

TEMPUR SEALY INTERNATIONAL, INC.
Form 10-K
February 25, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018
Commission file number 001-31922

TEMPUR SEALY INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware 33-1022198
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1000 Tempur Way
Lexington, Kentucky 40511
(Address of registrant's principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (800) 878-8889
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large Accelerated filer Accelerated filer Non-Accelerated filer Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.):

Yes No

The aggregate market value of the common equity held by nonaffiliates of the registrant on June 30, 2018, computed by reference to the closing price for such stock on the New York Stock Exchange on such date, was approximately \$2,192,144,163.

The number of shares outstanding of the registrant's common stock as of February 18, 2019 was 54,641,297 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2019 Annual Meeting of Stockholders, which is to be filed subsequent to the date hereof, are incorporated by reference into Part III of this Form 10-K.

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Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K (the “Report”), including the information incorporated by reference herein, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which includes information concerning one or more of our plans; objectives; goals; strategies and other information that is not historical information. Many of these statements appear, in particular, under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, ITEM 7 of this Report. When used in this Report, the words “assumes,” “estimates,” “expects,” “guidance,” “anticipates,” “projects,” “plans,” “proposed,” “targets,” “intends,” “believes,” “will” and variations of such words or similar expressions are intended to identify forward-looking statements. These forward-looking statements are based upon our current expectations and various assumptions. There can be no assurance that we will realize our expectations or that our 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 Report, including risks associated with the impact of the macroeconomic environment in both the U.S. and internationally (including the impact of our highly inflationary economies) on our business segments and expectations regarding growth of the mattress industry; uncertainties arising from global events; the effects of strategic investments on our operations, including our efforts to expand our global market share; the ability to develop and successfully launch new products; the efficiency and effectiveness of our advertising campaigns and other marketing programs; the ability to increase sales productivity within existing retail accounts and to further penetrate the retail channel, including the timing of opening or expanding within large retail accounts and the timing and success of product launches; the ability to continuously improve and expand our product line, maintain efficient, timely and cost-effective production and delivery of products, and manage growth; the effects of consolidation of retailers on revenues and costs; competition in our industry; consumer acceptance of our products; the effects of discontinued operations on our operating results and future performance; general economic, financial and industry conditions, particularly conditions relating to the financial performance and related credit issues present in the retail sector; financial distress among our business partners, customers and competitors; financial solvency and related problems experienced by other market participants; our reliance on information technology and the associated risks involving potential security lapses and/or cyber-based attacks; the outcome of pending tax audits or other tax, regulatory or investigation proceedings and pending litigation; changes in foreign tax rates and changes in tax laws generally, including the ability to utilize tax loss carryforwards; our capital structure and increased debt level, including our ability to meet financial obligations and continue to comply with the terms and financial ratio covenants of our credit facilities; changes in interest rates; effects of changes in foreign exchange rates on our reported earnings; changing commodity costs; disruptions in the supply of raw materials, or loss of suppliers; expectations regarding our target leverage and our share repurchase program; sales fluctuations due to seasonality; the effect of future legislative or regulatory changes, including changes in international trade duties, tariffs and other aspects of international trade policy; our ability to protect our intellectual property; and disruptions to the implementation of our strategic priorities and business plan caused by abrupt changes in our executive management team.

Other potential risk factors include the risk factors discussed under the heading “Risk Factors” under Part I, ITEM 1A of this Report. In addition, there may be other factors that may cause our actual results to differ materially from the forward-looking statements.

All forward-looking statements attributable to us apply only as of the date of this Report and are expressly qualified in their entirety by the cautionary statements included in this Report. Except as may be required by law, we undertake no obligation to publicly update or revise any of the forward-looking statements, whether as a result of new information, future events, or otherwise.

When used in this Report, except as specifically noted otherwise, the term “Tempur Sealy International” refers to Tempur Sealy International, Inc. only, and the terms “Company,” “we,” “our,” “ours” and “us” refer to Tempur Sealy International, Inc. and its consolidated subsidiaries. When used in this Report, the term “Tempur” may refer to Tempur-branded products and the term “Sealy” may refer to Sealy-branded products or to Sealy Corporation and its historical subsidiaries, in all cases as the context requires. In addition, when used in this Report, “2016 Credit

Agreement” refers to the Company’s senior credit facility entered into in 2016; “2012 Credit Agreement” refers to the Company’s prior senior credit facility entered into in 2012; “2023 Senior Notes” refers to the 5.625% senior notes due 2023 issued in 2015; “2026 Senior Notes” refers to the 5.50% senior notes due 2026 issued in 2016; "2020 Senior Notes" refers to the 6.875% senior notes due 2020 retired in 2016; and "8.0% Sealy Notes" refers to Sealy’s 8.0% Senior Secured Third Lien Convertible Notes retired in 2016.

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PART I

ITEM 1. BUSINESS

General

We develop, manufacture and market bedding products, which we sell globally. Our brand portfolio includes many highly recognized brands in the industry, including TEMPUR®, Tempur-Pedic®, Sealy® featuring Posturepedic® Technology, and Stearns & Foster®. Our comprehensive suite of bedding products offers a variety of products to consumers across a broad range of channels.

We operate in two segments: North America and International. Corporate operating expenses are not included in either of the segments and are presented separately as a reconciling item to consolidated results. These segments are strategic business units that are managed separately based on geography. Our North America segment consists of Tempur and Sealy manufacturing and distribution subsidiaries and licensees located in the U.S. and Canada. Our International segment consists of Tempur and Sealy manufacturing and distribution subsidiaries, joint ventures and licensees located in Europe, Asia-Pacific and Latin America. We recently divested certain of our manufacturing and distribution subsidiaries in Latin America.

Our primary selling channels are Wholesale and Direct. These channels align to the margin characteristics of our business and our marketplace. Wholesale includes all third party retailers, including third party distribution, hospitality and healthcare. Direct includes company-owned stores, e-commerce, and call centers.

Our long-term strategy is to drive earnings growth. Our goal is to improve the sleep of more people, every night, all around the world. In order to achieve our long-term strategy while managing the current economic and competitive environments, we will focus on developing the most innovative bedding products in all the markets we serve, making significant investments in our global brands and optimizing our worldwide distribution through all channels. We also intend to generate earnings growth through ongoing investments in research and development and productivity initiatives, which will improve our profitability and create long-term stockholder value.

Our principal executive office is located at 1000 Tempur Way, Lexington, Kentucky 40511 and our telephone number is (800) 878-8889. Tempur Sealy International, Inc. was incorporated under the laws of the State of Delaware in September 2002. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such reports filed with or furnished to the Securities and Exchange Commission (“SEC”) pursuant to Sections 13(a) or 15(d) of the Exchange Act, are available free of charge on our website at www.tempursealy.com as soon as reasonably practicable after such reports are electronically filed with the SEC. Our website and its contents are not deemed incorporated by reference into this Report.

The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The website of the SEC is www.sec.gov.

Our Products and Brands

We have a comprehensive offering of products that appeal to a broad range of consumers, some of which are covered by one or more patents and/or patent applications. We also routinely introduce new mattress models, launch new products and update our existing mattress products in each of our segments.

In order to achieve our goal to improve the sleep of more people, every night, all around the world, one of our strategic initiatives is to leverage and strengthen our comprehensive portfolio of iconic brands and products. Our

brand portfolio includes many highly recognized brands, including TEMPUR®, Tempur-Pedic®, Sealy® featuring Posturepedic® Technology and Stearns & Foster®, which are described below:

Tempur-Pedic® - Founded in 1991, the Tempur brand is our specialty innovation category leader designed to provide life changing sleep for our wellness-seeking consumers. Our proprietary Tempur material precisely adapts to the shape, weight and temperature of the consumer and creates fewer pressure points, reduces motion transfer and provides personalized comfort and support.

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Stearns & Foster® - The Stearns & Foster brand offers our consumers high quality mattresses built by certified craftsmen who have been specially trained. Founded in 1846, the brand is designed and built with precise engineering and relentless attention to detail and fuses new innovative technologies with time-honored techniques, creating supremely comfortable beds.

Sealy® featuring Posturepedic® Technology - The Sealy brand originated in 1881 in Sealy, Texas, and for over a century has focused on offering trusted comfort, durability and excellent value while maintaining contemporary styles and great support. The Sealy Posturepedic brand, introduced in 1950, was engineered to provide all-over support and body alignment to allow full relaxation and deliver a comfortable night's sleep. In 2017, Sealy Posturepedic no longer represented its own separate brand as we united all of our Sealy products under one masterbrand, which features the Posturepedic Technology™ in the Sealy Performance™ and Sealy Premium™ collections.

Cocoon by Sealy™ - The Cocoon by Sealy brand, introduced in 2016, is our offering in the below \$1,000 e-commerce space, made with the high quality materials that consumers expect from Sealy, sold online at www.cocoonbysealy.com and delivered in a box directly to consumers' doorsteps.

In 2018, we launched a new line of Tempur-Pedic products and a new Sealy Hybrid line in North America. The new Tempur-Pedic line includes the Tempur-Adapt®, Tempur-ProAdapt®, and Tempur LuxeAdapt™ series which are made from a unique combination of innovative materials that adapt and respond to the body's needs. Our Adapt™ and ProAdapt™ series feature a new advanced pressure relief TEMPUR® material called TEMPUR-APR™, while our LuxeAdapt™ series features TEMPUR-APR+™, providing better pressure relief and higher conforming features than ever before. We also launched a new line of Tempur-Adapt pillows and a new portfolio of adjustable bases. The new Sealy Hybrid line completes the relaunch of Sealy products under one masterbrand. The Sealy Hybrid line leverages the best technologies from the Sealy Response and Conform lines and features the DuoChill™ Cooling Sleep System which offers twice the cool-to-the-touch technology, nested coil technology with 20% more coils and Duraflex™ Coil Edge technology offering better edge support compared to our existing Sealy Hybrid.

In 2019, we are launching the all-new Tempur-Breeze® products as well as a new Stearns & Foster lineup in North America. The new Breeze line includes PRObreeze™ and LUXEbreeze™ models offering the most innovative cooling system in the market, re-designed to deliver all night cooling comfort. The new Breeze products complete the largest Tempur rollout in our history. The new Stearns & Foster design utilizes the finest materials and legendary craftsmanship, featuring a premium, timeless look. Our all new IntelliCoil® HD innerspring incorporates 20% more coils, allowing sleepers to find their perfect level of support. This lineup also features for the first time, the proprietary memory foam engineered exclusively for Stearns & Foster by Tempur-Pedic.

Our Channels

Wholesale

Our Wholesale channel includes all third party retailers, including third party distribution, hospitality and healthcare, and represented 90.7% of net sales in 2018. Our top five customers accounted for approximately 22.7% of our sales for 2018.

Direct

Our Direct channel includes company-owned stores, e-commerce and call centers and represented 9.3% of net sales in 2018.

Marketing

Our overall marketing strategy is to drive consumer demand through the use of effective marketing. We invest across multiple media platforms to build brand awareness and drive consumer interest in our products. Our strategy varies by segment; however, the majority of our advertising programs are created on a centralized basis through our in-house advertising organization. We plan to drive net sales through continued investments in new products, marketing and other initiatives.

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North America

Our North America segment sells primarily through the Wholesale channel, which contributed 93.1% of North America segment sales in 2018. In North America, we advertise nationally on television, digitally and through consumer and trade print. In addition, we participate in cooperative advertising on a shared basis with some of our retail customers. Throughout the year, we invested in a series of strategic marketing initiatives, which included new product introductions, advertising and in-store marketing investments.

International

Our International segment sells primarily through the Wholesale channel, which contributed 81.7% of International segment net sales in 2018. The advertising strategy in our International segment focuses on building brand awareness, which we believe is important to increasing our overall market share. We advertise on television, digitally and through consumer and trade print, as well as cooperative advertising on a shared basis with some of our retail customers. We expect continued growth in our International segment through expanding product lines within existing channels, increasing our market share in previously under-penetrated markets and, where appropriate, entering into new markets.

Seasonality

We believe that sales of products to furniture and bedding stores are typically subject to modest seasonality inherent in the bedding industry, with sales expected to be generally lower in the second and fourth quarters. We did not experience our typical seasonality in 2018 as this was impacted by our phased rollout of new Tempur products, with new product shipping in the second and fourth quarter. Sales in a particular quarter can also be impacted by competitive industry dynamics. Additionally, the U.S. bedding industry generally experiences increases in sales around holidays and promotional periods.

Operations

Manufacturing and Distribution

Our products are currently manufactured and distributed through our global network of facilities. For a list of our principal manufacturing and distribution facilities, please refer to Item 2, "Properties".

Suppliers

We obtain the raw materials used to produce our pressure-relieving TEMPUR® material and components used in the manufacture of Tempur products from outside sources. We currently acquire chemicals and proprietary additives for Tempur products as well as other components such as textiles from a number of suppliers with manufacturing locations around the world. These supplier relationships may be modified in order to maintain quality, cost, and delivery expectations. We do not consider ourselves dependent upon any single outside vendor as a source of raw materials for Tempur products and believe that sufficient alternate sources of supply for the same or similar raw materials are available. Additionally, we source the manufacturing of our adjustable bed bases and foundations from third party manufacturers. We do not consider ourselves dependent upon any single outside manufacturer as a source of these products.

Sealy product raw materials consist of polyurethane foam, polyethylene foam, textiles, and steel innerspring components that we purchase from various suppliers. In the U.S. and Canada, we source the majority of our requirements for polyurethane foam components and spring components for our Sealy and Stearns & Foster mattress

units and adjustable bed bases from a key supplier for each component. We also purchase a significant portion of our Sealy foundation parts from third party sources. All components are purchased under supply agreements. We do not consider ourselves to be dependent in the long term upon any single outside vendor as a source of supply to our bedding business, and we believe over time that sufficient alternate sources of supply for the same, similar or alternate components are available. However if a key supplier for an applicable component failed to supply components in the amount we require, this could significantly interrupt production of our products and increase our production costs in the near term.

Research and Development

We have four research and development centers, three in the U.S. and one in Denmark, that conduct technology and product development. Additionally, we have a product testing facility that conducts hundreds of consumer tests annually. We believe our consumer-research driven approach to innovation results in best-in-class products that benefit the consumer.

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Industry and Competition

We compete in the global bedding industry. The bedding industry is comprised of mattresses and foundations, pillows and accessories. The mattress market category is comprised of traditional innerspring mattresses and non-innerspring mattresses, which includes visco-elastic and foam mattresses, innerspring/foam hybrid mattresses, airbeds and latex mattresses. The foundation category is comprised of traditional foundations and adjustable foundations. Additionally, the pillow market is comprised of traditional foam and feather pillows, as well as pillows made of visco-elastic, latex, foam, sponge, rubber and down. The primary distribution channels for mattresses and foundations are retail furniture and bedding stores, department stores, wholesale clubs and the internet.

We encounter competition from a number of bedding manufacturers in both the highly concentrated domestic and highly fragmented international markets. Participants in each of these markets compete primarily on price, quality, brand name recognition, product availability and product performance. Mattress and pillow manufacturers and retailers are seeking to increase their channels of distribution and are looking for new ways to reach the consumer, including the recent expansion in the number of U.S. and international companies pursuing online direct-to-consumer models for foam mattresses. In addition, retailers in both the U.S. and internationally are increasingly seeking to integrate vertically in the furniture and bedding industries, including by offering their own brands of mattresses and pillows.

The U.S. is the largest market in which we compete. Since 1997, U.S. wholesale bedding sales, which include mattresses and foundations, have grown at a compound annual growth rate, or "CAGR", of 5.6%, reaching \$8.4 billion in 2017 according to the International Sleep Products Association ("ISPA"). According to ISPA, U.S. mattress producer shipments decreased 4.4% and the total dollar value of mattress shipments decreased 2.0% in 2017 as compared to 2016. Despite the decrease in shipments and total dollar value recognized by ISPA, average unit selling price ("AUSP") for mattresses increased 3.3% in 2017 compared to 2016. The increases in AUSP are primarily due to consumer awareness of the ongoing new health benefits of better sleep discovered by the medical community, as well as increases in overall consumer brand awareness and consumer sentiment.

The recent trend change in industry shipments has largely been impacted by the increasing role played by imports. We believe imported units grew significantly during the period 2016 through 2018, and China accounted for the largest share of the imported units. Because of the influx of low-priced, imported mattresses, an anti-dumping duty petition was filed with the U.S. International Trade Commission and the U.S. Department of Commerce in September of 2018, by a number of domestic "Mattress Petitioners." In November 2018, the U.S. International Trade Commission found a reasonable indication that unfairly traded imports of mattresses from China caused material injury to the U.S. mattress industry. The petition seeks the imposition of anti-dumping duties to offset the level of dumping. The U.S. Department of Commerce is currently investigating whether and to what extent mattresses imported from China and sold in the United States have been dumped. The U.S. Department of Commerce preliminary determination on this issue is expected in May 2019. If the U.S. Department of Commerce finds that dumping has occurred, anti-dumping duties on future imports of mattresses from China will be levied in an amount equal to the dumping margin.

The U.S. mattress market has experienced consolidation among manufacturers in recent years. We, together with Serta Simmons Bedding, LLC, which sells products under the Serta and Simmons brands, collectively accounted for a significant share of the wholesale bedding industry revenues in 2017 based on figures obtained from ISPA and Furniture Today industry publications. The balance of the mattress market in the U.S. is served by a large number of other manufacturers. In addition, there has been consolidation of mattress retailers in the U.S. over the last several years.

The international market is served by a large number of manufacturers, primarily operating on a regional and local basis. These manufacturers offer a broad range of mattress and pillow products.

The highly competitive nature of the mattress and pillow industries means we are continually subject to the risk of loss of market share, loss of significant customers, reductions in margins, and the inability to acquire new customers.

Intellectual Property

Patents, Trademarks and Licensing

We hold U.S. and foreign patents and patent applications regarding certain elements of the design and function of many of our mattress and pillow products.

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As of December 31, 2018, we held trademark registrations worldwide, which we believe have significant value and are important to the marketing of our products to retailers. TEMPUR® and Tempur-Pedic® are trademarks registered with the U.S. Patent and Trademark Office. In addition, we have U.S. applications pending for additional trademarks. Several of our trademarks have been registered, or are the subject of pending applications, in various foreign countries. Each U.S. trademark registration is renewable indefinitely as long as the trademark remains in use. We also own numerous trademarks, trade names, service marks, logos and design marks, including Sealy®, Stearns & Foster® and Sealy Posturepedic®. In addition, we license the Bassett® trade name in various territories under a long-term agreement.

We derive income from royalties by licensing Sealy® brands, technology and trademarks to other manufacturers. Under the license arrangements, licensees have the right to use certain trademarks and current proprietary and/or patented technology that we utilize. We also provide our licensees with product specifications, research and development, statistical services and marketing programs. For the year ended December 31, 2018, our licensing activities as a whole generated unaffiliated net royalties of approximately \$20.9 million.

Governmental Regulation

Our operations are subject to international, federal, state, and local consumer protection and other regulations, primarily relating to the mattress and pillow industry. These regulations vary among the states, countries, and localities in which we do business. The regulations generally impose requirements as to the proper labeling of bedding merchandise, restrictions regarding the identification of merchandise as “new” or otherwise, controls as to hygiene and other aspects of product handling and sale and penalties for violations. The U.S. Consumer Product Safety Commission (“CPSC”) has adopted rules relating to fire retardancy standards for the mattress industry. Many foreign jurisdictions also regulate fire retardancy standards. Future changes to these standards may require modifications to our products to comply with such changes. We are also subject to environmental and health and safety requirements with regard to the manufacture of our products and the conduct of our operations and facilities. We have made and will continue to make capital and other expenditures necessary to comply with these requirements. Currently these expenditures are immaterial to our financial results. For a discussion of the risks associated with our compliance programs in connection with these regulations, please refer to “Risk Factors” under Part I, Item 1A of this Report.

Our principal waste products are foam and fabric scraps, wood, cardboard and other non-hazardous materials derived from product component supplies and packaging. We also periodically dispose of small amounts of used machine lubricating oil and air compressor waste oil, primarily by recycling. In the U.S., we are subject to federal, state and local laws and regulations relating to environmental health and safety, including the Federal Water Pollution Control Act and the Comprehensive Environmental Response, Compensation and Liability Act. We believe that we are in compliance with all applicable international, federal, state and local environmental statutes and regulations. We do not expect that compliance with international, federal, state or local provisions that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, will have a material effect upon our capital expenditures, earnings or competitive position. We are not aware of any pending federal environmental legislation that would have a material impact on our operations, and have not been required to make, and do not expect to make, any material capital expenditures for environmental control facilities in the foreseeable future.

In connection with sales of our products, we often collect and process personal data from our customers. As such, we are subject to certain regulations relating to information technology security and personal data protection and privacy. For example, the European Union recently adopted the General Data Protection Regulation (“GDPR”), which took effect in May 2018. GDPR imposes a new and expanded set of ongoing compliance requirements on companies, including us, that process personal data from citizens living in the European Union. In addition, there are country-specific data privacy laws forthcoming which may or may not follow the principles laid out in GDPR. We

have implemented a compliance system and have put reasonable measures in place to facilitate adherence to the continuing compliance requirements of GDPR.

Employees

As of December 31, 2018, we had approximately 6,200 Tempur Sealy employees, approximately 4,300 of which are located in North America and 1,900 in the rest of the world. Approximately 29.4% of our employees are represented by various labor unions with separate collective bargaining agreements. Due to the large number of collective bargaining agreements, we are periodically in negotiations with certain of the unions representing our employees. We consider our overall relations with our workforce to be satisfactory. Our current collective bargaining agreements, which are typically one to three years in length, expire at various times beginning in 2019 through 2021. As of December 31, 2018, our North America segment employed approximately 500 individuals covered under collective bargaining agreements expiring in 2019 and our International segment employed approximately 400 individuals covered under collective bargaining agreements expiring in 2019.

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ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Report should be carefully considered. Please also see “Special Note Regarding Forward-Looking Statements” on page 3.

Set forth below are descriptions of certain risks relating to our business.

Unfavorable economic and market conditions could reduce our sales and profitability and as a result, our operating results may be adversely affected.

Our business is affected by general business and economic conditions, and these conditions could have an impact on future demand for our products. The global economy has stabilized somewhat since the financial crisis, but we expect economic conditions specific to our markets to remain challenging. Further, economic and market conditions are inherently complex and subject to change, and any deterioration in those conditions may give households less confidence to make discretionary purchases.

There could be a number of other effects from these economic developments on our business, some of which we have already experienced, including reduced consumer demand for products; liquidity problems among our customers and related market participants; insolvency of and bankruptcy filings by our customers and related market participants resulting in increased provisions for credit losses and/or write downs of existing assets; liquidity problems and/or insolvency of our key suppliers resulting in product delays; inability of retailers and consumers to obtain credit to finance purchases of our products; decreased consumer confidence; decreased retail demand, including order delays or cancellations; counterparty failures negatively impacting our treasury operations; inability for us, our customers and our suppliers to accurately forecast future product demand trends; and adverse movements in foreign currency exchange rates. If such conditions are experienced in future periods, our industry, business and results of operations may be severely impacted.

Our sales growth is dependent upon our ability to implement strategic initiatives and actions taken to increase sales growth may not be effective.

Our ability to generate sales growth is dependent upon a number of factors, including the following:

- our ability to continuously improve our products to offer new and enhanced consumer benefits and better quality;
- the ability of our current and future product launches to increase net sales;
- the effectiveness of our advertising campaigns and other marketing programs to build product and brand awareness, driving traffic to our distribution channels and increasing sales;
- our ability to continue to expand into new distribution channels and optimize our existing channels;
- our ability to continue to successfully execute our strategic initiatives;
- the level of consumer acceptance of our products at optimal price points;
- our ability to successfully mitigate the impact of headwinds facing our business, including increased commodity prices and the influx of low-end, imported beds that compete with certain of our products; and
- general economic factors that impact consumer confidence, disposable income or the availability of consumer financing.

Our new product launches may not be successful due to development delays, failure of new products to achieve anticipated levels of market acceptance and significant costs associated with failed product introductions, which could adversely affect our revenues and profitability.

Each year we invest significant time and resources in research and development to improve our product offerings and launch new products. We began a major product launch for our Tempur products in the U.S. in 2018 that is ongoing. The launch was challenged in the short-term by certain discrete factors, including incremental product launch costs, cannibalization of higher-priced Tempur products and a temporary delay in the launch to ensure product quality. Our financial performance for 2018 was impacted by these factors and positive performance during 2019 will be substantially dependent on the tapering of those short-term factors and continued overall success of the launch. There are a number of risks that continue to be inherent in our new product line introductions, including that the anticipated level of market acceptance may not be realized, which could negatively impact our sales. Further, introduction costs, the speed of the rollout of the product and manufacturing inefficiencies may be greater than anticipated, each of which could impact profitability.

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We operate in the highly competitive mattress and pillow industries, and if we are unable to compete successfully, we may lose customers and our sales may decline.

Participants in the mattress and pillow industries compete primarily on price, quality, brand name recognition, product availability and product performance across a range of distribution channels.

A number of our significant competitors offer mattress and pillow products that compete directly with our products. The effectiveness of our competition relative to our performance, including by established manufacturers or new entrants into the market, could have a material adverse effect on our business, financial condition and/or operating results. For example, market participants continue to improve their channels of distribution to optimize their reach to the consumer, including by pursuing online direct-to-consumer models for foam mattresses and offering their own lines of mattresses. In addition, retailers in the U.S. and internationally have integrated vertically in the furniture and bedding industries, and it is possible that such vertical integration may provide