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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant x

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

x 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):

x 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:

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

Tempur Sealy International, Inc.
March 18, 2015
Improving the Sleep of More People Every Night,
All Around the World

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

TEMPUR-Choice, TEMPUR-Weightless, TEMPUR-Contour, TEMPUR-Rhapsody, TEMPUR-Flex, GrandBed, TEMPUR-Simplicity, TEMPUR-Ergo, TEMPUR-UP, TEMPUR-Neck, TEMPUR-Symphony, TEMPUR-Comfort, TEMPUR-Traditional, TEMPUR-Home, Sealy, Sealy Posturepedic, Stearns & Foster, and Optimum are trademarks, trade names or service marks of Tempur Sealy International, Inc. and/or its subsidiaries. All other trademarks, trade names and service marks in this presentation are the property of the respective owners. This investor presentation contains "forward-looking statements, within the meaning of the federal securities laws,which include information concerning one or more of the Company's plans, objectives, goals, strategies, and other information that is not historical information. When used in this presentation, the words "assumes," "estimates," "expects," guidance, "anticipates," "projects," "plans," proposed, "intends," "believes," and variations of such words or similar expressions are intended to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to the Company s expectations regarding its key strategic growth initiatives and strategic priorities, expectations regarding the Company s net sales, revenue performance, adjusted

EBITDA, adjusted EPS, operating cash flow, free cash flow, synergies and pricing increases and related assumptions for 2015 and subsequent years, expectations regarding net sales growth rates, sales growth opportunities for Sealy in international markets and for the TEMPUR-Flex line of products, margin improvements, expansion of distribution, AUSP growth, the impact of foreign exchange, the Company s leverage ratio, and expectations regarding growth opportunities relating to acquisitions and returning value to stockholders. All forward looking statements are based upon current expectations and beliefs and various assumptions. There can be no assurance that the Company will realize these expectations or that these beliefs will prove correct. Numerous factors, many of which are beyond the Company's control, could cause actual results to differ materially from those expressed as forward-looking statements in this investor presentation. These risk factors include risks associated with the Company s capital structure and increased debt level; the ability to successfully integrate Sealy into the Company s operations and realize cost and revenue synergies and other benefits from the transaction; whether the Company will realize the anticipated benefits from its asset dispositions in 2014 and the acquisition of brand rights in certain international markets in 2014; general economic, financial and industry conditions, particularly in the retail sector, as well as consumer confidence and the availability of consumer financing; changes in product and channel mix and the impact on the Company's gross margin; changes in interest rates; the impact of the macroeconomic environment in both the U.S. and internationally on the Company's business segments; uncertainties arising from global events; the effects of changes in foreign exchange rates on the Company s reported net sales and earnings; consumer acceptance of the Company s products; industry competition; the efficiency and effectiveness of the Company s advertising campaigns and other marketing programs; the Company s ability to increase sales productivity within existing retail accounts and to further penetrate the Company s retail channel, including the timing of opening or expanding within large retail accounts and the timing and success of product launches; the effects of consolidation of retailers on revenues and costs; the Company s ability to expand brand awareness, distribution and new products; the Company s ability to continuously improve and expand its product line, maintain and improve efficient, timely and cost-effective production and delivery of its products, and manage its growth; the effects of strategic investments on the Company s operations; changes in foreign tax rates and changes in tax laws generally, including the ability to utilize tax loss carry forwards; the outcome of various pending tax audits or other tax, regulatory or litigation proceedings; changing commodity costs; and the effect of future legislative or regulatory changes. Additional information concerning these and other risks and uncertainties are discussed in the Company's filings with the Securities and Exchange Commission, including without limitation the Company's 2014 Annual Report on Form 10-K filed on February 13, 2015 with the SEC, under the headings "Special Note Regarding Forward-Looking Statements" and "Risk Factors." Any forward-looking statement speaks only as of the date on which it is made, and the Company undertakes no obligation to update any forward-looking statements for any reason, including to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of anticipated or unanticipated events or circumstances. Note Regarding Historical Financial Information: In this investor presentation we provide or refer to certain historical information for the Company. For a more detailed discussion of the Company s financial performance please refer to the Company s SEC filings.

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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

The Industry s Only Truly Global Company
`

Tempur Sealy Presence
Note: Presence includes subsidiaries, joint ventures, third party, and licensee markets.
4

Complete and Complementary Portfolio of Brands
Luxury
Premium
Mid-Price
Value
5
Tempur-Pedic

#1 US Brand People Are Most Interested In Purchasing
Sealy

#1 US Brand In Total Awareness

#1 US Brand People Are Most Likely To Buy
Stearns
&
Foster

#1 US Brand In Luxury Innerspring Sales
Note
1:
2014
Mattress
Industry
Consumer
Research

U.S.
Market
Note
2:
Stearns
&
Foster
#1
US
Brand
in
Luxury
Innerspring
Sales
based
on
management
estimates.

Complete Range Of Products
Innerspring
Hybrid
Stearns & Foster
TEMPUR-Flex
Adjustable Comfort
TEMPUR-Cloud
Memory Foam, Gel Visco, Latex
Tempur Material
Other Specialty
6
Adjustable Bases
TEMPUR-Ergo Plus

Pillows
TEMPUR Pillows

Strong, Established Management Team
7
Experienced Management Team With Proven Track
Record Of Execution
Years with
Consumer
Tempur
Name
Position
Prior Experience
Products
Inter'l
Sealy

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

Key Priorities 2012
2014
Return Tempur North America to growth and improve operating margins
Revamped entire product offering (2012-2014) and improved retailer economics (August 2012)
Sales growth resumed and margins expanded significantly in 2H-2014 and expected to further expand in 2015
Maintain Sealy sales growth momentum and margins
Sales growth had just begun prior to the acquisition in 2013, and growth continued in 2013 and accelerated in 2014
Margins, however, declined in 2014 and are a primary area of focus in 2015 and beyond
Integrate Sealy
Organizational integration with Sealy essentially complete in North America
Cost synergies realized from the acquisition are ahead of our projections
Capitalizing on strategic growth initiatives of complementary brand and product portfolio

Position International business for future growth
Acquired Sealy brand rights in Europe (ex. UK) and Japan, and commenced roll-out in 3Q 2014
(Weakness in Central Europe affected overall International performance)
Reinvested A Significant Portion Of Cost Synergies Realized
From Sealy Acquisition To Support These Key Priorities
8

9

Tempur Sealy Strategic Priorities

Leverage and Strengthen Our Comprehensive Portfolio Of Iconic Brands & Products

Expand Distribution And Seek Highest Dealer Advocacy

Expand Margins With Focus On Driving Significant Cost Improvement

Accretive Acquisitions Of Licensees And Joint Ventures

Leverage Global Scale For Competitive Advantage

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

Strong Cash Flow To Reduce Debt And Return Value to Stockholders

Delivering Value For Stockholders

Note 1: Management estimates. Please refer to Forward Looking Statements .

Note 2: Targets are based on constant currency. For information on the methodology used to present constant currency information please refer to slide 27. Note 3: Adjusted EPS (which is a non-GAAP financial measure) is EPS adjusted for Sealy transaction and integration costs, loss on disposal of business related to the disposition of the three U.S. innerspring component facilities and related equipment, interest and fees incurred in connection with debt amendments and refinancings, normalized tax rate adjustments and to exclude certain non-recurring items. Please refer to the reconciliations on slide 21 and the Company s SEC filings for more information regarding the definition of adjusted EPS.

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

Distribution
Synergies
Leverage
JV
(CR)

Expand Margins With Focus On Driving Significant
Cost Improvement
11
Note 1: Represents initiatives to be achieved by 2018. Our expectation is that they will ramp through the period. Approximate
Forward Looking Statements .
Note 2: Refers to Sealy gross margin in the U.S. of 30% in 2014. Sealy US gross margin improvement excludes the benefit fro
Note 3: Adjusted operating expense leverage is a non-GAAP financial measure. For information on the methodology used to p
leverage please refer to slide 24.
Note 4: Cost synergies reflect annualized cost synergies realized from the Sealy transaction.
2015 -2018
Objective
2014
Annual

Incremental
Operating
Income
1
Initiative
Sealy US Gross Margin Improvement
2
30%
33%
$45 million
Cost Synergies
4
$45 million
$70 million
$25 million
Adjusted Operating Expense Leverage
3
29%
28%
$30 million
$125 million
2015 Pricing

$25 million
$25 million
These
Initiatives
Alone
Provide
More
Than
300bps
Of
Operating
Margin
Improvement

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

Procurement

R&D

Engineering and design
Product Development

Cloud and Breeze Beds

Stearns & Foster

Posturepedic Hybrid
Distribution
Brand
12

Globally Diverse Bedding Provider Largely Sold In
The Retail Channel
2014 Net Sales
By Segment
International
North America
13
By Geographic Region
Europe
US
Canada
Asia Pacific
Latin America

Other
Retail
By Channel
Other
By Product
Bedding

2014 Net Sales increased 21%
Estimated net sales growth would have been +8% had we owned Sealy for all of 2013
2015 Net Sales growth guidance of 2% to 5%, and includes unfavorable FX of 3.5%
Net Sales
Note
1:
Please
refer
to
Forward
Looking
Statements .
Note

2: Estimated net sales growth of 8% for 2014 is based on Tempur Sealy International consolidated net sales for 2013 plus management s estimates for Sealy sales for the period of January 1, 2013 to March 17, 2013. The Sealy acquisition was completed on March 18, 2013. Net sales for 2013 only include Sealy from March 18, 2013 to December 31, 2013, while 2014 and 2015 results include Sealy for the full year and as a result information may not be comparable. Note 3: 2015P is the Company s Net Sales guidance issued on February 5, 2015, which consisted of full year

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

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

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

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

slide
27.
Adjusted Operating
Margin
Adjusted Operating
Margin

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

On February 5, 2015, the Company issued guidance for Adjusted EPS for full year 2015 of $2.70 to $3.10. Please refer to Forward Looking Statements . Note 2: GAAP EPS for 2013 was $1.28 and GAAP EPS for 2014 was $1.75. Adjusted EPS for 2013 only include Sealy from March 18, 2013 to December 31, 2013, while 2014 and 2015 results include Sealy for the full year and as a result information may not be comparable.

Note 3: Base Annual Adjusted EPS Growth Target is based on constant currency. For information on the methodology used to present constant currency information please refer to slide 27. Note 4: Adjusted EPS (which is a non-GAAP financial measure) is EPS adjusted for Sealy transaction and integration costs, loss on disposal of business related to the disposition of the three U.S. innerspring component facilities and related equipment, interest and fees incurred in connection with debt refinancings, normalized tax rate adjustments and to exclude certain non-recurring items. Please refer to the reconciliations on slide 21 and the Company s SEC filings for more information regarding the definition of adjusted EPS.

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

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

Strong Cash Flow Characteristics
17
($ in millions)
Operating and Free Cash Flow
Note 1: Operating and free cash flow for 2013 only include Sealy from March 18, 2013 to December 31, 2013, while 2014 res
Note 2: Free cash flow is a non-GAAP financial measure. For information on the methodology used to present free cash flow
Note 3: For information on the methodology used to present constant currency information please refer to slide 27.
Multi-year add back to net income as D&A should continue to exceed annual Capex by $30M+
Expect continued growth in operating and free cash flow in 2015

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

estimates. Please refer to Forward Looking Statements . Note 2: Adjusted EBITDA (which is a non-GAAP financial measure) represents EBITDA adjusted for the loss on disposal of business, Sealy transaction and integration costs, and purchase price allocation (PPA) inventory adjustments related to the Sealy acquisition, financing and refinancing costs, non-cash compensation, restructuring and other. Please refer to the reconciliation included on slides 22-23 of this presentation and the Company s SEC filings for more information regarding the definition of adjusted EBITDA and the calculation of consolidated funded debt less qualified cash (which are non-GAAP financial measures) and the calculation of the leverage

ratio
for
purposes
of
the
Company s
senior
secured
facility.

As a larger more stable company, our optimal capital structure is 3x

2014 credit agreement amendment allows cash utilization flexibility below 3.5x

Value creation generated through deleverage and/or returning value to shareholders

Appendix
19
*
*
*
*
*
*
*

Use of Non-GAAP Financial Measures
In
this
investor
presentation
and
certain
of
its
press
releases
and
SEC

filings, the Company provides information regarding adjusted net income, adjusted earnings per share, earnings before interest, taxes, depreciation, and amortization (EBITDA), adjusted EBITDA, and consolidated funded debt and consolidated funded debt less qualified cash, adjusted operating expenses, adjusted operating income and operating margin and free cash flow, which are not recognized terms under U.S. Generally Accepted Accounting Principles (GAAP) and do not purport to be alternatives to net income as a measure of operating performance or total debt. Because not all companies use identical calculations, these presentations may not be comparable to other similarly titled measures of other companies. Adjusted

Net Income/Adjusted EPS

A reconciliation of adjusted net income and adjusted earnings per share is provided on slide 21. Management believes that the use of these non-GAAP financial measures provides investors with additional useful information with respect to the impact of various costs associated with the Sealy acquisition and the disposal of the three U.S. innerspring component facilities and financing costs incurred in connection with the amendment and refinancing of our senior secured credit facility in 2014 and 2013, other income related to certain other non-recurring items, including income from a partial settlement of a legal dispute, and adjustment of taxes to a normalized rate related to the aforementioned items and other discrete income tax events.

EBITDA/Adjusted EBITDA

A reconciliation of EBITDA and adjusted EBITDA to the Company s net income and a reconciliation of total debt to consolidated funded debt and consolidated funded debt less qualified cash are provided on slides 22 and 23. Management believes that the use of EBITDA and adjusted EBITDA also provides investors with useful information with respect to the terms of the Company s senior secured credit facility and the Company s compliance with key financial covenants. For more information regarding adjusted EPS, adjusted EBITDA and other terms used in the Company s senior secured facility, please refer to the Company s SEC filings.

Adjusted Operating Expenses

A reconciliation of GAAP operating expenses to adjusted operating expenses, which is GAAP operating expenses less integration and financing costs, is provided on slide 24. Management believes that the use of this non-GAAP financial measure provides investors with additional useful information with respect to the Company s operating performance and initiative to deleverage operating expenses during 2015-2018. The reconciliation provides information on the methodology used to present operating expenses, including the exclusion of integration and financing costs related to the Sealy acquisition. Adjusted

Operating Income and Margin

A reconciliation of GAAP operating income and operating margin to adjusted operating income and operating margin, which are GAAP operating income and GAAP operating margin less integration and financing costs, is provided on slide 25. Management believes that the use of these non-GAAP financial measures provides investors with additional useful information with respect to the Company s operating income and margin performance excluding the impact of integration and financing costs related to the Sealy acquisition.

Free Cash Flow

A reconciliation of cash provided by operating activities to free cash flow, which is cash provided by operating activities less purchases of property, plant and equipment, is presented on slide 26. Management believes that the use of this non-GAAP financial measure provides investors with additional useful information with respect to the Company s cash generation and financial strength.

20

2014
Adjusted EPS Reconciliation
2013 and 2014 Adjusted EPS
(1) Loss on disposal of business represents costs associated with the disposition of the three U.S. innerspring component facilit
(2) Transaction and integration represents costs, including legal fees, professional fees and other charges to align the businesse
(3) Financing costs represent costs incurred in connection with the amendment and refinancing of our senior secured credit fac
(4)
Other
income
includes
certain
other
non-recurring

items,
including
income
from
a
partial
settlement
of
a
legal
dispute.
(5) Adjustment of taxes to normalized rate represents adjustments associated with the aforementioned items and other discrete
Note: 2013 includes Sealy from March 18 to December 31, 2013.
21
Year Ended
Year Ended
(in millions, except per share amounts)
December 31,
December 31,
2013
2014
Net income
78.6
$
108.9
$
Plus:
Loss on disposal of business, net of tax
(1)
--
16.7
Transaction costs, net of tax
(2)
13.2
--
Integration costs, net of tax
(2)
37.2
30.6
Financing costs, net of tax
(3)
6.5
3.4
Other income, net of tax
(4)
--
(11.3)
Adjustment of taxes to normalized rate
(5)
10.9

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

Adjusted EBITDA Reconciliation
2013 and 2014 Adjusted EBITDA
22
(1)
2013
is
presented
according
to
the
methodology
used
for

the Company s senior secured facilities and is based on the mathematical combination of the Company s historical financial results for the twelve months ended December 31, 2013 and Sealy s historical financial results for the pre-acquisition period from December 3, 2012 through March 3, 2013.

(2) Transaction and integration represent costs related

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

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

(4)

Non-cash compensation represent costs associated with various share-based awards.
(5) Restructuring and impairment represent costs related to restructuring the Tempur Sealy business and asset impairment costs recognized by Sealy prior to the Sealy acquisition.
(6) Loss on disposal of business represents costs associated with the disposition of the three U.S.

innerspring
component
production
facilities
and
related
equipment
and
discontinued
operations
represent
losses
from
Sealy's
divested
operation
prior
to
the
Sealy
acquisition.
(7)
Other
income
in
2014
includes
certain
other
non-recurring
items,
including
income
from
a
partial
settlement
of
a
legal
dispute.
Year Ended
Year Ended
(in millions)
December 31,
December 31,
2013
(1)
2014
Net income attributable to Tempur Sealy International, Inc.

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

Debt Reconciliation and Leverage Ratio Calculation
Reconciliation of Total Debt to Consolidated Funded Debt Less Qualified Cash
(1)
Qualified
cash
as
defined
in
the
Company's
senior
secured
credit

facility equals 100.0% of unrestricted domestic cash plus 60.0% of unrestricted foreign cash. For purposes of calculating leverage ratios, qualified cash is capped at $150.0 million.
(2) The ratio of consolidated debt less qualified cash to adjusted EBITDA was 3.89 times, within the Company's covenant, which requires this ratio to

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

Foreign qualified cash
(1)
21.9
Consolidated funded debt less qualified cash
1,572.7
$
Adjusted EBITDA
404.6
$
Consolidated funded debt less qualified cash to Adjusted EBITDA
(2)
3.89 times

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

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

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

Tempur Sealy International, Inc.

(in millions, except percentage amounts)	Year Ended December 31, 2014
Consolidated net sales	$2,989.8
Selling and marketing expenses	619.9
General, administrative and other expenses	280.6
Operating Expenses	900.5
Operating Expenses as a % of Consolidated Net Sales	30%
Operating Expenses	$900.5
Less: Integration and financing costs	43.8

Operating Expenses less Integration and financing costs
$856.7
Adjusted Operating Expenses as a % of Consolidated Net Sales
29%

Adjusted Operating Margin
2014 Adjusted Operating Income and Margin
25
Note 1: Integration costs represents costs, including legal fees, professional fees and other charges to align the businesses relat
Note 2: Financing costs represent costs incurred in connection with the amendment of our senior secured credit facility.
Tempur Sealy International, Inc.
Year Ended
(in millions, except percentage amounts)
December 31,
2014
Operating Income, Tempur Sealy International, Inc.
$276.3
Consolidated net sales

2,989.8
Operating Margin (GAAP)
9.2%
Operating Income, Tempur Sealy International, Inc.
$276.3
Plus: Integration and financing costs
43.8
Adjusted Operating Income
$320.1
Consolidated net sales
2,989.8
Adjusted Operating Margin (Non-GAAP)
10.7%

Free Cash Flow
2014 Free Cash Flow
26
Tempur Sealy International, Inc.
Year Ended
Year Ended
(in millions)
December 31,
December 31,
2013
2014
Net cash provided by operating activities
$98.5

$225.2
Less: Purchases of property, plant and equipment
40.0
47.5
Free Cash Flow
$58.5
$177.7

Constant Currency Information

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

releases and other communications with investors the Company may refer to, net sales or earnings or other historical financial information on a constant currency basis or excluding FX , which is a non-GAAP measure. These references to constant currency basis do not include operational impacts that could result from fluctuations in foreign currency rates. To provide information on a constant currency basis, the applicable financial results are adjusted based on a simple mathematical model that translates current period results in local currency using the comparable prior year period s currency conversion rate. This approach is used for countries where the functional currency is the local country currency. This information is provided so that certain financial results can be viewed without the impact of fluctuations in foreign currency rates, thereby facilitating period-to-period comparisons of business performance. The information presented on a constant currency basis is not recognized under U.S. GAAP, and this information

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