

TEMPUR SEALY INTERNATIONAL, INC.
Form DEFA14A
April 29, 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.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

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

(3) Filing Party:

(4) Date Filed:

Explanatory Note:

On April 28, 2015, Tempur Sealy International, Inc. issued its earnings release for the first quarter of 2015 and also provided to investors an investor deck titled "1Q 2015 Financial Results - Key Highlights".

TEMPUR SEALY REPORTS FIRST QUARTER 2015 RESULTS

Reports First Quarter GAAP EPS of \$0.38; Adjusted EPS of \$0.55

Total Net Sales Increase 5.4%; Constant Currency Net Sales Increase 9.4%

Raises Financial Guidance for 2015

LEXINGTON, KY, April 28, 2015 - Tempur Sealy International, Inc. (NYSE:TPX), the world's largest bedding provider, today announced financial results for the first quarter ending March 31, 2015. The Company also increased financial guidance for the full year 2015.

FIRST QUARTER FINANCIAL SUMMARY

Earnings per diluted share (EPS) under U.S. generally accepted accounting principles (GAAP) in the first quarter of 2015 were \$0.38 as compared to GAAP EPS of \$0.44 in the first quarter of 2014. The 2015 results reflect integration costs, additional costs related to the Company's 2015 Annual Meeting, and a redemption value adjustment to the Company's redeemable non-controlling interest. The 2014 results also reflect integration costs.

Adjusted EPS (which is a non-GAAP financial measure) increased 3.8% to \$0.55 in the first quarter of 2015 as compared to adjusted EPS of \$0.53 in the first quarter of 2014. On a constant currency basis, adjusted EPS increased 20%.

Total net sales increased 5.4% to \$739.5 million in the first quarter of 2015 from \$701.9 million in the first quarter of 2014. The net sales increase was driven by strong sales growth in the North America business segment. On a constant currency basis, total net sales increased 9.4%, with increased net sales in both the North America and International business segments. For information on the methodology used to present information on a constant currency basis, please refer to [Constant Currency Information](#) at the end of this press release.

GAAP gross margin was 37.7% in the first quarter of 2015 as compared to 38.4% in the first quarter of 2014. Adjusted gross margin (which is a non-GAAP financial measure), which excludes costs incurred to align the business related to the Sealy acquisition, was 38.5% in the first quarter of 2015 as compared to 38.7% in the first quarter of 2014. The reduction in gross margin was a result of a decreased gross margin in the International business segment, offset by a solid improvement in gross margin of the North America business segment.

GAAP operating income was \$54.4 million in the first quarter of 2015 as compared to \$62.4 million in the first quarter of 2014. Operating income in the first quarter of 2015 included \$11.5 million of integration costs and \$2.1 million of additional costs related to the Company's 2015 Annual Meeting, and operating income in the first quarter of 2014 included \$7.4 million of integration costs. Adjusted operating income (which is a non-GAAP financial measure) was \$68.2 million, or 9.2% of net sales in the first quarter of 2015

as compared to \$69.8 million, or 9.9% of net sales in the first quarter of 2014. Unfavorable foreign exchange rates impacted adjusted operating income by \$8.9 million in the first quarter of 2015 as compared to the prior year.

GAAP net income in the first quarter of 2015 was \$23.4 million as compared to GAAP net income of \$27.4 million for the first quarter of 2014. The Company reported adjusted net income (which is a non-GAAP financial measure) of \$34.1 million for the first quarter of 2015 as compared to adjusted net income of \$32.6 million for the first quarter of 2014, a 4.6% increase.

Earnings before interest, tax, depreciation and amortization (EBITDA) for the first quarter of 2015 was \$75.9 million as compared to \$85.1 million for the first quarter of 2014. Adjusted EBITDA (adjusted EBITDA and EBITDA are non-GAAP financial measures) for the first quarter of 2015 was \$90.5 million as compared to \$91.4 million for the first quarter of 2014. Unfavorable foreign exchange rates impacted adjusted EBITDA by \$8.5 million in the first quarter of 2015 as compared to the prior year.

The Company ended the first quarter of 2015 with consolidated funded debt less qualified cash (which is a non-GAAP financial measure) of \$1.6 billion. The ratio of consolidated funded debt less qualified cash to adjusted EBITDA was 3.93 times, calculated in accordance with the Company's senior secured credit facility.

Tempur Sealy International, Inc. CEO Mark Sarvary commented, "Tempur Sealy's first quarter growth in sales and adjusted EPS, and the improved operating margins in North America, continue our momentum from the fourth quarter of 2014. They underscore the important progress we are making in driving enhanced financial results in 2015 and beyond. Our International results were slightly better than our projections, with a double-digit net sales increase on a constant currency basis. We delivered growth across Europe, Asia-Pacific and Latin America; however, as expected, foreign exchange headwinds impacted year-over-year sales and put pressure on margins. We expect performance for the remainder of the year to build on this momentum, and we are confident that our initiatives across all of our operations will drive continued sales, margin and adjusted EPS growth, despite a challenging currency environment.

Sarvary added, "We responded to the changed competitive environment in 2012 by taking decisive and effective action through 2013 and 2014, which resulted in a doubling of the value of Tempur Sealy since September 27, 2012 - the day before we announced the transformational acquisition of Sealy. The integration is now largely complete, and Sealy had strong growth in 2014 and entered 2015 with strong momentum, a dramatic change in trend. At the same time, we re-energized Tempur-Pedic in North America, achieving a 9% sales increase in 2014 and gaining market share, along with significantly improved margins in the second half of the year. We also positioned our International business for future growth by setting the ground work for an expansion of Sealy in Europe and Japan. We know that we have the opportunity to improve margins, and have implemented a series of initiatives that will increase operating margins by 300 basis points over the next three years. The performance in the first quarter of 2015 demonstrates that the actions we have taken are working and that momentum is building.

P. Andrews McLane, Chairman of Tempur Sealy, said, "The Company has reestablished its industry-leading position, but more work remains to be done. Today, Tempur Sealy is at a critical juncture, and a change in leadership, including the CEO, at this time would result in a transition period that would, at a minimum, slow the momentum that we are currently experiencing, if not derail it altogether. It is critical to the success of our business and the investments of our shareholders that the current Board and management team continue executing on the plan that is clearly delivering positive results.

Business Segment Highlights

The Company's business segments include North America and International. Corporate operating expenses are not included in either of the business segments and are presented separately as a reconciling item to consolidated results.

North America net sales increased 7.5% to \$594.1 million in the first quarter of 2015 from \$552.6 million in the first quarter of 2014. On a constant currency basis, North America net sales increased 8.5%. GAAP gross margin was 34.2% in the first quarter of 2015 as compared to 33.7% in the first quarter of 2014. GAAP operating margin was 9.7% in the first quarter of 2015 as compared to 9.6% in the first quarter of 2014. For information on the methodology used to present information on a constant currency basis, please refer to "Constant Currency Information" at the end of this press release.

North America adjusted operating margin (which is a non-GAAP financial measure) was 11.2% as compared to 10.6% in the first quarter of 2014. The improvement in North America adjusted operating margin during the first quarter of 2015 was the result of an improvement in adjusted gross margin (which is a non-GAAP financial measure) of 1.1%, offset partially by higher advertising expenses in the first quarter of 2015 as compared to the same period in 2014. Unfavorable foreign exchange impacted operating margin by 0.4% in the first quarter of 2015 as compared to the same period in 2014.

International net sales decreased 2.6% to \$145.4 million in the first quarter of 2015 from \$149.3 million in the first quarter of 2014. On a constant currency basis, International net sales increased 12.8%. GAAP gross margin was 52.0% in the first quarter of 2015 as compared to 55.8% in the first quarter of 2014. GAAP operating margin was 17.4% in the first quarter of 2015 as compared to 22.4% in the first quarter of 2014.

International adjusted operating margin (which is a non-GAAP financial measure) was 18.3% as compared to 22.4% in the first quarter of 2014. The decline in International adjusted operating margin during the first quarter of 2015 was primarily the result of a decline in adjusted gross margin (which is a non-GAAP financial measure) of 3.4%. Unfavorable foreign exchange impacted operating margin by 1.0% in the first quarter of 2015 as compared to the same period in 2014.

Corporate GAAP operating expenses increased 19.0% to \$28.8 million in the first quarter of 2015 from \$24.2 million in the first quarter of 2014. The 2015 results reflect an additional \$2.1 million of costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder of the Company for the 2015 Annual Meeting and related issues.

Corporate adjusted operating expenses (which is a non-GAAP financial measure) increased 12.7% to \$24.8 million in the first quarter of 2015 from \$22.0 million in the first quarter of 2014. The increase in corporate adjusted operating expenses in the first quarter of 2015 was related to higher compensation expenses as well as higher legal and professional costs.

For additional information regarding adjusted EPS, adjusted net income, adjusted gross profit, adjusted gross margin, adjusted operating income, adjusted operating expense, adjusted operating margin, EBITDA, adjusted EBITDA, consolidated funded debt, and consolidated funded debt less qualified cash (all of which are non-GAAP financial measures), please refer to the reconciliations and other information included in the attached schedules.

Financial Guidance

Tempur Sealy also today raised its financial guidance for 2015.

For the full year 2015, the Company currently expects:

Net sales to range from \$3.100 billion to \$3.175 billion

Adjusted EPS to range from \$2.80 to \$3.15 per diluted share

The Company noted its expectations are based on information available at the time of this release, and are subject to changing conditions, many of which are outside the Company's control. The Company noted its adjusted EPS guidance does not include integration costs related to the Sealy acquisition, redemption value adjustments on the Company's redeemable non-controlling interest and additional costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder of the Company for the 2015 Annual Meeting and related issues.

Conference Call Information

Tempur Sealy International, Inc. will host a live conference call to discuss financial results today, April 28, 2015 at 5:00 p.m. Eastern Time. The dial-in number for the conference call is 800-850-2903. The dial-in number for international callers is 224-357-2399. The call is also being webcast and can be accessed on the investor relations section of the Company's website, <http://www.tempursealy.com>. After the conference call, a webcast replay will remain available on the investor relations section of the Company's website for 30 days. In connection with the conference call, the Company has prepared an investor presentation which has been filed with the Securities and Exchange Commission and is also available on the investor relations section of the Company's website.

Forward-looking Statements

This press release 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 release, the words 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 net sales and adjusted EPS for 2015, net sales, margin and adjusted EPS growth and future growth of the International business. 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. These risk factors include risks associated with the Company's capital structure and increased debt level; the ability to successfully integrate Sealy Corporation 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 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 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; the effect of future legislative or regulatory changes; and disruptions to the implementation of the Company's strategic priorities and business plan caused by abrupt changes in the Company's senior management team and Board of Directors.

There are a number of risks and uncertainties that could cause the Company's actual results to differ materially from the forward-looking statements contained in this press release. There are important factors, many of which are beyond the Company's control, that could cause its actual results to differ materially from those expressed as forward-looking statements in this press release, including the risk factors discussed under the heading "Risk Factors" under ITEM 1A of Part 1 of our Annual Report on Form 10-K for the year ended December 31, 2014. There may be other factors that may cause the Company's actual results to differ materially from the forward-looking statements.

About the Company

Tempur Sealy International, Inc. (NYSE: TPX) is the world's largest bedding provider. Tempur Sealy International, Inc. develops, manufactures and markets mattresses, foundations, pillows and other products. The Company's brand portfolio includes many of the most highly recognized brands in the industry, including Tempur®, Tempur-Pedic®, Sealy®, Sealy Posturepedic®, Optimum and Stearns & Foster®. World headquarters for Tempur Sealy International, Inc. is in Lexington, KY. For more information, visit <http://www.tempursealy.com> or call 800-805-3635.

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TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(in millions, except per common share amounts)
(unaudited)

	Three Months Ended		
	March 31,		Chg %
	2015	2014	
Net sales	\$ 739.5	\$ 701.9	5.4%
Cost of sales	460.8	432.4	
Gross profit	278.7	269.5	3.4%
Selling and marketing expenses	153.8	143.0	
General, administrative and other expenses	77.7	70.3	
Equity income in earnings of unconsolidated affiliates	(3.0)	(1.7)	
Royalty income, net of royalty expense	(4.2)	(4.5)	
Operating income	54.4	62.4	(12.8)%
Other expense, net:			
Interest expense, net	20.4	22.2	
Other (income) expense, net	(1.3)	1.0	
Total other expense	19.1	23.2	
Income before income taxes	35.3	39.2	(9.9)%
Income tax provision	(10.3)	(11.5)	
Net income before non-controlling interest	25.0	27.7	(9.7)%
Less: Net income attributable to non-controlling interest ^{(1),(2)}	1.6	0.3	
Net income attributable to Tempur Sealy International, Inc.	\$ 23.4	\$ 27.4	(14.6)%
Earnings per common share:			
Basic	\$ 0.38	\$ 0.45	
Diluted	\$ 0.38	\$ 0.44	
Weighted average common shares outstanding:			
Basic	60.9	60.7	
Diluted	62.2	61.9	

(1)

Income attributable to the Company's redeemable non-controlling interest in Comfort Revolution, LLC for the three months ended March 31, 2015 and 2014 represented \$0.6 million and \$0.3 million, respectively.

- (2) The Company is required to recognize its redeemable non-controlling interest in Comfort Revolution, LLC at the higher of 1) the accumulated earnings associated with the non-controlling interest or 2) the contractually-defined redemption value as of the balance sheet date. As of March 31, 2015, the redemption value exceeded the accumulated earnings associated with the redeemable non-controlling interest. Therefore, the Company recorded a \$1.0 million redemption value adjustment, net of tax, to increase the carrying value of the redeemable non-controlling interest as of March 31, 2015. For all prior periods, the accumulated earnings exceeded the redemption value and, accordingly, the redeemable non-controlling interest was measured using its accumulated earnings. For further information, please refer to Note 16, "Redeemable Non-Controlling Interest" in the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K filed on February 13, 2015.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheet

(in millions)

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 45.0	\$ 62.5
Accounts receivable, net	390.1	385.8
Inventories, net	226.9	217.2
Prepaid expenses and other current assets	55.9	56.5
Deferred income taxes	53.8	44.4
Total Current Assets	771.7	766.4
Property, plant and equipment, net	353.1	355.6
Goodwill	718.3	736.5
Other intangible assets, net	715.6	727.1
Deferred income taxes	8.7	8.6
Other non-current assets	87.7	68.4
Total Assets	\$ 2,655.1	\$ 2,662.6
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 236.6	\$ 226.4
Accrued expenses and other current liabilities	220.0	233.3
Deferred income taxes	0.2	0.2
Income taxes payable	9.2	12.0
Current portion of long-term debt	70.1	66.4
Total Current Liabilities	536.1	538.3
Long-term debt	1,532.5	1,535.9
Deferred income taxes	259.9	258.8
Other non-current liabilities	117.3	114.3
Total Liabilities	2,445.8	2,447.3
Redeemable Non-Controlling Interest	14.8	12.6
Total Stockholders Equity	194.5	202.7
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders Equity	\$ 2,655.1	\$ 2,662.6

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in millions)

(unaudited)

	Three Months Ended	
	March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before non-controlling interest	\$ 25.0	\$ 27.7
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	17.8	19.9
Amortization of stock-based compensation	4.0	4.1
Amortization of deferred financing costs	2.2	2.3
Bad debt expense	1.1	1.8
Deferred income taxes	(6.7)	(1.9)
Dividends received from unconsolidated affiliates	1.9	
Equity income in earnings of unconsolidated affiliates	(3.0)	(1.7)
Non-cash interest expense on 8.0% Sealy Notes	1.3	1.2
Loss on sale of assets	0.1	0.3
Foreign currency adjustments and other	0.1	0.1
Changes in operating assets and liabilities	(50.2)	(55.4)
Net cash used in operating activities	(6.4)	(1.6)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(15.4)	(7.8)
Other		(0.8)
Net cash used in investing activities	(15.4)	(8.6)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings under long-term debt obligations	97.9	74.5
Repayments of borrowings under long-term debt obligations	(98.8)	(66.5)
Proceeds from exercise of stock options	1.6	1.7
Excess tax benefit from stock-based compensation		0.9
Treasury shares repurchased	(1.1)	(2.2)
Other	0.2	0.1
Net cash (used in) provided by financing activities	(0.2)	8.5
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	4.5	0.4
Decrease in cash and cash equivalents	(17.5)	(1.3)
CASH AND CASH EQUIVALENTS, beginning of period	62.5	81.0

CASH AND CASH EQUIVALENTS, end of period	\$ 45.0	\$ 79.7
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Summary of Channel Sales

The following table highlights net sales information, by channel and by segment, for the three months ended March 31, 2015 and 2014:

<i>(in millions)</i>	Consolidated		North America		International	
	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Retail ⁽¹⁾	\$ 676.1	\$ 641.7	\$ 569.8	\$ 526.9	\$ 106.3	\$ 114.8
Other ⁽²⁾	63.4	60.2	24.3	25.7	39.1	34.5
	\$ 739.5	\$ 701.9	\$ 594.1	\$ 552.6	\$ 145.4	\$ 149.3

(1) The Retail channel includes furniture and bedding retailers, department stores, specialty retailers and warehouse clubs.

(2) The Other channel includes direct-to-consumer, third party distributors, hospitality and healthcare customers.

Summary of Product Sales

The following table highlights net sales information, by product and by segment, for the three months ended March 31, 2015 and 2014:

<i>(in millions)</i>	Consolidated		North America		International	
	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Bedding ⁽¹⁾	\$ 675.7	\$ 636.0	\$ 558.6	\$ 517.1	\$ 117.1	\$ 118.9
Other ⁽²⁾	63.8	65.9	35.5	35.5	28.3	30.4
	\$ 739.5	\$ 701.9	\$ 594.1	\$ 552.6	\$ 145.4	\$ 149.3

(1) Bedding products include mattresses, foundations, and adjustable foundations.

(2) Other products include pillows and various other comfort products.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES

Reconciliation of Non-GAAP Measures

(in millions, except percentages and per common share amounts)

The Company provides information regarding adjusted net income, adjusted EPS, adjusted gross profit, adjusted gross margin, adjusted operating income, adjusted operating expenses, adjusted operating margin, EBITDA, adjusted EBITDA, consolidated funded debt and consolidated funded debt less qualified cash, which are not recognized terms under GAAP and do not purport to be alternatives to net income and earnings per share 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 and Adjusted EPS

A reconciliation of GAAP net income to adjusted net income and GAAP EPS to adjusted EPS is provided below. Management believes that the use of these non-GAAP financial measures provides investors with additional useful information with respect to the impact of various integration costs associated with the acquisition of Sealy Corporation (Sealy) and its historical subsidiaries (the Sealy Acquisition), including the transition of manufacturing facilities in North America, and redemption value adjustments to the carrying value of the Company's redeemable non-controlling interest and additional costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder of the Company for the 2015 Annual Meeting and related issues.

Adjusted Gross Profit and Gross Margin and Adjusted Operating Income and Operating Margin

A reconciliation of GAAP gross profit and gross margin to adjusted gross profit and gross margin, respectively, and GAAP operating income and operating margin to adjusted operating income and operating margin, respectively, is provided below. Management believes that the use of these non-GAAP financial measures provides investors with additional useful information with respect to the Company's gross profit, operating income and margin performance excluding the impact of various integration costs associated with the Sealy Acquisition, including the transition of manufacturing facilities in North America, and additional costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder of the Company for the 2015 Annual Meeting and related issues.

EBITDA and Adjusted EBITDA

A reconciliation of the Company's GAAP net income to EBITDA and adjusted EBITDA and a reconciliation of total debt to consolidated funded debt and consolidated funded debt less qualified cash are provided below. 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.

Reconciliation of GAAP net income to adjusted net income and GAAP EPS to adjusted EPS

The following table sets forth the reconciliation of the Company's GAAP net income and EPS for the three months ended March 31, 2015 and 2014 to the calculation of adjusted net income and adjusted EPS for the three months ended March 31, 2015 and 2014:

<i>(in millions, except per share amounts)</i>	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
GAAP net income	\$ 23.4	\$ 27.4
Plus:		
Redemption value adjustment on redeemable non-controlling interest, net of tax ⁽¹⁾	1.0	
Integration costs, net of tax ⁽²⁾	8.3	5.2
Other costs, net of tax ⁽³⁾	1.5	
Adjustment of income taxes to normalized rate ⁽⁴⁾	(0.1)	
Adjusted net income	\$ 34.1	\$ 32.6
GAAP earnings per share, diluted	\$ 0.38	\$ 0.44
Redemption value adjustment on redeemable non-controlling interest, net of tax ⁽¹⁾	0.02	
Integration costs, net of tax ⁽²⁾	0.13	0.09
Other costs, net of tax ⁽³⁾	0.02	
Adjusted earnings per share, diluted	\$ 0.55	\$ 0.53
Diluted shares outstanding	62.2	61.9

- (1) Redemption value adjustment on redeemable non-controlling interest represents a \$1.0 million adjustment, net of tax, to increase the carrying value of the redeemable non-controlling interest as of March 31, 2015.
- (2) Integration costs represents costs, including legal fees, professional fees, compensation costs and other charges related to the transition of manufacturing facilities, and other costs related to the continued alignment of the North America business segment related to the Sealy Acquisition.
- (3) Other costs represent additional costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder of the Company for the 2015 Annual Meeting and related issues.
- (4) Adjustment of income taxes to normalized rate represents adjustments associated with the aforementioned items and other discrete income tax events.

Reconciliation of GAAP gross profit and margin to adjusted gross profit and margin and GAAP operating income (expense) and margin to adjusted operating income (expense) and margin

The following table sets forth the reconciliation of the Company's reported GAAP gross profit and operating income (expense) to the calculation of adjusted gross profit and operating income (expense) for the three months ended March 31, 2015:

<i>(in millions, expect percentages)</i>	Consolidated Margin		North America	Margin	International	Margin	Corporate
			(1)		(2)		(3)
Net sales	\$ 739.5		\$ 594.1		\$ 145.4		
Gross profit	278.7	37.7%	203.1	34.2%	75.6	52.0%	
Adjustments	6.3		5.7		0.6		
Adjusted gross profit	285.0	38.5%	208.8	35.1%	76.2	52.4%	
Operating income (expense)	54.4	7.4%	57.9	9.7%	25.3	17.4%	(28.8)
Adjustments	13.8		8.5		1.3		4.0
Adjusted operating income (expense)	\$ 68.2	9.2%	\$ 66.4	11.2%	\$ 26.6	18.3%	\$ (24.8)

- (1) Adjustments for the North America business segment represent integration costs, which include compensation costs, professional fees and other charges related to the transition of manufacturing facilities, and other costs to support the continued alignment of the North America business segment related to the Sealy Acquisition.
- (2) Adjustments for the International business segment represent integration costs incurred in connection with the introduction of Sealy products in certain international markets.
- (3) Adjustments for Corporate represent integration costs which include legal fees, professional fees and other charges to align the business related to the Sealy Acquisition, as well as additional costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder of the Company for the 2015 Annual Meeting and related issues.

The following table sets forth the reconciliation of the Company's reported GAAP gross profit and operating income (expense) to the calculation of adjusted gross profit and operating income (expense) for the three months ended March 31, 2014:

<i>(in millions, expect percentages)</i>	Consolidated Margin		North America	Margin	International	Margin	Corporate
			(1)		(2)		(2)
Net sales	\$ 701.9		\$ 552.6		\$ 149.3		
Gross profit	269.5	38.4%	186.2	33.7%	83.3	55.8%	
Adjustments	1.9		1.9				
Adjusted gross profit	271.4	38.7%	188.1	34.0%	83.3	55.8%	

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Operating income (expense)	62.4	8.9%	53.1	9.6%	33.5	22.4%	(24.2)
Adjustments	7.4		5.2				2.2
Adjusted operating income (expense)	\$ 69.8	9.9%	\$ 58.3	10.6%	\$ 33.5	22.4%	\$ (22.0)

- (1) Adjustments for the North America business segment represent integration costs, which include severance and benefits costs, professional fees and other charges related to the transition of manufacturing facilities, and other costs to support the continued alignment of the North America business related to the Sealy Acquisition.
- (2) Adjustments for Corporate represent integration costs which include legal fees, professional fees and other charges to align the business related to the Sealy Acquisition.

Reconciliation of GAAP net income to EBITDA and adjusted EBITDA

The following table sets forth the reconciliation of the Company's reported GAAP net income to the calculation of EBITDA and adjusted EBITDA for the three months ended March 31, 2015 and March 31, 2014 in accordance with the Company's senior secured credit facility:

<i>(in millions)</i>	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
GAAP net income	\$ 23.4	\$ 27.4
Interest expense	20.4	22.2
Income taxes	10.3	11.5
Depreciation & amortization	21.8	24.0
EBITDA	\$ 75.9	\$ 85.1
Adjustments for financial covenant purposes:		
Redemption value adjustment on redeemable non-controlling interest, net of tax ⁽¹⁾	1.0	
Integration costs ⁽²⁾	11.5	6.3
Other costs ⁽³⁾	2.1	
Adjusted EBITDA	\$ 90.5	\$ 91.4

- (1) Redemption value adjustment on redeemable non-controlling interest represents a \$1.0 million adjustment, net of tax, to increase the carrying value of the redeemable non-controlling interest as of March 31, 2015.
- (2) Integration costs represents costs, including legal fees, professional fees, compensation costs and other charges related to the transition of manufacturing facilities, and other costs related to the continued alignment of the North America business segment related to the Sealy Acquisition.
- (3) Other costs represent additional costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder of the Company for the 2015 Annual Meeting and related issues.

The following table sets forth the reconciliation of the Company's net income to the calculations of EBITDA and adjusted EBITDA for the twelve months ended March 31, 2015 in accordance with the Company's senior secured credit facility:

<i>(in millions)</i>	Twelve Months Ended	
	March 31, 2015	
Net income	\$	104.9
Interest expense		90.1
Income taxes		63.7
Depreciation & amortization		87.5
EBITDA	\$	346.2
Adjustments for financial covenant purposes:		
Redemption value adjustment on redeemable non-controlling interest, net of tax ⁽¹⁾		1.0
Loss on disposal of business ⁽²⁾		23.2
Integration costs ⁽³⁾		45.5
Financing costs ⁽⁴⁾		1.3
Other income ⁽⁵⁾		(15.6)
Other costs ⁽⁶⁾		2.1
Adjusted EBITDA	\$	403.7

- (1) Redemption value adjustment on redeemable non-controlling interest represents a \$1.0 million adjustment, net of tax, to increase the carrying value of the redeemable non-controlling interest as of March 31, 2015.
- (2) Loss on disposal of business represents costs associated with the disposition of the three Sealy U.S. innerspring component production facilities and related equipment.
- (3) Integration costs represents costs, including legal fees, professional fees, compensation costs and other charges related to the transition of manufacturing facilities, and other costs related to the continued alignment of the North America business segment related to the Sealy Acquisition.
- (4) Financing costs represent costs incurred in connection with the amendment of our senior secured credit facility.
- (5) Other income includes certain other non-recurring items, including income from a partial settlement of a legal dispute.
- (6) Other costs represent additional costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder of the Company for the 2015 Annual Meeting and related issues.

This information is presented solely for the purpose of providing information to investors regarding the Company's compliance with certain financial covenants in its senior secured credit facility that are based on adjusted EBITDA.

Reconciliation of total debt to consolidated funded debt less qualified cash

The following table sets forth the reconciliation of the Company's reported total debt to the calculation funded debt less qualified cash as of March 31, 2015. Consolidated funded debt and qualified cash are terms used in the Company's senior secured credit facility for purposes of certain financial covenants.

<i>(in millions)</i>	As of March 31, 2015	
Total debt	\$	1,602.6
Plus:		
Letters of credit outstanding		17.3
Consolidated funded debt	\$	1,619.9
Less:		
Domestic qualified cash ⁽¹⁾		15.7
Foreign qualified cash ⁽¹⁾		17.6
Consolidated funded debt less qualified cash	\$	1,586.6

(1) Qualified cash as defined in the credit agreement 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.

Calculation of consolidated funded debt less qualified cash to Adjusted EBITDA

<i>(\$ in millions)</i>	As of March 31, 2015	
Consolidated funded debt less qualified cash	\$	1,586.6
Adjusted EBITDA		403.7
		3.93 times ⁽¹⁾

- (1) The ratio of consolidated debt less qualified cash to adjusted EBITDA was 3.93 times, within the Company's financial covenant under its senior secured credit facility, which requires this ratio be less than 4.75 times at March 31, 2015.

Constant Currency Information

In this press release 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, which is a non-GAAP financial 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.

Tempur Sealy International, Inc.
April 28, 2015
1Q 2015 Financial Results
Key Highlights

2

Forward-Looking Statements

Note Regarding Historical Financial Information:

Note Regarding Trademarks, Trade Names and Service Marks:

This investor presentation contains "forward-looking statements," within the meaning of the federal securities laws, which include plans, objectives, goals, strategies, and other information that is not historical information. When used in this investor presentation, "anticipates," "projects," "plans," "proposed," "intends," "believes," and variations of such words or similar expressions are intended to identify forward-looking statements. Forward-looking statements include, without limitation, statements relating to the Company's expectations regarding its strategic growth, sales and adjusted EPS for 2015, including the anticipated impact of foreign exchange, earnings growth and delivering shareholder value. Forward-looking statements are based on current expectations and beliefs and various assumptions. There can be no assurance that the Company will realize these expectations. Numerous factors, many of which are beyond the Company's control, could cause actual results to differ materially from those expected. These factors include risks associated with the Company's capital structure and increased debt level; the ability to successfully integrate Sealy and Tempur-Pedic and realize cost and revenue synergies and other benefits from the transaction; whether the Company will realize the anticipated benefits from the transaction.

brand rights in certain international markets in 2014; general economic, financial and industry conditions, particularly in the availability of consumer financing; changes in product and channel mix and the impact on the Company's gross margin; changes in the environment in both the U.S. and internationally on the Company's business segments; uncertainties arising from global events; the Company's reported earnings; consumer acceptance of the Company's products; industry competition; the efficiency and effectiveness of marketing programs; the Company's ability to increase sales productivity within existing retail accounts and to further penetrate new opening or expanding within large retail accounts and the timing and success of product launches; the effects of consolidation on the Company's ability to expand brand awareness, distribution and new products; the Company's ability to continuously improve and expand its production and delivery of its products, and manage its growth; the effects of strategic investments on the Company's operations; changes in tax laws, including the ability to utilize tax loss carry forwards; the outcome of various pending tax audits or other tax, regulatory or litigation; future legislative or regulatory changes; and disruptions to the implementation of the Company's strategic priorities and business operations. The management team and Board of Directors.

There are a number of risks and uncertainties that could cause the Company's actual results to differ materially from the forward-looking information in this investor presentation, including the risk factors discussed under the heading "Risk Factors" under ITEM 1A of Part 1 of our Form 10-K for the year ended December 31, 2014. There may be other factors that may cause the Company's actual results to differ materially from the forward-looking information in this investor presentation we provide or refer to certain historical information for the Company. For a more detailed discussion of the risks and uncertainties, see the Company's SEC filings.

TEMPUR, Tempur-Pedic, TEMPUR-Cloud, TEMPUR-Choice, TEMPUR-Weightless, TEMPUR-Contour, TEMPUR-Rhapsody, TEMPUR-UP, TEMPUR-Neck, TEMPUR-Symphony, TEMPUR-Comfort, TEMPUR-Traditional, TEMPUR-Home, Sealy, Sealy logo, and Sealy names or service marks of Tempur Sealy International, Inc. and/or its subsidiaries. All other trademarks, trade names and service marks are the property of their respective owners.

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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

4

Tempur Sealy Strategic Priorities
Leverage and Strengthen Our Comprehensive
Portfolio Of Iconic Brands & Products
Expand Distribution And Seek Highest Dealer
Advocacy

Base Annual Targets

1,2

:

Net Sales Growth Of 6% And
Adjusted EPS Growth Of 15%

3

Strong Cash Flow To Reduce Debt
And Return Value to Stockholders
Delivering Value
For Stockholders
Expand Margins With Focus On Driving
Significant Cost Improvement
Accretive Acquisitions Of Licensees And Joint
Ventures
Leverage Global Scale For Competitive
Advantage

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 information on a constant currency

Note 3:

Adjusted EPS (which is a non-GAAP financial measure) is diluted earnings per share (EPS) adjusted for the acquisition of
additional costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder of the Company
refer to the Use of Non-GAAP Financial Measures at the end of this presentation and the Company s SEC filings for more

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Focused On Execution To Deliver Stockholder
Value

1Q 2015 Results Ahead Of Expectations

Raising FY 2015 Guidance

Implied growth of 4% to 6% (constant currency growth of 8% to 10%)

Implied growth 6% to 19% (constant currency growth 18% to 31%)

We Remain Confident That Our Strategy And Actions Will Drive Significant
Earnings Growth And Deliver Stockholder Value

Solid

1Q
performance
with

net
sales,
adjusted
operating
margin

1
and
adjusted
EPS

2
ahead of plan despite a more
challenging currency environment than predicted in guidance

On
a
constant
currency

3
basis net sales increased 9.4% and adjusted EPS increased 20% (GAAP EPS decreased 14%)

Significant margin improvement in North America with strong margin improvement for both Tempur U.S. and Sealy U.S.
International margins ahead of expectations despite more challenging foreign exchange headwinds

Increasing Net sales guidance range to \$3.100 billion to \$3.175 billion

Increasing Adjusted EPS guidance range to \$2.80 to \$3.15

Note 1:

Adjusted gross margin and adjusted operating margin are non-GAAP financial measures. These financial measures represent (C) and additional costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder of the Company. For more information regarding the definition of adjusted gross margin and adjusted operating margin, see Note 1.

Note 2:

Adjusted EPS (which is a non-GAAP financial measure) is EPS adjusted for the Sealy Acquisition and integration costs, normal (C) Annual Meeting and related issues, as well as redemption value adjustment to the Company's redeemable non-controlling interest. For more information regarding the definition of adjusted EPS, see Note 2.

Note 3:

For information on the methodology used to present constant currency basis please refer to Constant Currency Information in the Appendix.

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1Q 2015

TPX Performance Summary

Consolidated net sales of \$739.5 million were ahead of expectations and on a constant currency basis increased 9.4%

On a constant currency basis North America net sales increased 8.5% and International net sales increased 12.8%

Consolidated

adjusted

gross

margin

of

38.5%

reflects

significant

North
America
improvement

(GAAP
gross
margin

37.7%

for
2015

and
38.4% for 2014)

Strong margin expansion for both Tempur U.S. and Sealy U.S.

Foreign
exchange

had

a
negative
impact

of
90

basis
points

Consolidated adjusted operating margin of 9.2% was ahead of our expectations (GAAP 7.4% for 2015 and 8.8% for 2014)

Foreign
exchange

had

a
negative
impact

of
80

basis
points

Adjusted
EPS

of
\$0.55

was
ahead

of
our
expectations

and

on
a
constant
currency

basis
increased

20%

(GAAP

EPS

\$0.38

for

2015

and

\$0.44 for 2014)

Foreign exchange had a negative adjusted EPS impact of \$0.09 as compared to last year

4

5

Note 1:

Adjusted gross margin and adjusted operating margin are non-GAAP financial measures. These financial measures represent costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder of the Company for the 2015 Annual Meeting regarding the definition of adjusted gross margin and adjusted operating margin.

Note 2:

Adjusted EPS (which is a non-GAAP financial measure) is EPS adjusted for the Sealy Acquisition and integration costs, normal course of business related issues, as well as redemption value adjustment to the Company's redeemable non-controlling interest. Please refer to the definition of adjusted EPS.

Note 3:

For information on the methodology used to present constant currency information please refer to "Constant Currency Information"

Note 4:

Adjusted EBITDA is a non-GAAP financial measure. Adjusted EBITDA represents earnings before interest, taxes, depreciation and amortization, and other adjustments related to the Sealy Acquisition and additional costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder of the Company. Please refer to "Financial Measures" at the end of this presentation for more information regarding the definition of adjusted EBITDA. GAAP net income is

Note 5:

Represents the ratio of consolidated funded debt less qualified cash to adjusted EBITDA, a non-GAAP financial measure, calculated as of the end of the period. For more information regarding the definition of this non-GAAP financial measure, please refer to "Use of Non-GAAP Financial Measures" at the end of this presentation.

\$701.9

38.7%

9.9%

\$0.53

\$91.4

4.6x

\$739.5

38.5%

9.2%

\$0.55

\$90.5

3.9x

Net Sales

Adjusted Gross

Margin

Adjusted

Operating Margin

Adjusted EPS

Adjusted EBITDA

Leverage

1Q

-14

1Q

-15

+5.4% Actual

+9.4% Constant

Currency

-20bps Actual

+70bps Constant

Currency

-70bps Actual

+10bps Constant

Currency

+3.8% Actual

+20% Constant

Currency

-1.0% Actual

+8% Constant

Currency

1

2

1

1Q 2015 North America Summary
North
America
net
sales
increased
7.5%
to
\$594.1
million
and
on
a

constant
currency

basis
increased
8.5%

1
U.S. net sales increased
8.7%, with high-single digit sales growth across both our Tempur-Pedic and Sealy brands

Canada
net
sales
decreased

4.5%
and

on
a
constant
currency
basis
increased
7.2%

Bedding products net sales increased 8.0%, driven by a 5% increase in bedding units

Balanced
growth
across
portfolio,
and
particularly
strong
growth
of
adjustable
bases
and

Sealy
branded
products
Adjusted
gross
margin

2
improved
to
35.1%

from
34.0%;

U.S. margins improved for both Tempur-Pedic and Sealy brands, offset partially by margin decline in Canada
Foreign exchange had a negative impact of

40 basis points
Adjusted

operating
margin

2

increased

to

11.2%

from

10.6%

Foreign exchange had a negative impact of 40 basis points and operating expenses were slightly higher as a % of sales

+7.5% Actual

+8.5% Constant

Currency

+60bps Actual

+100bps Constant

Currency

+110bps Actual

+150bps Constant

Currency

7

Note 1:

For information on the methodology used to present constant currency basis please refer to Constant Currency Information

Note 2:

Adjusted gross margin and adjusted operating margin are non-GAAP financial measures. These financial measures represent C with the Sealy Acquisition and additional costs incurred in connection with the proxy solicitation campaign being conducted by "Use of Non-GAAP Financial Measures" at the end of this presentation for more information regarding the definition of adjust

1Q 2015 International Summary

-2.6% Actual

+12.8% Constant

Currency

International net sales decreased 2.6% to \$145.4 million

On

a

constant

currency

basis

net

sales

increased

12.8%

1

, with strong double-digit net sales growth in Asia-Pacific and Latin America and positive net sales growth in Europe

Bedding

product

net

sales

decreased

1.5%;

on

a

constant

currency

basis

increased

14.1%

(bedding

units

increased

14%)

Sales benefited from introduction of Sealy products into Europe and Japan, as well as higher Tempur direct sales

Adjusted operating margin

2

declined to 18.3% from 22.4%, driven largely by the rollout of Sealy Europe, geographic mix and unfavorable foreign exchange

Foreign exchange had a negative impact of 100 basis points

Note 1:

For information on the methodology used to present constant currency basis please refer to Constant Currency Information a

Note 2:

Adjusted gross margin and adjusted operating margin are non-GAAP financial measures. These financial measures represent C incurred in connection with the proxy solicitation campaign being conducted by a shareholder of the Company for the 2015 Ar regarding the definition of adjusted gross margin and adjusted operating margin.

-410bps Actual

-310bps Constant

Currency

-340bps Actual

-240bps Constant

Currency

Net Sales

GAAP

Adjusted Gross

Gross Margin

Margin

GAAP

Adjusted Operating

Operating Margin

Margin

International

1Q-14

1Q-15

8

\$149.3
55.8%
55.8%
22.4%
22.4%
\$145.4
52.0%
52.4%
17.4%
18.3%

9
Updated Full Year 2015 Financial Guidance
FY 2015
Guidance
Old Guidance
Range
New Guidance
Range
Y/Y Chg.
Net
Sales
\$3.050 to \$3.150
Billion

\$3.100 to \$3.175

Billion

+4% to +6%

Constant

Currency

2

Net Sales

+8% to +10%

Adjusted

EPS

3

\$2.70 to \$3.10

\$2.80 to \$3.15

+6% to +19%

Constant Currency

Adj. EPS

+18% to +31%

Note 1:

Management estimates. Please refer to Forward Looking Statements .

Note 2:

For information on the methodology used to present constant currency basis please refer to Constant Currency Information .

Note 3:

Adjusted EPS (which is a non-GAAP financial measure) is EPS adjusted for the Sealy Acquisition and integration costs, normal related issues, as well as redemption value adjustment to the Company's redeemable non-controlling interest. Please refer to the adjusted EPS.

10
Adjusted EPS Guidance Bridge
Adjusted EPS
1Q 2015
FY 2015
Initial FY 2015 Guidance (February 5, 2015)
\$0.45 to \$0.50
\$2.70 to \$3.10
1Q 2015 Actual
\$0.55
Updated FY 2015 Guidance @ April 24, 2015 Rates
\$2.80 to \$3.15
Raising

FY
2015
Guidance
1
Increasing
FY
2015
adjusted
EPS
2
guidance
to
reflect
the
better
than
expected
first
quarter
results
The
adjusted
EPS
impact
from
foreign
exchange
3
is
expected
to
be
\$0.32
in
FY
2015,
approximately
\$0.05
more
of
an

impact than the initial guidance provided on February 5, 2015

Note 1:

Management estimates. Please refer to [Forward Looking Statements](#) .

Note 2:

Adjusted EPS (which is a non-GAAP financial measure) is EPS adjusted for the Sealy Acquisition and integration costs, normal related issues, as well as redemption value adjustment to the Company's redeemable non-controlling interest. Please refer to the [adjusted EPS](#).

Note 3:

For information on the methodology used to present constant currency basis please refer to [Constant Currency Information](#) .

Appendix
11

Use of Non-GAAP Financial Measures

12

In this investor presentation and certain of its press releases and SEC filings, the Company provides information regarding adjusted earnings per share (EPS), adjusted gross margin, adjusted operating margin, adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA), funded debt and consolidated funded debt less qualified cash, which are not recognized terms under GAAP and do not purport to represent GAAP EPS as a measure of operating performance or total debt. Because not all companies use identical calculations, these measures may not be comparable to those of other companies. Adjusted EPS

A reconciliation of GAAP EPS to adjusted EPS is provided on slide 13. Management believes that the use of this non-GAAP measure provides investors with additional useful information with respect to the impact of various integration costs associated with the acquisition of Sealy, including the transition of manufacturing facilities in North America, redemption value of the Company's redeemable non-controlling interest and additional costs incurred in connection with the proxy solicitation. EBITDA/Adjusted EBITDA

A reconciliation of the Company's GAAP net income to EBITDA and adjusted EBITDA are provided on slides 14-16. Management

and adjusted EBITDA provides investors with useful information with respect to the terms of the Company's senior secured credit facility. For more information regarding adjusted EPS, adjusted EBITDA and other terms used in the Company's senior secured credit facility, see the SEC filings.

Consolidated Funded Debt and Consolidated Funded Debt Less Qualified Cash

A reconciliation of total debt to consolidated funded debt and consolidated funded debt less qualified cash is provided on slide 10. Consolidated funded debt and consolidated funded debt less qualified cash also provides investors with useful information with respect to the Company's Adjusted Gross Margin and Adjusted Operating Margin.

A reconciliation of GAAP gross margin to adjusted gross margin and GAAP operating margin to adjusted operating margin is provided on slide 11. Management believes that the use of these non-GAAP financial measures provides investors with additional useful information regarding the Company's gross profit, operating income and margin performance excluding the impact of various integration costs associated with the Company's transition of manufacturing facilities in North America, and additional costs incurred in connection with the proxy solicitation for the 2015 Annual Meeting and related issues.

Management believes that the use of these non-GAAP financial measures provides investors with additional useful information regarding the Company's gross profit, operating income and margin performance excluding the impact of various integration costs associated with the Company's transition of manufacturing facilities in North America, and additional costs incurred in connection with the proxy solicitation for the 2015 Annual Meeting and related issues.

Management believes that the use of these non-GAAP financial measures provides investors with additional useful information regarding the Company's gross profit, operating income and margin performance excluding the impact of various integration costs associated with the Company's transition of manufacturing facilities in North America, and additional costs incurred in connection with the proxy solicitation for the 2015 Annual Meeting and related issues.

Management believes that the use of these non-GAAP financial measures provides investors with additional useful information regarding the Company's gross profit, operating income and margin performance excluding the impact of various integration costs associated with the Company's transition of manufacturing facilities in North America, and additional costs incurred in connection with the proxy solicitation for the 2015 Annual Meeting and related issues. The Company's senior secured credit facility and the Company's compliance with key financial covenants are comparable to other similarly titled measures of other companies.

1Q 2015 Adjusted EPS Reconciliation
1Q 2014 and 1Q 2015 Adjusted EPS
13
Three Months Ended
Three Months Ended
(in millions, except per share amounts)
March 31, 2015
March 31, 2014
GAAP net income
\$
23.4
\$
27.4

Plus:

Redemption value adjustment on redeemable non-controlling interest,
net of tax

(1)
1.0

Integration costs, net of tax

(2)
8.3
5.2

Other costs, net of tax

(3)
1.5

Adjustment of income taxes to normalized rate

(4)
(0.1
)

Adjusted net income

\$
34.1
\$
32.6

GAAP earnings per share, diluted

\$
0.38
\$
0.44

Redemption value adjustment on redeemable non-controlling interest,
net of tax

(1)
0.02

Integration costs, net of tax

(2)
0.13
0.09

Other costs, net of tax

(3)
0.02

Adjusted earnings per share, diluted

\$
0.55
\$
0.53

Diluted shares outstanding

62.2
61.9

(1)

Redemption value adjustment on redeemable non-controlling interest represents a \$1.0 million adjustment, net of tax, to increase the carrying value of the redeemable non-controlling interest required to recognize its redeemable non-controlling interest in Comfort Revolution, LLC at the higher of 1) the accumulated earnings and 2) the balance sheet date. As of March 31, 2015, the redemption value exceeded the accumulated earnings associated with the redemption. A net adjustment, net of tax, to increase the carrying value of the redeemable non-controlling interest as of March 31, 2015. For all periods presented, the non-controlling interest was measured using its accumulated earnings. For further information, please refer to Note 16, "Redemption of Non-Controlling Interest," in the Company's Annual Report on Form 10-K filed on February 13, 2015.

(2)

Integration costs represents costs, including legal fees, professional fees, compensation costs and other charges related to the transaction related to the Sealy Acquisition.

(3)

Other costs represent additional costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder.

(4)

Adjustment of income taxes to normalized rate represents adjustments associated with the aforementioned items and other disclosures.

Adjusted EBITDA Reconciliation

1Q 2014 and 1Q 2015 Adjusted EBITDA

14

(1)

Redemption value adjustment on redeemable non-controlling interest represents a \$1.0 million adjustment, net of tax, to increase

(2)

Integration costs represents costs, including legal fees, professional fees, compensation costs and other charges related to the transition of the business related to the Sealy Acquisition.

(3)

Other costs represent additional costs incurred in connection with the proxy solicitation campaign being conducted by a shareholder

Three Months Ended

Three Months Ended

(in millions)

March 31, 2015

March 31, 2014

GAAP net income

\$

23.4

\$

27.4

Interest expense

20.4

22.2

Income taxes

10.3

11.5

Depreciation & amortization

21.8

24.0

EBITDA

\$

75.9

\$

85.1

Adjustments for financial covenant purposes:

Redemption value adjustment on redeemable non-controlling interest, net
of tax

(1)

1.0

Integration costs

(2)

11.5

6.3

Other costs

(3)

2.1

Adjusted EBITDA

\$

90.5

\$

91.4

Adjusted EBITDA Reconciliation

Twelve Months Ended March 31, 2015 Adjusted EBITDA

15

(1) Redemption

value

adjustment

on

redeemable

non-controlling

interest

represents

a

\$1.0

million
adjustment,
net
of
tax,
to
increase
the
carrying
value
of
the
redeemable
non-controlling
interest
as
of
March
31,
2015.

(2) Loss
on
disposal
of
business
represents
costs
associated
with
the
disposition
of
the
three
Sealy
U.S.
innerspring
component
production
facilities
and
related
equipment.

(3) Integration
costs
represents
costs,
including
legal
fees,

professional
fees,
compensation
costs
and
other
charges
related
to
the
transition
of
manufacturing
facilities,
and
other
costs
related
to
the
continued
alignment
of
the
business
related
to
the
Sealy
Acquisition.

(4) Financing
costs
represent
costs
incurred
in
connection
with
the
amendment
of
our
senior
secured
credit
facility.

(5) Other
income
includes
certain

other
non-recurring
items,
including
income
from
a
partial
settlement
of
a
legal
dispute.

(6) Other
costs
represent
additional
costs
incurred
in
connection
with
the
proxy
solicitation
campaign
being
conducted
by
a
shareholder
of
the
Company
for
the
2015
Annual
Meeting
and
related
issues.

Twelve Months Ended
(in millions)

March 31, 2015

Net income

\$

Interest expense

Income taxes

Depreciation & amortization

EBITDA

\$

Adjustments for financial covenant purposes:

Redemption value adjustment on redeemable non-controlling interest, net of tax

Loss on disposal of business

(2)

Integration costs

(3)

Financing costs

(4)

Other income

(5)

Other costs

(6)

Adjusted EBITDA

\$

104.9

90.1

63.7

87.5

346.2

1.0

23.2

45.5

1.3

403.7

(1)

(15.6)

2.1

Adjusted EBITDA Reconciliation

Twelve Months Ended March 31, 2014 Adjusted EBITDA

16

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

(1)

(1)

(in millions)

Twelve Months Ended

March 31, 2014

GAAP net income

\$

93.5

Interest expense

105.1

Income taxes

58.0

Depreciation & amortization

100.7

EBITDA

\$

357.3

Adjustments for financial covenant purposes:

Transaction costs

6.9

Integration costs

31.1

Adjusted EBITDA

\$

395.3

Debt Reconciliation and Leverage Ratio Calculation

Reconciliation of Total Debt to Consolidated Funded Debt Less Qualified Cash

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(1) Qualified cash as defined in the credit agreement equals 100.0% of unrestricted domestic cash plus 60.0% of unrestricted foreign cash, capped at \$150.0 million.

(1) The ratio of consolidated debt less qualified cash to adjusted EBITDA was 3.93 times, within the Company's financial covenants, compared to more than 4.75 times at March 31, 2015.

Calculation of consolidated funded debt less qualified cash to Adjusted EBITDA

(in millions)

As of March 31, 2015

Total debt

\$

1,602.6

Plus:

Letters of credit outstanding

17.3

Consolidated funded debt

\$

1,619.9

Less:

Domestic qualified cash

(1)

15.7

Foreign qualified cash

(1)

17.6

Consolidated funded debt less qualified cash

\$

1,586.6

(in millions)

As of March 31, 2015

Consolidated funded debt less qualified cash

\$

1,586.6

Adjusted EBITDA

403.7

3.93

times

(1)

1Q 2015 Adjusted Gross And Operating Margin

Reconciliation

1Q 2015 Adjusted Gross And Operating Margin

18

(in millions, except percentages)

Consolidated

Margin

North

America

(1)

Margin

International

(2)

Margin
Corporate
(3)

Net sales

\$
739.5

\$
594.1

\$
145.4

Gross profit

278.7
37.7

%
203.1

34.2
%

75.6
52.0

%

Adjustments

6.3

5.7

0.6

Adjusted gross profit

285.0

38.5

%

208.8

35.1

%

76.2

52.4

%

Operating income

54.4

7.4%

57.9

9.7%

25.3

17.4%

(28.8)

Adjustments

13.8

8.5

1.3

4.0
Adjusted operating income

\$
68.2
9.2%

\$
66.4
11.2%

\$
26.6
18.3

%
\$
(24.8)

(1) Adjustments for the North America business segment represent integration costs, which include compensation costs, professional fees and other charges to align the North America business segment related to the Sealy Acquisition.

(2) Adjustments for the International business segment represent integration costs incurred in connection with the introduction of the Sealy brand into the International market.

(3) Adjustments for Corporate represent integration costs which include legal fees, professional fees and other charges to align the Corporate business segment with the Sealy brand campaign being conducted by a shareholder of the Company for the 2015 Annual Meeting and related issues.

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1Q 2014 Adjusted Gross And Operating Margin
Reconciliation
1Q 2014 Adjusted Gross And Operating Margin
(in millions, except percentages)
Consolidated
Margin
North
America
(1)
Margin
International
Margin

Corporate

(2)

Net sales

\$

701.9

\$

552.6

\$

149.3

Gross profit

269.5

38.4

%

186.2

33.7

%

83.3

55.8

%

Adjustments

1.9

1.9

Adjusted gross profit

271.4

38.7

%

188.1

34.0

%

83.3

55.8

%

Operating income

62.4

8.9%

53.1

9.6%

33.5

22.4

%

(24.2)

Adjustments

7.4

5.2

2.2

Adjusted operating income

\$

69.8

9.9%

\$

58.3

10.6

%

\$

33.5

22.4

%

\$

(22.0)

(1) Adjustments for the North America business segment represent integration costs, which include severance and benefits costs, and the continued alignment of the North America business related to the Sealy Acquisition.

(2) Adjustments for Corporate represent integration costs which include legal fees, professional fees and other charges to align

Constant Currency Information

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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 excluded currency basis, 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's 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.