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INFORMATION



Gaining Control Over Trapped Cash in China: Leggett & Platt's Global Liquidity Management Program

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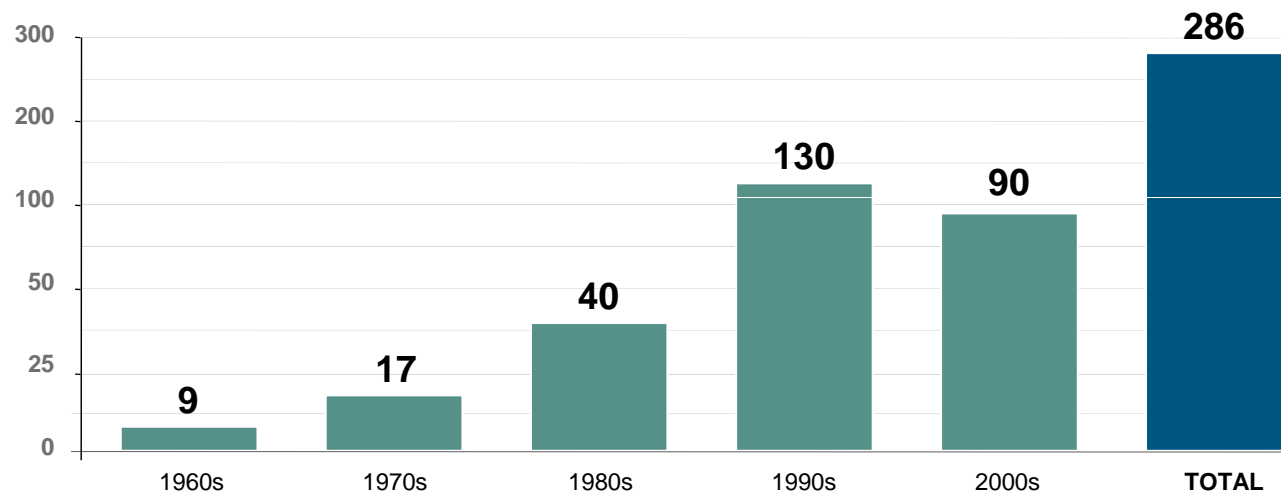
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Who is Leggett & Platt?

- 127 year old diversified manufacturer based in Carthage, Missouri
- 140 manufacturing facilities in 18 countries
- 20,000 employees
- Annual net sales
 - \$3.30 to \$3.35 billion in 2010
 - 25% outside the U.S.

Top line growth

Number of acquisitions by decade



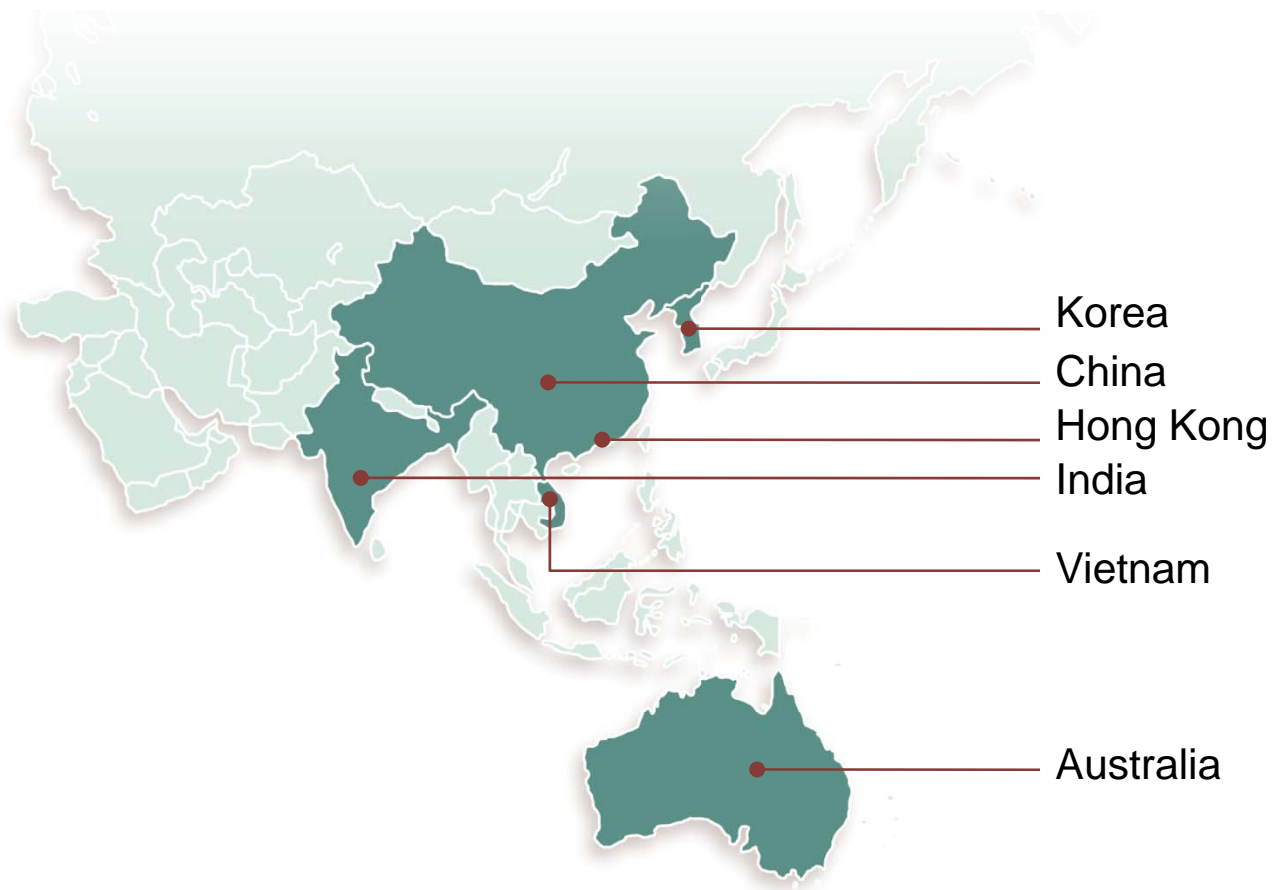
Net Sales

In 1967: Leggett & Platt goes public – \$13.3 million
In 2006: \$5.5 billion


The catalyst for improving efficiency: A shift in business priorities

	Current	Historical
Overall Goal:	TSR in Top 1/3 of S&P 500	15% Revenue Growth
Sources of TSR:	Yield, Buybacks, Growth Margin	Solely Growth
Capex:	Reserved for "Grow" BUs	Readily Available to All BUs
Dividend Payout:	50-60%	33%
Spare Cash Use:	Stock Buyback	Pay Off Debt
BU Strategy:	Comp. Advantage, Attractive Mkts.	Efficiency
Acquisitions:	Fewer, Strategy Driven	Opportunistic, "Good Deals"
Divestitures:	Normal Part of Portfolio Mgmt.	Seen as Admitting Defeat
Personnel:	Top Grading, A Players	Employment for Life

Operations in Asia: opportunities for efficiency



Leggett & Platt in China

- Represents \$250 million in sales, or 8% of sales globally
 - Separate legal entities throughout China that have grown through acquisition and joint ventures
 - No in-country holding company
 - Limited in-country treasury skill set
- 

Given our priorities, China presented tremendous opportunities


- An inefficient account and operational structure
 - Growth resulted in over 170 bank accounts and an increasing number of local bank relationships
 - Inconsistent service levels
 - Frequent transaction delays
- Less than optimal liquidity management


We needed to:

- Centralize the management of cash flows
- Increase visibility and control over cash
- Ensure access to daily liquidity while increasing yield
- Establish an efficient way to self-fund operations rather than to rely on ad hoc intercompany lending

But there were economic challenges...

At the end of 2008, there were many factors influencing change:

- 
- A shift in our strategic direction
 - Economic downturn
 - Tax increases
 - Declining yields



**Structure
to optimize
cash**

...and regulatory challenges in China

- A very dynamic regulatory environment – downstream impact on banks and their clients
- Regulations require interpretation, with differing view from banks and regulators
- Varied documentation requirements among banks and provinces
- Foreign currency controls and documentation for incoming and outgoing foreign currency funds movement
- Regulatory requirements for multiple bank accounts, in multiple cities, inhibit account rationalization activities

...as well as banking, investment and self-funding challenges

	Operating & Business Environment	Treasurer's Challenges
Managing Banking Relationships	<ul style="list-style-type: none"> • Geographically diverse • Regulations require multiple bank account types • No single bank with complete cross-China branch network 	<ul style="list-style-type: none"> • Growth driven by acquisition and joint ventures • Management of multiple bank accounts and relationships • Visibility on total/ net cash position • Manual processes
Managing Cash for Investment	<ul style="list-style-type: none"> • Ceiling on credit interest rates • Limited onshore investment options • Tenors for time deposits restricted • Regulations prevent offshore investments and FX conversions 	<ul style="list-style-type: none"> • Optimization of earnings on excess cash • Diversification of investments • Excess cash "trapped onshore"
Building Efficient Self-funding Models	<ul style="list-style-type: none"> • Direct Inter-company lending prohibited • Strict rules on capital injections • Limited options for cash repatriation of cash • Regulations used as economic lever • Minimum loan rates 	<ul style="list-style-type: none"> • Tracking changes in regulations • Cash forecasting • Cost minimization • Inter-company funding

In China, managing relationships is critical to success

- Relationships between local and corporate teams
- Extending a global relationship to local branches
- The way you do business can be as important as the results

Our treasury objectives

We focused on:

- Enhancing overall cash efficiency through centralized management of cash flows
- Improving visibility and control over cash in the country
- Concentrating cash to deploy it effectively and to position ourselves for future growth
- Reducing external borrowing costs and reliance on bank financing

Choosing the right banking partner was critical. What was the process?

- Solicited RFPs from six banks
- Reviewed everything from pricing to global strength
- Visited banks in China for first hand look at capabilities

We needed a bank that would:

- Guide us through the regulatory and business landscape in China and help achieve our treasury management objectives
- Take a holistic view of the relationship – develop solutions within the context of our strategic direction
- Understand the importance of relationships in China
- Partner with local banks
- Provide global and on-the-ground support for staff and banking partners
- Offer service consistency

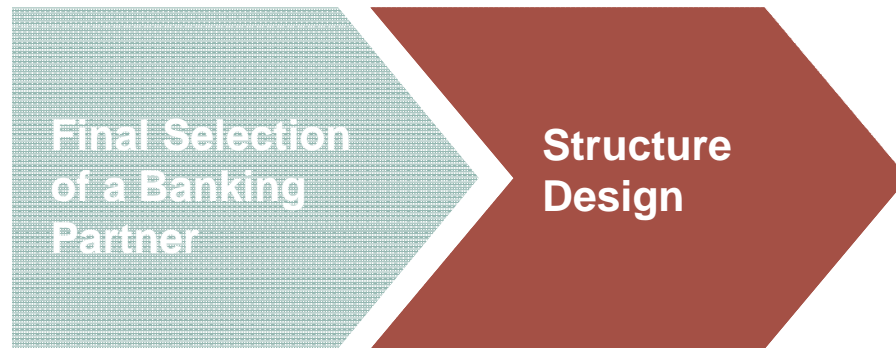
The process



Final Selection of a Banking Partner

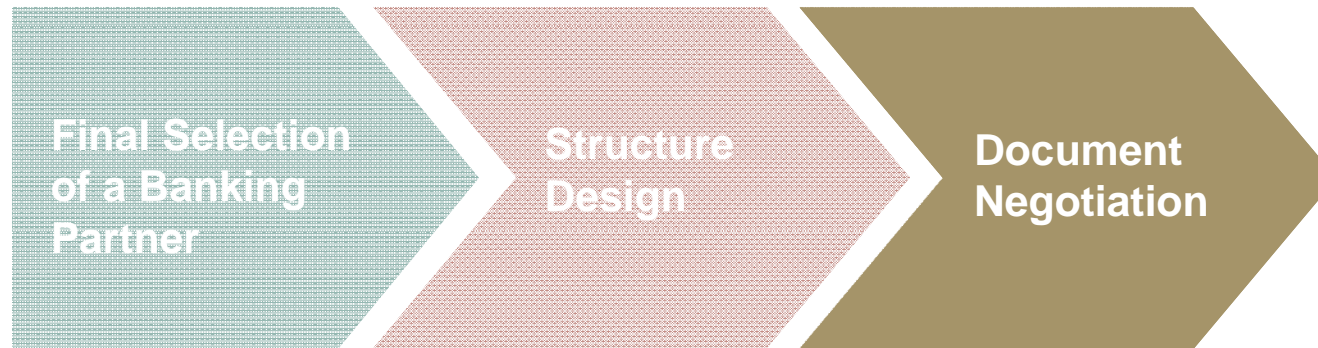
- Face to face interviews in China
- Developing a full understanding of each proposed solution
- Review of pricing and negotiation
- Confirmation of banking needs and bank capabilities
- Identifying “best fit” given priorities, pricing and global relationships

The process



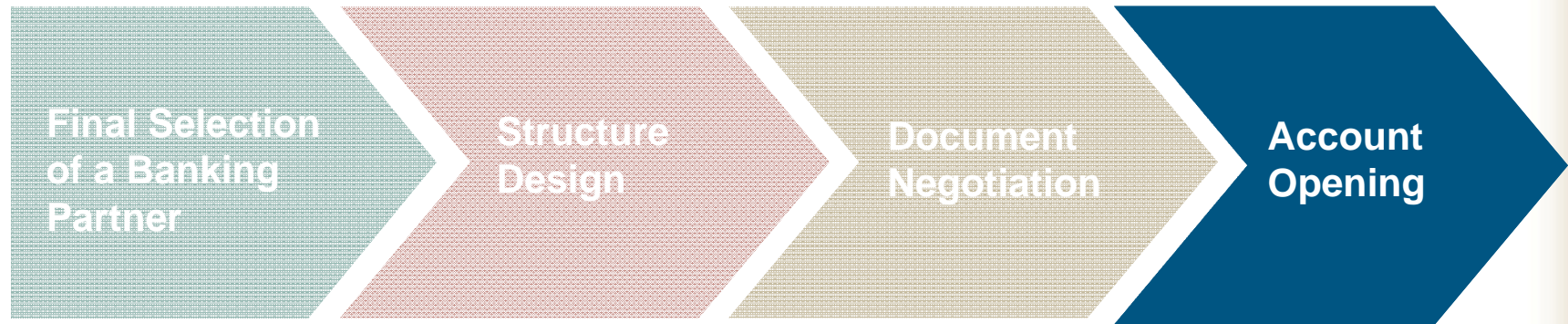
- “Down in the weeds” customization of the solution proposed in the RFP
- Tax implications (stamp tax, business tax, thin cap, interest deductibility and facility size)
- Transaction flows (sweeps, payments and receipts)
- Process design (control structures, disaster recovery and backup)
- Accounting/reporting needs
- Establishing arms-length pool rates
- Refinancing strategy for existing bi-lateral entrustment loans
- Billing processes (bank fees, taxes, etc.)

The process



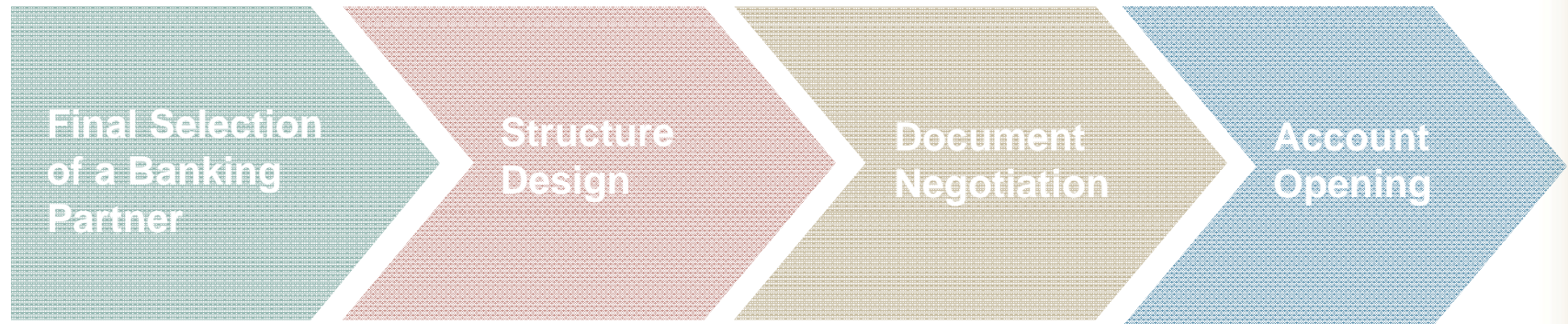
- Aligning local documents with global banking documents
- Matching the use of the structure with the documentation
- Meeting regulatory requirements

The process



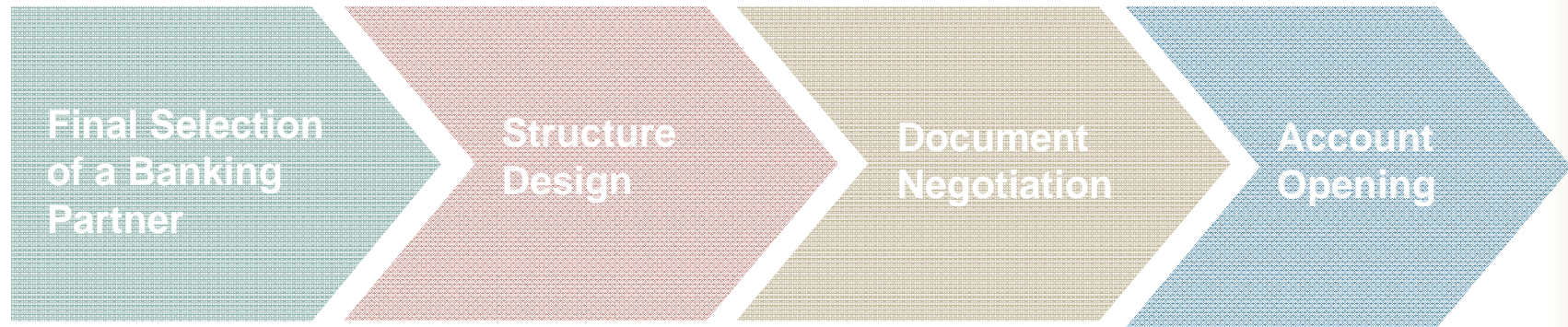
- Documentation
- Specific needs by province (local accounts)
- Basic account transition
- Board resolutions
- Signature cards
- Call-back lists
- Overdraft limits

The process



- Finalizing credit lines needed to facilitate liquidity structure
- Sizing of the facility to meet needs, yet minimize upfront tax cost
- Bank due diligence/KYC activities

The process



- Leggett & Platt and J.P. Morgan road show to each Leggett & Platt branch
- Training
- Roll out of new treasury policies designed to work within the new banking structure
- One-on-one approach to addressing concerns

Results to date

Where we started

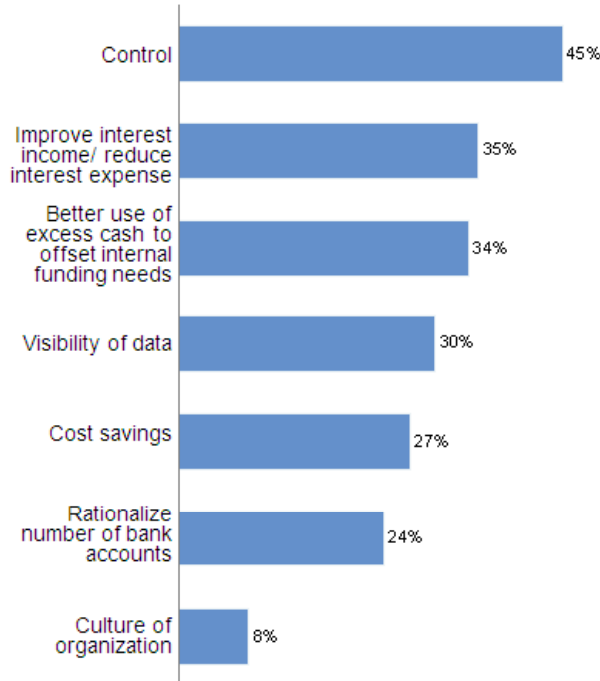
- 170 bank accounts
- Decentralized RMB accounts
- Funding structure was fragmented and difficult to manage
- No visibility into cash management, liquidity and investments
- Inefficient use of working capital lines

Where we are now

- Reduced number of accounts to a level necessary for operational efficiency
- Implemented a cash concentration structure to pool cash and improve self funding
- Invested idle cash and doubled yield on a weighted average basis
- Gained greater visibility and control of investments from HQ via liquidity portal
- Reduced DSO
- Improved exchange rates

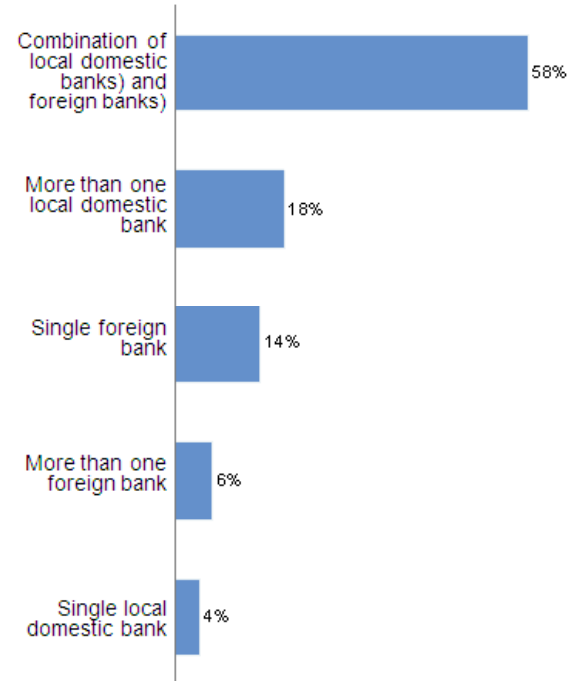
Gaining control over liquidity in a multibank environment is a key challenge for clients

45% of companies that manage cash/liquidity on a centralized basis see 'Control' as the main driver for centralization



Source: J.P. Morgan China Corporate Treasury Benchmarking Study 2009

58% of clients use a combination of local domestic and foreign banks for treasury and cash management in China



Source: J.P. Morgan China Corporate Treasury Benchmarking Study 2009

Main account types

Account	Currency	Purpose	Inflow	Outflow	Regulatory requirements
Capital account	Foreign currency	Receive capital investments from overseas parent entities and fund capital expenditures	Approved capital injections	Current items and approved capital items	Account must reside in city where legal entity is incorporated unless SAFE approval is sought.
Basic account	RMB	Initiate all transactions, including cash withdrawals and payroll disbursements	RMB collection via local wires, checks, credit notes and cash	RMB payment via local wire, checks, credit notes and cash	One account per legal entity in city of incorporation. PBOC approval required to open
General account	RMB	Serves same purpose as basic account with exclusion of cash withdrawals and payroll	RMB collection via local wires, checks, credit notes and cash	RMB payment via local wires, checks and credit notes	Multiple accounts can be held, but not in the same bank branch as basic account
Current account	Foreign currency	Settle cross-borders for normal business activities (e.g., imports, exports, non-trade, etc.)	Current items	Current items	Supporting documents of underlying transaction required (e.g. invoice, customs clearance form) before processing
Loan account	Foreign currency	Receive loans from onshore banks and subsequent disbursements	Loan drawdown	Disbursements with purpose defined in loan agreements.	No conversion to RMB is allowed and account must reside in the bank which grants the loan.

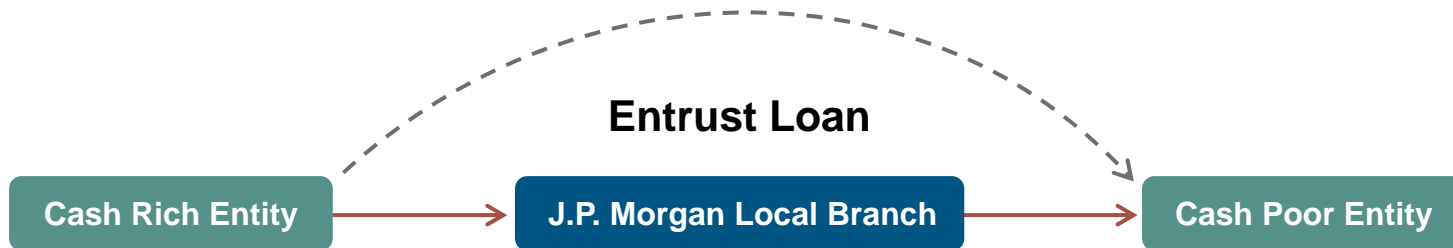
Payments, collections and service

- Multi-bank reporting/payment/collection set-up to increase operating efficiency and visibility
 - Accounts with J.P. Morgan and ICBC, J.P. Morgan's partner bank in China
 - Leggett & Platt can choose to initiate payments from either bank
 - Reports of both J.P. Morgan accounts and ICBC accounts can be viewed through J.P. Morgan's web-based electronic banking system
- J.P. Morgan's service team is Leggett & Platt's direct contact for all account issues
- Standard and consistent documentation is in compliance with Chinese regulations

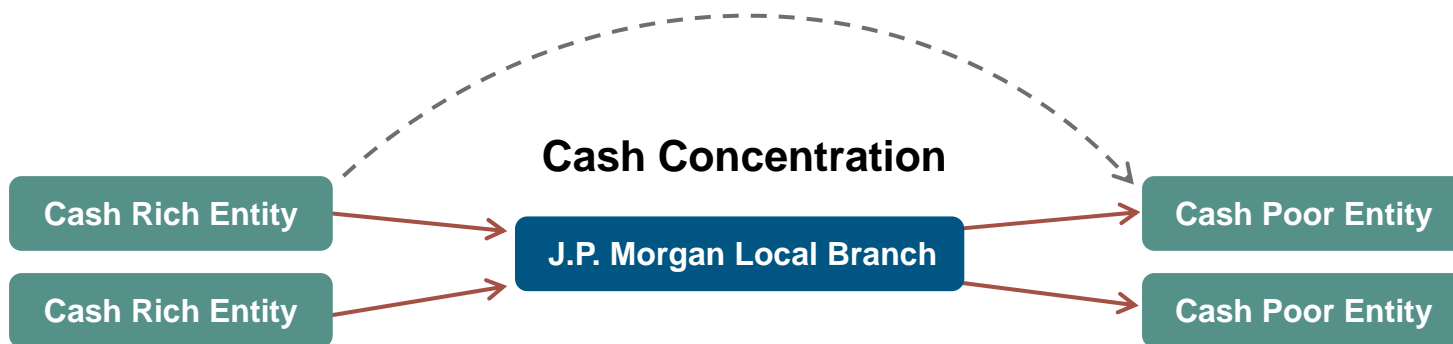
Cash concentration structures are facilitated through entrust loans in China

Direct intercompany lending has been prohibited by the regulators

J.P. Morgan acts as agent to the entrust loan arrangement, enabling lending between two entities.
Loans can be intercompany or to an external third party



... or can also be used for multi-entity cash concentration using an entrust loan structure



Terminologies & definitions

- **Bilateral entrust loan:** between two entities and typically draw-downs are based on active instructions from clients
 - Also called “multilateral entrust loans” if a group of entities are part of an entrust loan arrangement; however, each entrust loan transaction is between two entities only
- **Cash concentration:** between one header company and multiple related entities
 - Also called “cash pool” or “multi-party cash concentration arrangement”
 - Active instructions: loan drawdown details are instructed by client for each instruction
 - Passive instruction: loan drawdowns and repayment parameters are defined during on-boarding

Entrust loan arrangements: issues and costs

- Regulatory issues – e.g., money cannot be borrowed
- Stamp duty – 0.005% on the agreement amount per party (lender, bank and borrower)
- Business tax – 5% on the interest amount earned
- Implementation fees – administrative fees charged by the bank
- Thin capitalization rules – related party debt cannot exceed 200% of the borrower's net worth; consult your tax accountant

Benefits of a cash concentration structure

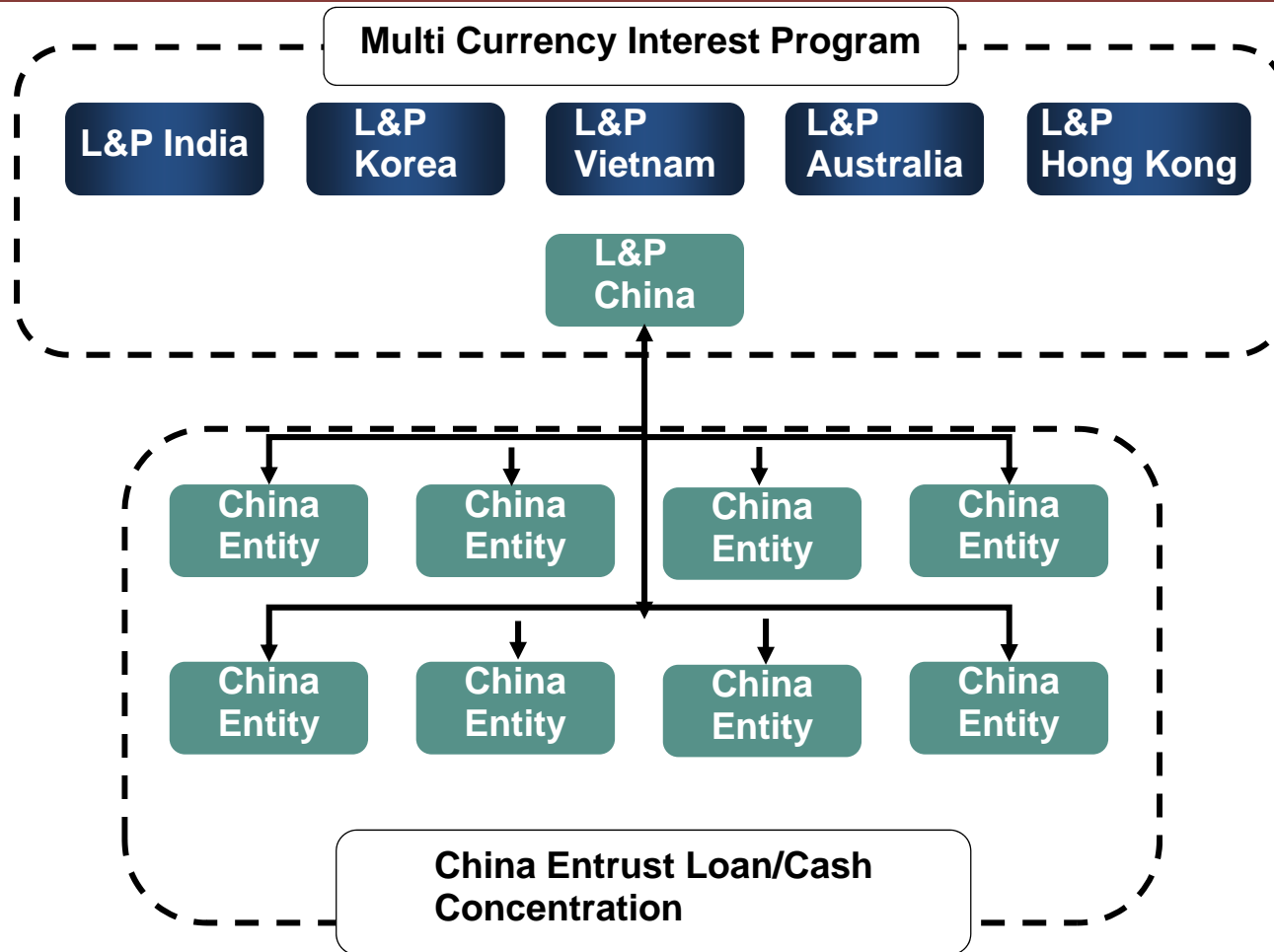
- Optimizes end-of-day cash positions
- Automated process; improves efficiency
- Enables self-funding
- Better able to manage centralized cash positions in China from U.S. headquarters
- Improved cash forecasting
- Automatic sweep between entities prevents over-borrowing
- Access to real-time information available to make effective global liquidity and investment decisions
- Investments made through J.P. Morgan's Liquidity portal, providing improved controls

Integrating China with other Asia locations

Multicurrency Interest Program enables Leggett & Platt to:

- Leverage the value of trapped cash in other highly regulated Asian markets
- Manage regional operating balances in Asia as a portfolio
- Use the program in conjunction with other short-term investments (time deposits and higher yielding cash accounts)
- Obtain yield for operating balances that would go uninvested
- Have a base for efficient investment management as Leggett & Platt's business in the region continues to grow

Global liquidity – the Leggett & Platt solution



Lessons learned

- You need a neutral, reliable source for information
- Be prepared for the magnitude of the complexity
- Documentation is difficult!
- The backing of the senior team is essential
- With a clear goal and strategy, and the right banking solution, you can get the control you need

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