toehold into an unfamiliar market segment.
- **Sixth,** not everyone prefers foam mattresses. These are the only kind currently sold by start-ups as they can be packed into a box. 70% of mattresses sold today are innerspring (i.e. have coiled springs inside) which cannot fit in a box; many consumers prefer the innerspring "feel" and cannot be swayed.
- **Last,** 40%-50% of MFRM's sales are on payment plans financed through Wells Fargo and Progressive. These are aimed at price-conscious and cash-strapped consumers – the same audience bed-in-a-box startups target. Casper and other entrants offer no forms of financing, putting them at a disadvantage.

Management: Tempur-Sealy's new CEO Scott Thompson has a strong track record of shareholder value creation

- **Scott Thompson was named CEO of Tempur-Sealy in September of 2015.** He was the Chairman/CEO of Dollar Thrifty prior to being acquired by HTZ in 2012 and since then has been serving on the boards of Asbury Automotive, Houston Wire & Cable, and Conn's.

- **Thompson's track record at Dollar-Thrifty (from 2008-2012) is nothing short of impressive.**
  - Prior to Dollar-Thrifty, Thompson was the founder & CEO of Group 1 Automotive. He stepped down in 2004, at age 45, to spend time with his ailing father. He didn't return to full-time work until May 2008, when he joined Dollar-Thrifty as CFO.
  - **Five months later, he was named CEO and negotiated an "eat-what-you-kill pay plan."** The stock was trading at 97 cents at the time (October, 2008) and lenders wanted to liquidate the company. Thompson aggressively began slashing costs with a 6% reduction in workforce that targeted the executive suite. He also renegotiated terms with lenders and began buying back cars from Chrysler, a concept known as "risk fleet" that competitors later mimicked.
  - **Within three years, Thompson pioneered a full turnaround of the company. Dollar-Thrifty went from an EBIT loss of $347m to a profit of $339m, even while shrinking revenue $150m.** The turnaround culminated with HTZ acquiring the business for $87.50/share in 2012.
  - **From the 2009 low of 62 cents, shareholders enjoyed a 141-fold gain. No other stock in the S&P 500 or Russell gained more over that time period.** For his work, Thompson was compensated over $60m in stock and options.
  - At the time of acquisition, Dollar-Thrifty had 21.7% EBIT margins compared to Hertz and Avis at 13% and 13.6% respectively.

- **Positive commentary from former co-workers is supportive of his expertise:**
  - "We had to do a lot of very, very painful things…Things the board had pushed previous management to do, like slim down. But this wasn't slash and burn. **He logically built a different company of highly motivated people working together for one purpose -- to become the low-cost competitor in rental cars.** And we did, and it couldn't have happened without him."
  - "When he came through the door, of course, he didn't understand car-rental operations…Who would? That part of the business was tough. **But his background in finance is extensive. Hand him a balance sheet and financials and he's going to crush the business model and figure out its weaknesses."**

Management: Thompson is a perfect fit for Tempur-Sealy and understands both budgeting and capital allocation

- **Thompson has wasted no time cutting costs, announcing a round of job cuts (2% of the workforce) just one month after being hired. His first earnings call as the CEO of Tempur-Sealy (Q3'15) is suggestive of a leader that "gets it" and will drive shareholder value:**
  - **On the process of determining capital structure, reinvestment and shareholder return:** "…a capital structure should pop out, a leverage target should pop out and going forward, then it's just a resource allocation question. Do you want to invest the money in the business to get to that proper capital structure or do you want to give it back to the shareholders? And the way I look at that, that's just a return on invested capital kind of analysis and how can the business deploy the capital and can it deploy it in a reasonable return. And if you can't deploy it in a reasonable return with the risk associated, then we really need to give it back to the shareholders."
  - **On cutting costs: "**I've asked everybody to start with a clean sheet of paper and do zero budget going forward."
  - **On culture:** "First of all, you asked about the cultural – kind of a cultural question about Tempur and Sealy. From my perspective, there is only Tempur Sealy. And I don't feel any cultural issues related to what I'll call a Sealy people or a Tempur people. This is not dissimilar from when I joined Dollar Thrifty."
  - **On target leverage ratio:** "…I suspect that I will be comfortable with leverage greater than three terms is my expectation, but I've not done the work and I've got to talk to my fellow board members who are all financially astute and having a strong opinion. But I think we owe the market a further discussion of that by the next earnings conference call, because you guys are smart, and if you run your pro formas, you're going to figure out real fast we're going to deleverage pretty quickly.

- **On the most recent call (Q4'15), Scott Thompson announced they had hit their target of 3.5x and introduced a $200m buyback.** TPX is renegotiating their credit facility so that they can authorize repurchases in excess of $200m. The firm is currently 2.9x levered and can repurchase 5-10% of the float through FY17 should they decide to incur additional debt to be used for buybacks.
- **Fun with numbers:** Assuming TPX chooses to lever up and maintain their 3.5x target, the firm could take on an incremental ~$600m in debt through FY17. TPX will generate $500m in FCF as well over that period. **If 80% is used for buybacks, all-in the firm could repurchase $1B worth of stock –or nearly 1/3rd of current market cap.**

Management: CEO transition and "aspirational" comp structure

- **The prior CEO Mark Sarvary was ousted in May 2015 along with two board members, followed by the former CFO Dale Williams two months later.** After a multi-year series of missed estimates, margin degradation and stock underperformance, an activist hedge fund (H Partners) led a campaign for their removal and created a website (www.fixtempursealy.com) to drum up support from shareholders.
  - *"Tempur Sealy's 140% stock underperformance over the last three years under CEO Mark Sarvary and the current Board is unacceptable. This campaign will serve as a referendum on the Board's many failures as fiduciaries and as a platform for shareholders to send a clear message that meaningful change is needed urgently."* Chieftain Capital also filed in February, stating: *"management missteps…have led to TPX consistently missing goals."*

- **H Partners became a TPX investor via the Sealy acquisition,** a stock they had owned since 2011. The fund has grown from $15m to $1.6B in AUM over the past decade and boasts strong returns (~30% annualized) over that period. They own 11% of TPX shares outstanding and have nearly 40% of their AUM invested in the stock. The firm appears to have a stellar reputation, with one Harvard Business School professor stating, "I don't know of any hedge fund that is as concentrated and long term as they are." Chieftain Capital is another long-term oriented investor and owns 4% of the shares outstanding (11% of their AUM invested in TPX).

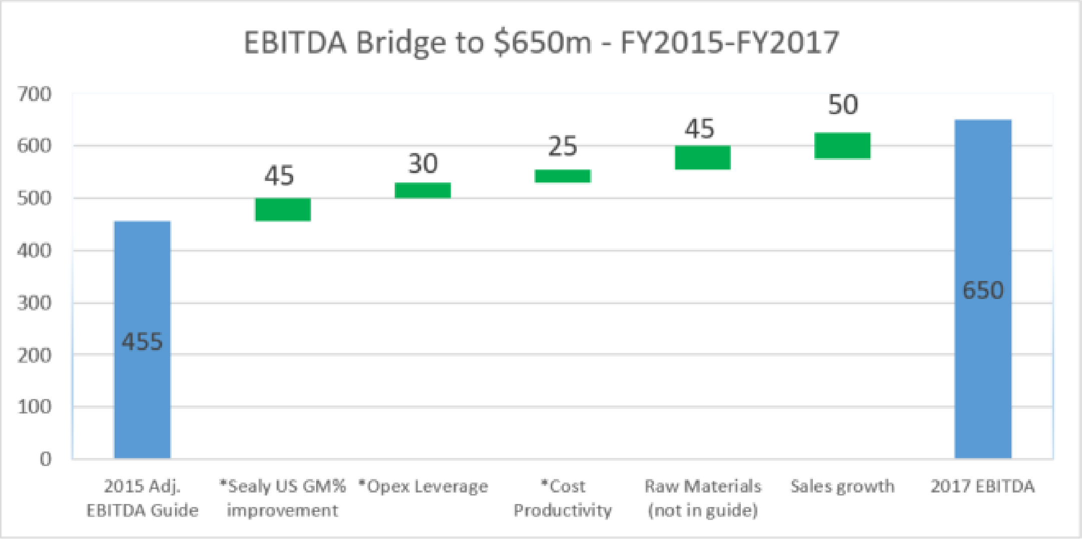
- **H Partners has been through a similar situation before with their investment in Six Flags (SIX).**
  - H Partners implemented a large stock award if the company could boost its annual EBITDA from $197 million to $350 million within a period after its emergence from bankruptcy. CEO James Reid-Anderson hit that target well ahead of schedule, then hit a $500 million EBITDA target, and most recently it plotted out a new $600 million EBITDA target.
  - Management now owns 15% of Six Flags and the stock is up 278% on a five-year basis.

- **Scott Thompson's compensation is structured similarly.** 12 key execs received 1.3 million performance-restricted RSU's (worth ~$50m at current share price), with half awarded directly to Thompson. If the "stretch" EBITDA goal of $650m is hit in 2017, all RSU's vest. If the goal is not hit until 2018, 67% will be forfeited but the CEO keeps the remaining 33%. All are forfeited if the goal is not hit by 2018. Thompson will personally make $50-60m if the target is hit in 2017 and roughly $20m if it is hit in 2018.

Valuation: Thompson's "stretch" EBITDA target is lofty but achievable

- **Tempur-Sealy generating $650m in EBITDA implies 40% growth from FY15 guidance of ~$455m.** TPX's prior CEO last gave color in 2Q'15 with guidance on how this will be achieved: Sealy gross margin expansion, operating leverage, pricing, and other cost-out efforts.
- It is worth noting that combining the respective peak EBITDA totals of Sealy (2006) and Tempur (2012) leads to $636m – just shy of TPX's $650m target and on a much lower revenue base:

Pro Forma: Tempur-Sealy	EBITDA	Sales	Margin %
Peak (TTM2Q12) Standalone Tempur	386.0	1,477.0	26.1%
Peak (TTM4Q06) Sealy	250.0	1,583.0	15.8%
Net pro forma	**636.0**	**3,060.0**	**20.8%**
2015 Guidance	455.0	3,200.0	14.2%
Target 2017 EBITDA	650.0	3,663.7	17.7%
Target 2018 EBITDA	650.0	3,920.1	16.6%



- **Tempur-Sealy is also set to benefit from raw material tailwinds, an area that management has not spent much time discussing and will boost FY16 + FY17 gross margins.**
- Steel is 15% of unit COGS and pricing is down 38%+ y/y. Another 15% of COGS is comprised of chemicals in foam production: TDI, MDI, and polyol. These derivatives of crude are down ~25% y/y.
- Management expects $20m of benefits in 2016, but these figures are likely conservative. There is a lag of several months for these derivatives to follow crude price lower and another lag for them to show up in TPX's quarterly financials. Each 5% delta in the chemicals/springs component of COGS contributes meaningfully to EPS accretion.

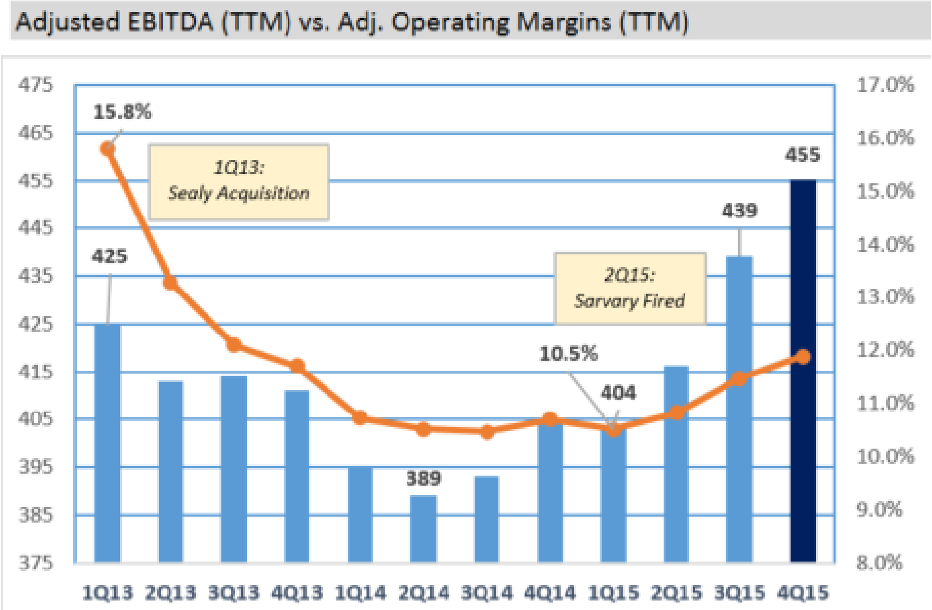
COGS Breakdown						
Raw Materials	65%	$1,262	------>	Chemicals	22.5%	$284
Transportation	15%	$291		Springs	22.5%	$284
Manufacturing/Overhead	15%	$291		**Total: Chemicals/Springs**	**45.0%**	**$568**
Labor	5%	$97		Other	55.0%	$694
2016E COGS	100%	$1,941		Total Raw Materials	100.0%	$1,262

Chemicals+Springs COGS Delta =	EBIT	* Taxed @ 30%	Incremental EPS	2016E EPS Accretion	
2.5%	$14.20	$9.94	**$0.16**	$3.94	*4.1%*
5.0%	$28.39	$19.88	**$0.32**	$3.94	*8.1%*
7.5%	$42.59	$29.81	**$0.48**	$3.94	*12.2%*
10.0%	$56.79	$39.75	**$0.64**	$3.94	*16.3%*

Valuation: Why haven't the Sealy synergies materialized?

- In order to believe that there is still "wood to chop" for Thompson, it is key to determine whether former CEO Mark Sarvary was used as a scapegoat or if he simply was too unskilled to capture promised synergies. **There is sufficient evidence pointing to the latter.**
- **First, Sarvary's track record is poor.** He was fired in 2002 from J. Crew after three years as CEO, a span in which EBIT dropped 48% while Abercrombie and American Eagle saw 54% and 67% increases. He was fired again in 2007 from his role as the president of Campbell Soup's North America division after the group trailed peers in sales and EBIT growth. His final years at TPX were littered with execution mistakes (bottom table).
- **Second, Sarvary underestimated the complexity of integrating Sealy.** Overnight, TPX went from three manufacturing facilities to 28, 1,200 employees to 7,100, and one brand to five. Since the acquisition in 1Q13, Sealy gross margins have compressed from 34.3% to roughly 30%.
- **Third, Sarvary made plenty of other "unforced errors" aside from Sealy.** Management strayed from their core competency with tangential projects such as Tempur dog beds, slippers, candles, and a joint venture with IMAX where theater seats would be filled with Tempur material.
- **Overall, the numbers are too much to ignore: from 1Q13 up until Sarvary's final full quarter as CEO (1Q15), TPX lost $21m in EBITDA and suffered 530 bps of EBIT margin compression.** The firm lacked a CEO with experience in large-scale M&A integration - a skill Thompson possesses.

Quarter	Category	Execution Mistakes
Q1 2012	Strategy / Competition	• Failure to anticipate competition pressures margin outlook
Q2 2012	Strategy / Competition Product Development	• Significant market share loss • Tempur *Simplicity* product launch was received poorly by customers
Q3 2012	Operations Cost Control	• Supply constraints on new products • Cost of producing new products higher than expected
Q4 2012	Financial Management	• $375 million in bonds are mispriced, trading up from par to 105 on the date of issuance
Q1 2013	Cost Control Product Development	• Reliance on increased promotions and discounts pressured gross margins • Tempur *Choice* product launch was received poorly by customers
	ACQUISITION OF SEALY	
Q2 2013	Operations Advertising	• Roll-outs were slower than planned on both Tempur *Choice* and Tempur *Ergo Premier* • 'You Are How You Sleep' advertising campaign was ineffective and quickly discontinued
Q3 2013	Product Promotion Manufacturing	• Sales weakness during July 4th weekend due to ineffective Independence Day promotional strategy • Cost overruns due to *Tempur-UP* adjustable base manufacturing error
Q4 2013	Cost Control Product Promotion	• Fixed costs in Sealy segment pressured gross margins • Significant decline in highly profitable Tempur Direct business
Q1 2014	Cost Control Product Promotion	• Discounted floor model shipments higher than expected, resulting in cost overruns • Softness in the Direct business and Pillows business
Q2 2014	Operations Cost Control	• Tempur North America product roll-out took longer than expected • Cost overruns pressured margins
Q3 2014	Manufacturing Product Distribution Financial Management Manufacturing	• Manufacturing inefficiencies and cost overruns at Sealy due to "near-record demand" • "Product availability challenges" on adjustable bases and increased logistics costs • Additional cash costs incurred to expedite term loan amendment, due to covenant oversight • Sealy Europe launch delayed due to manufacturing issues
Q4 2014	Operations Manufacturing	• Sealy Europe roll-out delayed three months due to "hiccup" from liquidation of sole third-party supplier • Continued "innerspring manufacturing inefficiencies"



Source: fixtempursealy.com

Valuation: Scenario Analysis

- **For TPX to hit Scott Thompson's "stretch" EBITDA goal by FY17,** the firm needs to grow sales at mid-to-high single digits, expand gross margins by ~340 bps, and achieve ~310 bps of operating expense leverage.
- **On these bull case estimates, which assume cash builds on the balance sheet and no share shrink,** investors are paying bargain prices for a business of this quality: 7.0x EBITDA and 8.5x EPS.
- Base case estimates of TPX hitting $650m in FY18 are more likely, with the stock still not demanding valuation-wise on FY17 numbers – offering a 10.6% levered free cash flow yield and still trading under 8x FY17 EBITDA.

	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2015	12/31/2016	12/31/2017	12/31/2018
	FY15	FY16	FY17	FY18	FY15	FY16	FY17	FY18	FY15	FY16	FY17	FY18
	Bear Case				Base Case				Bull Case			
Income Statement												
Revenue	3,151	3,229	3,245	3,228	3,151	3,325	3,507	3,700	3,151	3,381	3,604	3,810
% YoY	5.4%	2.5%	0.5%	(0.5%)	5.4%	5.5%	5.5%	5.5%	5.4%	7.3%	6.6%	5.7%
Gross Profit	1,249	1,327	1,350	1,338	1,249	1,383	1,494	1,591	1,249	1,415	1,553	1,666
% Margin	39.6%	41.1%	41.6%	41.5%	39.6%	41.6%	42.6%	43.0%	39.6%	41.8%	43.1%	43.7%
% YoY		145 bps	50 bps	-13 bps		195 bps	101 bps	38 bps		220 bps	126 bps	63 bps
(-) Operating Expenses	(970.0)	(939)	(943)	(939)	(970.0)	(953)	(991)	(1,031)	(970.0)	(956)	(990)	(1,016)
% of Sales	30.8%	29.1%	29.1%	29.1%	30.8%	28.7%	28.3%	27.9%	30.8%	28.3%	27.5%	26.7%
% YoY		171 bps	-1 bps	-1 bps		212 bps	40 bps	40 bps		252 bps	80 bps	80 bps
Operating Income	309.1	388.3	406.1	399.6	309.1	430.2	503.2	559.9	374.4	459.2	563.7	650.3
Adjusted EBITDA	**455.8**	**483.0**	**500.8**	**494.3**	**455.8**	**524.9**	**597.9**	**654.6**	**455.8**	**553.9**	**658.4**	**745.0**
% YoY	12.7%	6.0%	3.7%	(1.3%)	12.7%	15.2%	13.9%	9.5%	12.7%	21.5%	18.9%	13.2%
% Margin	14.5%	15.0%	15.4%	15.3%	14.5%	15.8%	17.0%	17.7%	14.5%	16.4%	18.3%	19.6%
Net Income	200.0	206.1	218.5	214.0	200.0	235.2	286.0	325.4	200.0	255.4	328.0	388.2
EPS	**$ 3.18**	**$ 3.38**	**$ 3.69**	**$ 3.71**	**$ 3.18**	**$ 3.94**	**$ 5.09**	**$ 6.13**	**$ 3.18**	**$ 4.38**	**$ 6.17**	**$ 8.02**
Shares O/S	62.6	61.1	59.4	57.8	62.6	60.0	56.5	53.4	62.6	58.8	53.5	48.8
% YoY	20.0%	6.4%	9.1%	0.6%	20.0%	24.0%	29.0%	20.4%	20.0%	37.8%	40.9%	29.8%
Cash Flow Profile & Balance Sheet												
Adjusted EBITDA	455.8	483.0	500.8	494.3	455.8	524.9	597.9	654.6	455.8	553.9	658.4	745.0
(-) Capex	65.9	75.2	62.4	62.4	65.9	75.2	62.4	62.4	65.9	75.2	62.4	62.4
(-) Interest	96.1	88.0	88.0	88.0	96.1	88.0	88.0	88.0	96.1	88.0	88.0	88.0
(-) Taxes	85.5	91.3	96.8	94.8	85.5	104.1	126.4	143.7	85.5	113.0	144.8	171.3
Free Cash Flow	**208.3**	**221.4**	**246.5**	**238.5**	**208.3**	**250.5**	**314.0**	**350.0**	**208.3**	**270.7**	**356.0**	**412.8**
FCF / Share	**$ 3.33**	**$ 3.62**	**$ 4.15**	**$ 4.13**	**$ 3.33**	**$ 4.18**	**$ 5.56**	**$ 6.56**	**$ 3.33**	**$ 4.61**	**$ 6.65**	**$ 8.46**
% YoY	7.2%	8.8%	14.6%	(0.6%)	7.2%	25.5%	33.0%	18.0%	7.2%	38.4%	44.4%	27.3%
Return Metrics												
P/E	16.5x	15.5x	14.2x	14.1x	16.5x	13.3x	10.3x	8.5x	16.5x	11.9x	8.5x	6.5x
Levered Free Cash Flow Yield	6.4%	6.9%	7.9%	7.9%	6.4%	8.0%	10.6%	12.5%	6.4%	8.8%	12.7%	16.2%
EV/EBITDA	10.0x	9.5x	9.1x	9.3x	10.0x	8.7x	7.7x	7.0x	10.0x	8.3x	7.0x	6.1x
ROIC	*15.9%*	*17.4%*	*19.6%*	*21.7%*	*15.9%*	*19.0%*	*23.6%*	*28.8%*	*15.9%*	*20.1%*	*26.0%*	*32.8%*
ROIC ex. Goodwill/intangibles	*62.5%*	*81.7%*	*126.1%*	*255.0%*	*62.5%*	*88.6%*	*146.6%*	*298.9%*	*62.5%*	*93.4%*	*158.9%*	*321.2%*

Model Output: Summary Income Statement

Tempur Sealy (TPX) Model	Annual Financials										
Line Items ($ in mm)	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Income Statement											
Net Sales	**927.8**	**831.2**	**1,105.4**	**1,417.9**	**1,402.9**	**2,464.3**	**2,989.8**	**3,151.2**	**3,324.5**	**3,507.4**	**3,700.3**
Growth y/y %	***(16.2%)***	***(10.4%)***	***33.0%***	***28.3%***	***(1.1%)***	***75.7%***	***21.3%***	***5.4%***	***5.5%***	***5.5%***	***5.5%***
(-) Cost of Sales	526.8	437.5	550.0	674.8	688.3	1,449.4	1,839.4	1,902.3	1,941.9	2,013.4	2,110.1
Gross Profit	401.0	393.7	555.4	743.1	714.6	1,014.9	1,150.4	1,248.9	1,382.6	1,493.9	1,590.2
Margin %	*43.2%*	*47.4%*	*50.2%*	*52.4%*	*50.9%*	*41.2%*	*38.5%*	*39.6%*	*41.6%*	*42.6%*	*43.0%*
(-) Advertising expenses	85.3	69.3	96.6	148.8	164.5	274.2	326.7	360.5	339.5	344.1	348.3
% of Sales	*9.2%*	*8.3%*	*8.7%*	*10.5%*	*11.7%*	*11.1%*	*10.9%*	*11.4%*	*10.2%*	*9.8%*	*9.4%*
(-) Other selling & marketing expenses	87.0	84.1	103.1	128.1	154.6	248.7	293.2	287.5	297.8	307.1	316.6
% of Sales	*9.4%*	*10.1%*	*9.3%*	*9.0%*	*11.0%*	*10.1%*	*9.8%*	*9.1%*	*9.0%*	*8.8%*	*8.6%*
Total: Selling & Marketing Expense	**172.4**	**153.4**	**199.7**	**276.9**	**319.1**	**522.9**	**619.9**	**648.0**	**637.3**	**651.3**	**664.9**
% of Sales	*18.6%*	*18.5%*	*18.1%*	*19.5%*	*22.7%*	*21.2%*	*20.7%*	*20.6%*	*19.2%*	*18.6%*	*18.0%*
(-) G&A Expense	94.7	95.4	109.8	125.7	147.2	266.3	280.6	322.0	339.8	351.5	363.4
% of Sales	*10.2%*	*11.5%*	*9.9%*	*8.9%*	*10.5%*	*10.8%*	*9.4%*	*10.2%*	*10.2%*	*10.0%*	*9.8%*
Total: Operating Expenses	267.1	248.8	309.5	402.6	466.3	789.2	900.5	970.0	952.9	991.2	1,030.8
% of Sales	*28.8%*	*29.9%*	*28.0%*	*28.4%*	*33.2%*	*32.0%*	*30.1%*	*30.8%*	*28.7%*	*28.3%*	*27.9%*
Adjusted EBITDA	**173.0**	**186.0**	**290.0**	**391.0**	**302.6**	**411.1**	**404.6**	**455.8**	**524.4**	**597.5**	**654.1**
Growth y/y %	*(39.1%)*	*7.5%*	*55.9%*	*34.8%*	*(22.6%)*	*35.9%*	*(1.6%)*	*12.7%*	*15.0%*	*13.9%*	*9.5%*
Margin %	*18.6%*	*22.4%*	*26.2%*	*27.6%*	*21.6%*	*16.7%*	*13.5%*	*14.5%*	*15.8%*	*17.0%*	*17.7%*
(-) Interest expense, net	25.0	17.0	15.0	11.9	18.8	110.8	91.9	96.1	87.9	87.6	87.4
(+/-) Other expense, net	0.6	0.1	-	0.2	0.3	5.0	9.5	12.9	0.8	0.8	0.8
Pre-Tax Income	**107.5**	**128.0**	**230.9**	**328.4**	**229.2**	**128.0**	**174.9**	**200.1**	**341.0**	**414.3**	**471.2**
(-) Income Taxes	49.0	43.0	74.0	108.8	122.4	49.1	64.9	125.4	104.0	126.4	143.7
Effective Tax Rate %	*45.6%*	*33.6%*	*32.0%*	*33.1%*	*53.4%*	*38.4%*	*37.1%*	*62.7%*	*30.5%*	*30.5%*	*30.5%*
(-) Minority Interest	-	-	-	-	-	0.3	1.1	1.2	2.0	2.0	2.0
Adjusted Net Income	**70.5**	**85.0**	**157.1**	**219.6**	**164.1**	**146.5**	**164.6**	**200.0**	**235.0**	**286.0**	**325.5**
Adjusted EPS	**$0.94**	**$1.12**	**$2.16**	**$3.18**	**$2.61**	**$2.38**	**$2.65**	**$3.18**	**$3.93**	**$5.07**	**$6.09**
Growth y/y %	*(46.0%)*	*19.1%*	*92.9%*	*47.2%*	*(17.9%)*	*(8.8%)*	*11.3%*	*20.0%*	*23.7%*	*28.8%*	*20.2%*
Diluted Shares Outstanding	74.9	76.0	72.8	69.1	62.9	61.6	62.1	62.6	60.0	56.7	53.7

Model Output: Summary Balance Sheet

Tempur Sealy (TPX) Model	Annual Financials										
Line Items ($ in mm)	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Balance Sheet											
Cash and Equivalents	15.4	14.0	53.6	111.4	179.3	81.0	62.5	153.9	310.3	529.7	790.3
Accounts Receivable	99.8	105.6	115.6	142.4	136.3	349.2	385.8	379.4	395.6	412.5	430.1
Inventories	60.5	57.7	69.9	91.2	93.0	199.2	217.2	199.2	205.5	212.0	218.5
Prepaid expenses	9.2	11.3	14.4	20.1	416.4	53.7	56.5	76.6	80.8	85.3	89.9
Deferred income taxes	11.9	20.4	18.0	14.7	2.6	44.4	44.4	–	–	–	–
Current Assets	**196.8**	**208.9**	**271.4**	**379.8**	**827.6**	**727.5**	**766.4**	**809.1**	**992.3**	**1,239.5**	**1,528.8**
PP&E	185.8	172.5	159.8	160.5	186.0	411.6	355.6	361.7	339.2	304.1	269.0
Goodwill	192.6	193.4	212.5	213.3	216.1	759.6	736.5	709.4	709.4	709.4	709.4
Other intangibles	66.8	64.7	68.7	66.5	63.1	750.1	727.1	695.4	677.5	660.3	644.9
Deferred income taxes	–	–	–	9.1	10.4	10.9	8.6	12.2	12.2	12.2	12.2
Other non-current assets	4.5	3.8	3.5	9.0	16.3	70.2	68.4	67.7	67.7	67.7	67.7
Total Assets	**646.5**	**643.3**	**716.0**	**838.2**	**1,319.5**	**2,729.9**	**2,662.6**	**2,655.5**	**2,798.3**	**2,993.2**	**3,232.0**
Accounts payable	41.4	47.8	48.3	69.9	85.8	191.2	226.4	266.3	272.4	286.9	304.3
Accrued expenses	65.3	81.5	85.5	76.6	87.9	208.4	233.3	254.0	260.0	274.0	290.8
Deferred income taxes		–	–	0.6	26.5	0.8	0.2	–	–	–	–
Income taxes payable	7.8	7.3	12.5	20.5	15.5	1.5	12.0	11.2	32.9	39.3	44.4
Current portion of long-term debt	–	–	–	–	–	39.6	66.4	181.5	181.5	181.5	181.5
Current Liabilities	**114.5**	**136.5**	**146.2**	**167.6**	**215.7**	**441.5**	**538.3**	**713.0**	**746.8**	**781.7**	**821.0**
Long-term debt	419.3	297.5	407.0	585.0	1,025.0	1,796.9	1,535.9	1,273.3	1,273.3	1,273.3	1,273.3
Deferred income taxes	28.4	29.9	32.3	33.3	31.4	286.1	258.8	195.4	175.4	155.4	135.4
Other non-current liabilities	11.9	7.2	4.4	21.5	25.1	75.3	114.3	171.2	243.2	315.2	387.2
Total Liabilities	**574.0**	**471.1**	**590.0**	**807.4**	**1,297.2**	**2,599.8**	**2,447.3**	**2,352.9**	**2,438.7**	**2,525.6**	**2,616.9**
Redeemable non-controlling interest		–	–	–	–	11.5	12.6	12.4	12.4	12.4	12.4
Total Equity	72.4	172.3	126.0	30.8	22.3	118.6	202.7	290.2	347.2	455.2	602.7
Total Liabilities and Equity	646.4	643.4	716.0	838.2	1,319.5	2,729.9	2,662.6	2,655.5	2,798.3	2,993.2	3,232.0
Leverage Metrics											
TTM Adjusted EBITDA	173.0	186.0	290.0	391.0	302.6	411.1	404.6	455.8	524.4	597.5	654.1
Net Debt / EBITDA	2.3x	1.5x	1.2x	1.2x	2.2x	4.4x	3.9x	2.9x	2.2x	1.5x	1.0x
Total Debt / EBITDA	2.4x	1.6x	1.4x	1.5x	3.4x	4.5x	4.0x	3.2x	2.8x	2.4x	2.2x

Model Output: Summary Cash Flow Statement

Tempur Sealy (TPX) Model	Annual Financials								
Line Items ($ in mm)	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Cash Flow Statement									
Net Income	157.1	219.6	106.8	78.9	110.0	74.7	237.0	288.0	327.5
D&A	32.4	34.3	36.3	74.6	76.3	71.4	97.5	97.5	97.5
Amorization of stock-based comp	11.6	16.7	5.7	16.9	13.4	22.5	20.0	20.0	20.0
Other Amortization	0.7	1.0	1.4	12.1	12.5	20.3	17.9	17.2	15.4
Bad debt expense	0.5	1.6	2.5	1.3	4.9	6.9	10.0	10.0	10.0
Deferred income taxes	4.9	(8.5)	38.4	(49.1)	(27.2)	(21.3)	(20.0)	(20.0)	(20.0)
Changes in operating assets & liabilities	(22.7)	(17.2)	(3.3)	(38.9)	7.6	49.2	7.0	7.1	10.6
Cash from Operations	184.0	248.7	189.9	98.5	225.2	234.2	391.4	441.8	483.0
Capital Expenditures	(18.1)	(29.5)	(50.5)	(40.0)	(47.5)	(65.9)	(75.0)	(62.4)	(62.4)
Proceeds from disposition of business	(18.7)	-	-	-	(47.5)	7.2	-	-	-
Other	(0.7)	(6.6)	(4.5)	(1,172.9)	(6.4)	(1.0)	-	-	-
Cash from Investing	(37.5)	(36.1)	(55.0)	(1,213.0)	(10.4)	(59.7)	(75.0)	(62.4)	(62.4)
Proceeds from debt	308.8	821.5	352.0	3,414.1	271.5	863.5	-	-	-
Repayment of debt	(197.8)	(643.5)	(287.0)	(2,354.8)	(510.9)	(988.3)	-	-	-
Proceeds from stock options	28.6	26.3	11.4	8.7	4.3	20.4	20.0	20.0	20.0
Excess tax benefit from stock-based comp	5.6	19.2	10.5	4.3	1.7	21.8	20.0	20.0	20.0
Treasury shares repurchased	(250.0)	(365.9)	(152.6)	(7.0)	(2.2)	(1.3)	(200.0)	(200.0)	(200.0)
Other	(1.6)	(6.5)	(5.1)	(52.1)	(2.5)	(6.8)	-	-	-
Cash from Financing	(106.4)	(148.9)	(70.8)	1,013.2	(238.1)	(90.7)	(160.0)	(160.0)	(160.0)
Foreign exchange effects	(0.6)	(5.9)	3.8	2.8	4.8	7.6	-	-	-
Change in cash	39.6	57.8	67.9	(98.3)	(18.5)	91.4	156.4	219.4	260.6
Beginning cash	14.0	53.6	111.4	179.3	81.0	62.5	153.9	310.3	529.7
Ending cash	53.6	111.4	179.3	81.0	62.5	153.9	310.3	529.7	790.3
Adjusted EBITDA	290.0	391.0	302.6	411.1	404.6	455.8	524.4	597.5	654.1
(-) Interest	15.0	11.9	18.8	110.8	91.9	59.9	87.9	87.6	87.4
(-) Taxes	74.0	108.8	122.4	49.1	64.9	94.9	104.0	126.4	143.7
(-) Change in WC	(22.7)	(17.2)	(3.3)	(38.9)	7.6	49.2	7.0	7.1	10.6
(-) Capex	18.1	29.5	50.5	40.0	47.5	65.9	75.0	62.4	62.4
Free Cash Flow	**205.6**	**258.0**	**114.2**	**250.1**	**192.7**	**185.9**	**250.5**	**313.9**	**350.0**
FCF/Share	**$2.82**	**$3.73**	**$1.82**	**$4.06**	**$3.10**	**$2.97**	**$4.13**	**$5.49**	**$6.47**
y/y growth %	*93.9%*	*32.2%*	*(51.4%)*	*123.6%*	*(23.6%)*	*(4.3%)*	*39.1%*	*32.8%*	*17.9%*

Model Output: Return Metrics

Tempur Sealy (TPX) Model	Annual Financials										
Line Items ($ in mm)	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Return Metrics											
ROIC											
Adjusted Operating Income	133.9	144.9	245.9	340.5	261.0	296.0	320.0	374.4	429.7	502.8	559.4
Add: Operating lease expense	4.0	6.0	6.0	8.0	9.5	25.5	32.3	41.4	27.3	23.3	20.8
Less: Depreciation on capitalized leases	2.0	2.0	3.0	3.0	4.0	10.0	13.0	15.0	13.0	11.0	9.0
Less: Income taxes	38.0	52.0	64.0	84.0	80.0	96.0	56.0	94.9	104.0	126.4	143.7
NOPAT	**97.9**	**96.9**	**184.9**	**261.5**	**186.5**	**215.5**	**283.3**	**305.9**	**340.0**	**388.7**	**427.5**
Total Equity	72.4	172.3	126.0	30.8	22.3	118.6	202.7	290.2	347.2	455.2	602.7
Add: Total debt	419.0	297.0	407.0	585.0	1,025.0	1,837.0	1,602.0	1,454.8	1,454.8	1,454.8	1,454.8
Add: Capitalized operating leases	35.0	49.0	51.0	67.0	76.0	204.0	258.0	331.2	218.4	186.4	166.4
Less: Cash	15.4	14.0	53.6	111.4	179.3	81.0	62.5	153.9	310.3	529.7	790.3
Invested Capital	511.0	504.3	530.4	571.4	944.0	2,078.6	2,000.2	1,922.3	1,710.1	1,566.7	1,433.6
Average Invested Capital	583.1	507.7	517.4	550.9	757.7	1,511.3	2,039.4	1,961.3	1,816.2	1,638.4	1,500.1
Return on Invested Capital	***16.8%***	***19.1%***	***35.7%***	***47.5%***	***24.6%***	***14.3%***	***13.9%***	***15.6%***	***18.7%***	***23.7%***	***28.5%***
Invested Capital	511.0	504.3	530.4	571.4	944.0	2,078.6	2,000.2	1,922.3	1,710.1	1,566.7	1,433.6
Less: Goodwill & Intangibles	259.4	258.1	281.2	279.8	279.2	1,509.7	1,463.6	1,404.8	1,386.9	1,369.7	1,354.3
Adjusted Invested Capital	251.6	246.2	249.2	291.6	664.8	568.9	536.6	517.5	323.2	197.0	79.3
Average Adjusted Invested Capital	319.9	248.9	247.7	270.4	478.2	616.9	552.8	527.1	420.3	260.1	138.1
Adjusted ROIC	***30.6%***	***38.9%***	***74.6%***	***96.7%***	***39.0%***	***34.9%***	***51.3%***	***58.0%***	***80.9%***	***149.4%***	***309.5%***

Appendix: Holders List

Filer	Shares Held	Market Value	% of Portfolio	Prior % of Portfolio	Ranking	Change in Shares	% Ownership
H PARTNERS MANAGEMENT, LLC	6,075,000	$ 428,045,000	32.53%	32.47%	2		9.7606%
MANUFACTURERS LIFE INSURANCE COMPANY, THE	5,036,945	$ 354,904,000	0.34%	0.38%	50	↑28,486	8.0928%
VANGUARD GROUP INC	4,284,542	$ 301,890,000	0.02%	0.02%	790	↑122,099	6.8839%
LONDON COMPANY OF VIRGINIA	3,723,562	$ 262,362,000	2.27%	2.53%	9	↓111,627	5.9826%
CHIEFTAIN CAPITAL MANAGEMENT, INC.	2,579,808	$ 181,773,000	10.54%	11.63%	5	↓642,275	4.1449%
STATE STREET CORP	2,512,039	$ 176,996,000	0.02%	0.02%	639	↑82,354	4.0361%
FMR LLC	2,237,118	$ 157,627,000	0.02%	0.02%	755	↑66,917	3.5943%
BLACKROCK FUND ADVISORS	2,129,143	$ 150,019,000	0.03%	0.04%	658	↑119,472	3.4209%
ALLIANCEBERNSTEIN L.P.	2,072,364	$ 146,019,000	0.12%	0.12%	179	↑127,144	3.3296%
BLACKROCK INSTITUTIONAL TRUST COMPANY, N.A.	1,762,673	$ 124,198,000	0.02%	0.02%	731	↑18,641	2.8321%
DYNAMO INTERNACIONAL GESTAO DE RECURSOS LTDA.	1,571,763	$ 109,853,000	25.29%	24.01%	1	↑446,108	2.5253%
BARROW HANLEY MEWHINNEY & STRAUSS LLC	1,528,717	$ 107,714,000	0.16%	0.17%	90	↓12,404	2.4562%
TIMESSQUARE CAPITAL MANAGEMENT, LLC	1,345,550	$ 94,807,000	0.60%	0.77%	46	↓370,100	2.1619%
BANK OF AMERICA CORP	1,344,736	$ 94,750,000	0.02%	0.02%	682	↑199,215	2.1606%
HITCHWOOD CAPITAL MANAGEMENT LP	1,150,000	$ 81,029,000	2.15%	2.07%	21	↑325,000	1.8477%
DISCOVERY CAPITAL MANAGEMENT, LLC	979,582	$ 69,021,000	0.82%	0.22%	41	↑697,770	1.5739%