

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2023

or

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

For the transition period from to .

Commission file number 001-31922

TEMPUR SEALY INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

33-1022198
(I.R.S. Employer Identification No.)

1000 Tempur Way
Lexington, Kentucky 40511
(Address of principal executive offices)

Registrant's telephone number, including area code: (800) 878-8889

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, \$0.01 par value	TPX	New York Stock Exchange

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 ☐ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging Growth Company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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 number of shares outstanding of the registrant's common stock as of November 2, 2023 was 172,274,333 shares.

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, (this "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 I, ITEM 2 of this Report. When used in this Report, the words "assumes," "estimates," "expects," "guidance," "anticipates," "might," "projects," "predicts," "plans," "proposed," "targets," "intends," "believes," "will," "may," "could," "is likely to" and variations of such words or similar expressions are intended to identify forward-looking statements. These forward-looking statements are based upon our expectations and beliefs 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 any that may be expressed herein as forward-looking statements in this Report. These risk factors include the impact of the macroeconomic environment including its impact on consumer behavior in both the U.S. and internationally on our business segments and expectations regarding growth of the mattress industry; changes in economic conditions, including inflationary trends in the price of raw materials; uncertainties arising from global events (including the Russia-Ukraine conflict and the conflict in the Middle East), labor costs and other employment-related costs; loss of suppliers and disruptions in the supply of raw materials; the effects of strategic investments on our operations, including our efforts to expand our global market share and actions taken to increase sales growth and including the pending merger with Mattress Firm Group Inc. ("Mattress Firm"); the ability to develop and successfully launch new products; capital project timelines; the ability to realize all synergies and benefits of acquisitions; our reliance on information technology ("IT") and the associated risks involving realized or potential security lapses and/or cyber based attacks; the impact of cybersecurity incidents (including the July 2023 incident) on our business, results of operations or financial condition, including our assessments of such impact; the Company's ability to restore its critical operational data and IT systems in a reasonable time frame following a cybersecurity incident; changes in interest rates; effects of changes in foreign exchange rates on our reported earnings; expectations regarding our target leverage and our share repurchase program; compliance with regulatory requirements and the possible exposure to liability for failures to comply with these requirements; 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; and our capital structure and debt level, including our ability to meet financial obligations and continue to comply with the terms and financial ratio covenants of our credit facilities.

Other potential risk factors include the factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Annual Report") and in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023. 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, "2019 Credit Agreement" refers to the Company's senior credit facility entered into in 2019; "2023 Credit Agreement" refers to the Company's senior credit facility entered into in 2023; "2029 Senior Notes" refers to the 4.00% senior notes due 2029 issued in 2021; and "2031 Senior Notes" refers to the 3.875% senior notes due 2031 issued in 2021.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(\$ in millions, except per common share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net sales	\$ 1,277.1	\$ 1,283.3	\$ 3,754.9	\$ 3,733.8
Cost of sales	703.4	742.2	2,139.0	2,173.4
Gross profit	573.7	541.1	1,615.9	1,560.4
Selling and marketing expenses	272.9	248.3	799.8	744.7
General, administrative and other expenses	122.2	96.7	344.2	296.6
Equity income in earnings of unconsolidated affiliates	(4.6)	(4.9)	(13.4)	(14.4)
Operating income	183.2	201.0	485.3	533.5
Other expense, net:				
Interest expense, net	32.6	26.8	99.0	71.4
Other income, net	(0.1)	(0.9)	(0.2)	(1.5)
Total other expense, net	32.5	25.9	98.8	69.9
Income from continuing operations before income taxes	150.7	175.1	386.5	463.6
Income tax provision	(36.8)	(41.1)	(93.5)	(107.5)
Income from continuing operations	113.9	134.0	293.0	356.1
Loss from discontinued operations, net of tax	—	(0.8)	—	(0.8)
Net income before non-controlling interest	113.9	133.2	293.0	355.3
Less: Net income attributable to non-controlling interest	0.6	0.5	2.0	1.3
Net income attributable to Tempur Sealy International, Inc.	\$ 113.3	\$ 132.7	\$ 291.0	\$ 354.0
Earnings per common share:				
Basic				
Earnings per share for continuing operations	\$ 0.66	\$ 0.78	\$ 1.69	\$ 2.01
Loss per share for discontinued operations	—	(0.01)	—	—
Earnings per share	\$ 0.66	\$ 0.77	\$ 1.69	\$ 2.01
Diluted				
Earnings per share for continuing operations	\$ 0.64	\$ 0.75	\$ 1.64	\$ 1.95
Loss per share for discontinued operations	—	—	—	—
Earnings per share	\$ 0.64	\$ 0.75	\$ 1.64	\$ 1.95
Weighted average common shares outstanding:				
Basic	172.2	171.9	172.1	176.2
Diluted	177.6	177.0	177.0	181.5

See accompanying Notes to Condensed Consolidated Financial Statements.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(\$ in millions)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Net income before non-controlling interest	\$ 113.9	\$ 133.2	\$ 293.0	\$ 355.3
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(31.5)	(64.8)	0.6	(140.1)
Other comprehensive (loss) income, net of tax	(31.5)	(64.8)	0.6	(140.1)
Comprehensive income	82.4	68.4	293.6	215.2
Less: Comprehensive income attributable to non-controlling interest	0.6	0.5	2.0	1.3
Comprehensive income attributable to Tempur Sealy International, Inc.	\$ 81.8	\$ 67.9	\$ 291.6	\$ 213.9

See accompanying Notes to Condensed Consolidated Financial Statements.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(\$ in millions)

	September 30, 2023	December 31, 2022
	<i>(unaudited)</i>	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 91.6	\$ 69.4
Accounts receivable, net	525.8	422.6
Inventories	485.5	555.0
Prepaid expenses and other current assets	144.8	148.2
Total Current Assets	1,247.7	1,195.2
Property, plant and equipment, net	849.4	791.1
Goodwill	1,064.8	1,062.3
Other intangible assets, net	709.4	715.8
Operating lease right-of-use assets	585.5	506.8
Deferred income taxes	12.7	11.3
Other non-current assets	76.6	77.3
Total Assets	<u>\$ 4,546.1</u>	<u>\$ 4,359.8</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	\$ 361.7	\$ 359.8
Accrued expenses and other current liabilities	502.9	432.7
Short-term operating lease obligations	112.7	105.5
Current portion of long-term debt	70.0	70.4
Income taxes payable	11.6	12.8
Total Current Liabilities	1,058.9	981.2
Long-term debt, net	2,538.5	2,739.9
Long-term operating lease obligations	527.8	453.5
Deferred income taxes	116.1	114.0
Other non-current liabilities	81.1	83.5
Total Liabilities	4,322.4	4,372.1
Redeemable non-controlling interest	9.6	9.8
Total Stockholders' Equity (Deficit)	214.1	(22.1)
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity (Deficit)	<u>\$ 4,546.1</u>	<u>\$ 4,359.8</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(\$ in millions)
(unaudited)

Three Months Ended September 30, 2023

	Redeemable Non- controlling Interest	Tempur Sealy International, Inc. Stockholders' Equity							
		Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
		Shares Issued	At Par	Shares Issued	At Cost				
Balance, June 30, 2023	\$ 9.4	283.8	\$ 2.8	111.6	\$ (3,384.1)	\$ 536.7	\$ 3,127.5	\$ (144.8)	\$ 138.1
Net income							113.3		113.3
Net income attributable to non-controlling interest	0.6								—
Dividend paid to non-controlling interest in subsidiary	(0.4)								—
Foreign currency adjustments, net of tax								(31.5)	(31.5)
Exercise of stock options				(0.1)	3.1	(1.1)			2.0
Dividends declared on common stock (\$0.11 per share)							(19.4)		(19.4)
Issuances of PRSUs and RSUs				—	0.2	(0.2)			—
Treasury stock repurchased				—	—				—
Treasury stock repurchased - PRSU/RSU releases				—	(0.1)				(0.1)
Amortization of unearned stock-based compensation						11.7			11.7
Balance, September 30, 2023	\$ 9.6	283.8	\$ 2.8	111.5	\$ (3,380.9)	\$ 547.1	\$ 3,221.4	\$ (176.3)	\$ 214.1

Three Months Ended September 30, 2022

	Redeemable Non- controlling Interest	Tempur Sealy International, Inc. Stockholders' Deficit							
		Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
		Shares Issued	At Par	Shares Issued	At Cost				
Balance, June 30, 2022	\$ 9.0	283.8	\$ 2.8	111.4	\$ (3,381.3)	\$ 573.6	\$ 2,789.5	\$ (174.5)	\$ (189.9)
Net income							132.7		132.7
Net income attributable to non-controlling interest	0.5								—
Dividend paid to non-controlling interest in subsidiary	(0.2)								—
Foreign currency adjustments, net of tax								(64.8)	(64.8)
Exercise of stock options				—	0.3	(0.2)			0.1
Dividends declared on common stock (\$0.10 per share)							(17.8)		(17.8)
Issuances of PRSUs and RSUs				—	0.4	(0.4)			—
Treasury stock repurchased				1.0	(25.0)				(25.0)
Treasury stock repurchased - PRSU/RSU releases				—	(0.2)				(0.2)
Amortization of unearned stock-based compensation						12.3			12.3
Balance, September 30, 2022	\$ 9.3	283.8	\$ 2.8	112.4	\$ (3,405.8)	\$ 585.3	\$ 2,904.4	\$ (239.3)	\$ (152.6)

See accompanying Notes to Condensed Consolidated Financial Statements.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (CONTINUED)
(\$ in millions)
(unaudited)

Nine Months Ended September 30, 2023

	Redeemable Non- controlling Interest	Tempur Sealy International, Inc. Stockholders' (Deficit) Equity							
		Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' (Deficit) Equity
		Shares Issued	At Par	Shares Issued	At Cost				
Balance as of December 31, 2022	\$ 9.8	283.8	\$ 2.8	113.4	\$ (3,434.7)	\$ 598.2	\$ 2,988.5	\$ (176.9)	\$ (22.1)
Net income							291.0		291.0
Net income attributable to non-controlling interests	2.0								—
Dividend paid to non-controlling interest in subsidiary	(2.2)								—
Foreign currency adjustments, net of tax								0.6	0.6
Exercise of stock options				(0.2)	4.6	(1.8)			2.8
Dividends declared on common stock (\$0.33 per share)							(58.1)		(58.1)
Issuances of PRSUs and RSUs				(2.7)	85.2	(85.2)			—
Treasury stock repurchased				0.1	(5.0)				(5.0)
Treasury stock repurchased - PRSU/RSU releases				0.9	(31.0)				(31.0)
Amortization of unearned stock-based compensation						35.9			35.9
Balance, September 30, 2023	\$ 9.6	283.8	\$ 2.8	111.5	\$ (3,380.9)	\$ 547.1	\$ 3,221.4	\$ (176.3)	\$ 214.1

Nine Months Ended September 30, 2022

	Redeemable Non- controlling Interest	Tempur Sealy International, Inc. Stockholders' (Deficit) Equity							
		Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
		Shares Issued	At Par	Shares Issued	At Cost				
Balance as of December 31, 2021	\$ 9.2	283.8	\$ 2.8	96.4	\$ (2,844.7)	\$ 622.0	\$ 2,604.9	\$ (99.2)	\$ 285.8
Net income							354.0		354.0
Net income attributable to non-controlling interests	1.3								—
Dividend paid to non-controlling interest in subsidiary	(1.2)								—
Foreign currency adjustments, net of tax								(140.1)	(140.1)
Exercise of stock options				—	0.7	(0.4)			0.3
Dividends declared on common stock (\$0.30 per share)							(54.5)		(54.5)
Issuances of PRSUs and RSUs				(2.6)	75.4	(75.4)			—
Treasury stock repurchased				17.6	(591.2)				(591.2)
Treasury stock repurchased - PRSU/RSU releases				1.0	(46.0)				(46.0)
Amortization of unearned stock-based compensation						39.1			39.1
Balance, September 30, 2022	\$ 9.3	283.8	\$ 2.8	112.4	\$ (3,405.8)	\$ 585.3	\$ 2,904.4	\$ (239.3)	\$ (152.6)

See accompanying Notes to Condensed Consolidated Financial Statements.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)
(unaudited)

	Nine Months Ended September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS:		
Net income before non-controlling interest	\$ 293.0	\$ 355.3
Loss from discontinued operations, net of tax	—	0.8
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	99.6	93.3
Amortization of stock-based compensation	35.9	39.1
Amortization of deferred financing costs	2.9	2.9
Bad debt expense	7.1	5.2
Deferred income taxes	0.5	(9.9)
Dividends received from unconsolidated affiliates	18.1	20.8
Equity income in earnings of unconsolidated affiliates	(13.4)	(14.4)
Foreign currency adjustments and other	(1.9)	(1.6)
Changes in operating assets and liabilities	37.4	(208.0)
Net cash provided by operating activities from continuing operations	479.2	283.5
CASH FLOWS FROM INVESTING ACTIVITIES FROM CONTINUING OPERATIONS:		
Purchases of property, plant and equipment	(153.3)	(216.0)
Other	0.5	(8.8)
Net cash used in investing activities from continuing operations	(152.8)	(224.8)
CASH FLOWS FROM FINANCING ACTIVITIES FROM CONTINUING OPERATIONS:		
Proceeds from borrowings under long-term debt obligations	1,491.5	1,904.3
Repayments of borrowings under long-term debt obligations	(1,689.9)	(1,435.5)
Proceeds from exercise of stock options	2.8	0.3
Treasury stock repurchased	(36.0)	(637.2)
Dividends paid	(58.8)	(53.4)
Repayments of finance lease obligations and other	(12.8)	(12.6)
Net cash used in financing activities from continuing operations	(303.2)	(234.1)
Net cash provided by (used in) continuing operations	23.2	(175.4)
Net operating cash flows used in discontinued operations	—	(0.8)
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1.0)	(30.4)
Increase (decrease) in cash and cash equivalents	22.2	(206.6)
CASH AND CASH EQUIVALENTS, beginning of period	69.4	300.7
CASH AND CASH EQUIVALENTS, end of period	\$ 91.6	\$ 94.1
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$ 92.2	\$ 57.0
Income taxes, net of refunds	\$ 84.4	\$ 105.0

See accompanying Notes to Condensed Consolidated Financial Statements.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (unaudited)

(1) Summary of Significant Accounting Policies

(a) *Basis of Presentation and Description of Business.* Tempur Sealy International, Inc., a Delaware corporation, together with its subsidiaries, is a U.S. based, multinational company. The term "Tempur Sealy International" refers to Tempur Sealy International, Inc. only, and the term "Company" refers to Tempur Sealy International, Inc. and its consolidated subsidiaries.

The Company designs, manufactures and distributes bedding products, which include mattresses, foundations and adjustable bases, and other products, which include pillows and other accessories. The Company also derives income from royalties by licensing Sealy® and Stearns & Foster® brands, technology and trademarks to other manufacturers. The Company sells its products through two sales channels: Wholesale and Direct.

The Company has ownership interests in Asia-Pacific joint ventures to develop markets for Sealy® and Stearns & Foster® branded products and ownership in a United Kingdom joint venture to manufacture, market, and distribute Sealy® and Stearns & Foster® branded products. The Company's ownership interests in each of these joint ventures is 50.0%. The equity method of accounting is used for these joint ventures, over which the Company has significant influence but does not have control, and consolidation is not otherwise required. The Company's equity in the net income and losses of these investments is reported in equity income in earnings of unconsolidated affiliates in the accompanying Condensed Consolidated Statements of Income.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States ("GAAP") for interim financial reporting. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Company and related footnotes for the year ended December 31, 2022, included in the 2022 Annual Report filed with the Securities and Exchange Commission on February 17, 2023.

The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. It is the opinion of management that all necessary adjustments for a fair presentation of the results of operations for the interim periods have been made and are of a recurring nature unless otherwise disclosed herein.

(b) Adoption of New Accounting Standards

Reference Rate Reform. In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting," which provides guidance on the accounting impacts due to the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate ("SOFR"). The FASB continued to refine its guidance with the January 2021 ASU 2021-01 issued update, "Reference Rate Reform (Topic 848): Scope" and the December 2022 ASU 2022-06 issued update, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848", of which all were effective upon issuance. These updates provide entities with certain optional relief expedients and exceptions for applying GAAP to contract modifications, hedge accounting and other transactions affected by reference rate reform if certain criteria are met. An entity that makes this election would present and account for a modified contract as a continuation of the existing contract. Entities are afforded these relief options until December 31, 2024, after which time they will no longer be permitted. In May 2023, the Company amended its 2019 Credit Agreement to transition the applicable reference rate from LIBOR to SOFR. In October 2023, the Company entered into the 2023 Credit Agreement, which uses SOFR as the applicable reference rate. See "Note 4 - Debt" for additional details. The results of this guidance did not have a material impact on the condensed consolidated financial statements.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (unaudited) (continued)

(c) *Inventories.* Inventories are stated at the lower of cost or net realizable value, determined by the first-in, first-out method, and consist of the following:

<i>(in millions)</i>	September 30, 2023	December 31, 2022
Finished goods	\$ 310.3	\$ 352.9
Work-in-process	15.9	19.4
Raw materials and supplies	159.3	182.7
	<u>\$ 485.5</u>	<u>\$ 555.0</u>

(d) *Warranties.* The Company provides warranties on certain products, which vary by segment, product and brand. Estimates of warranty expenses are based primarily on historical claims experience and product testing. Estimated future obligations related to these products are charged to cost of sales in the period in which the related revenue is recognized. The Company considers the impact of recoverable salvage value on warranty costs in determining its estimate of future warranty obligations.

The Company provides warranties on mattresses with varying warranty terms. Tempur-Pedic mattresses sold in the North America segment and all Sealy mattresses have warranty terms ranging from 10 to 25 years, generally non-prorated for the first 10 to 15 years and then prorated for the balance of the warranty term. Tempur-Pedic mattresses sold in the International segment have warranty terms ranging from 5 to 15 years, non-prorated for the first 5 years and then prorated on a straight-line basis for the last 10 years of the warranty term. Tempur-Pedic pillows have a warranty term of 3 years, non-prorated.

The Company had the following activity for its accrued warranty expense from December 31, 2022 to September 30, 2023:

<i>(in millions)</i>	
Balance as of December 31, 2022	\$ 41.6
Amounts accrued	17.5
Warranties charged to accrual	(18.5)
Balance as of September 30, 2023	<u>\$ 40.6</u>

As of September 30, 2023 and December 31, 2022, \$18.4 million and \$17.8 million of accrued warranty expense is included as a component of accrued expenses and other current liabilities and \$22.2 million and \$23.8 million of accrued warranty expense is included in other non-current liabilities on the Company's accompanying Condensed Consolidated Balance Sheets, respectively.

(e) *Allowance for Credit Losses.* The allowance for credit losses is the Company's best estimate of the amount of expected lifetime credit losses in the Company's accounts receivable. The Company regularly reviews the adequacy of its allowance for credit losses. The Company estimates losses over the contractual life using assumptions to capture the risk of loss, even if remote, based principally on how long a receivable has been outstanding. As of September 30, 2023, the Company's accounts receivable were substantially current. Other factors considered include historical write-off experience, current economic conditions and also factors such as customer credit, past transaction history with the customer and changes in customer payment terms. Account balances are charged off against the allowance for credit losses after all reasonable means of collection have been exhausted and the potential for recovery is considered remote. The allowance for credit losses is included in accounts receivable, net in the accompanying Condensed Consolidated Balance Sheets.

The Company had the following activity for its allowance for credit losses from December 31, 2022 to September 30, 2023:

<i>(in millions)</i>	
Balance as of December 31, 2022	\$ 62.4
Amounts accrued	7.1
Write-offs charged against the allowance	(1.8)
Balance as of September 30, 2023	<u>\$ 67.7</u>

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (unaudited) (continued)

(f) *Fair Value.* Financial instruments, although not recorded at fair value on a recurring basis, include cash and cash equivalents, accounts receivable, accounts payable and the Company's debt obligations. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short-term maturity of those instruments. Borrowings under the 2019 Credit Agreement and the securitized debt are at variable interest rates and accordingly their carrying amounts approximate fair value. The fair value of the following material financial instruments were based on Level 2 inputs, which include observable inputs estimated using discounted cash flows and market-based expectations for interest rates, credit risk and the contractual terms of debt instruments. The fair values of these material financial instruments are as follows:

(in millions)	Fair Value			
	September 30, 2023		December 31, 2022	
2029 Senior Notes	\$	668.4	\$	672.7
2031 Senior Notes	\$	618.7	\$	627.1

(g) *Definitive Agreement with Mattress Firm.* On May 9, 2023, Tempur Sealy International and Mattress Firm entered into a definitive agreement and plan of merger (the "Merger Agreement") for a proposed business acquisition in which Tempur Sealy International, through a wholly-owned subsidiary, will acquire Mattress Firm in a transaction valued at approximately \$4.0 billion. The transaction is expected to be funded by approximately \$2.7 billion of cash consideration and the issuance of 34.2 million shares of common stock resulting in a total stock consideration value of \$1.3 billion based on a closing share price of \$37.62 as of May 8, 2023.

The Company expects the transaction to close in the second half of 2024, subject to the satisfaction of customary closing conditions, including applicable regulatory approvals. Following the close of the transaction, Mattress Firm is expected to operate as a separate business unit within the Company.

(2) Net Sales

The following table presents the Company's disaggregated revenue by channel, product and geographical region, including a reconciliation of disaggregated revenue by segment, for the three months ended September 30, 2023 and 2022:

(in millions)	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
	North America	International	Consolidated	North America	International	Consolidated
Channel						
Wholesale	\$ 885.1	\$ 89.5	\$ 974.6	\$ 918.1	\$ 85.1	\$ 1,003.2
Direct	138.6	163.9	302.5	139.6	140.5	280.1
Net sales	<u>\$ 1,023.7</u>	<u>\$ 253.4</u>	<u>\$ 1,277.1</u>	<u>\$ 1,057.7</u>	<u>\$ 225.6</u>	<u>\$ 1,283.3</u>
Product						
Bedding	\$ 949.5	\$ 209.5	\$ 1,159.0	\$ 986.7	\$ 185.9	\$ 1,172.6
Other	74.2	43.9	118.1	71.0	39.7	110.7
Net sales	<u>\$ 1,023.7</u>	<u>\$ 253.4</u>	<u>\$ 1,277.1</u>	<u>\$ 1,057.7</u>	<u>\$ 225.6</u>	<u>\$ 1,283.3</u>
Geographical region						
United States	\$ 939.1	\$ —	\$ 939.1	\$ 982.6	\$ —	\$ 982.6
All Other	84.6	253.4	338.0	75.1	225.6	300.7
Net sales	<u>\$ 1,023.7</u>	<u>\$ 253.4</u>	<u>\$ 1,277.1</u>	<u>\$ 1,057.7</u>	<u>\$ 225.6</u>	<u>\$ 1,283.3</u>

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (unaudited) (continued)

The following table presents the Company's disaggregated revenue by channel, product and geographical region, including a reconciliation of disaggregated revenue by segment, for the nine months ended September 30, 2023 and 2022:

(in millions)	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	North America	International	Consolidated	North America	International	Consolidated
Channel						
Wholesale	\$ 2,585.4	\$ 291.0	\$ 2,876.4	\$ 2,577.2	\$ 289.2	\$ 2,866.4
Direct	374.7	503.8	878.5	376.6	490.8	867.4
Net sales	<u>\$ 2,960.1</u>	<u>\$ 794.8</u>	<u>\$ 3,754.9</u>	<u>\$ 2,953.8</u>	<u>\$ 780.0</u>	<u>\$ 3,733.8</u>
Product						
Bedding	\$ 2,759.4	\$ 653.9	\$ 3,413.3	\$ 2,760.7	\$ 647.5	\$ 3,408.2
Other	200.7	140.9	341.6	193.1	132.5	325.6
Net sales	<u>\$ 2,960.1</u>	<u>\$ 794.8</u>	<u>\$ 3,754.9</u>	<u>\$ 2,953.8</u>	<u>\$ 780.0</u>	<u>\$ 3,733.8</u>
Geographical region						
United States	\$ 2,740.2	\$ —	\$ 2,740.2	\$ 2,737.2	\$ —	\$ 2,737.2
All Other	219.9	794.8	1,014.7	216.6	780.0	996.6
Net sales	<u>\$ 2,960.1</u>	<u>\$ 794.8</u>	<u>\$ 3,754.9</u>	<u>\$ 2,953.8</u>	<u>\$ 780.0</u>	<u>\$ 3,733.8</u>

(3) Goodwill

The following summarizes changes to the Company's goodwill, by segment:

(in millions)	North America	International	Consolidated
Balance as of December 31, 2022	\$ 607.3	\$ 455.0	\$ 1,062.3
Foreign currency translation and other	0.6	1.9	2.5
Balance as of September 30, 2023	<u>\$ 607.9</u>	<u>\$ 456.9</u>	<u>\$ 1,064.8</u>

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (unaudited) (continued)

(4) Debt

Debt for the Company consists of the following:

(in millions, except percentages)	September 30, 2023		December 31, 2022		Maturity Date
	Amount	Rate	Amount	Rate	
2019 Credit Agreement:					
Term A Facility	\$ 598.0	(1)	\$ 638.8	(2)	October 16, 2024
Revolver	135.0	(1)	337.0	(2)	October 16, 2024
2031 Senior Notes	800.0	3.875%	800.0	3.875%	October 15, 2031
2029 Senior Notes	800.0	4.000%	800.0	4.000%	April 15, 2029
Securitized debt	162.0	(3)	139.3	(4)	April 7, 2025
Finance lease obligations ⁽⁵⁾	72.6		78.7		Various
Other	58.7		37.0		Various
Total debt	2,626.3		2,830.8		
Less: Deferred financing costs	17.8		20.5		
Total debt, net	2,608.5		2,810.3		
Less: Current portion	70.0		70.4		
Total long-term debt, net	\$ 2,538.5		\$ 2,739.9		

(1) Interest at SOFR index plus 10 basis points of credit spread adjustment, plus applicable margin of 1.375% as of September 30, 2023.

(2) Interest at LIBOR plus applicable margin of 1.250% as of December 31, 2022.

(3) Interest at one month SOFR index plus 10 basis points of credit spread adjustment, plus 85 basis points.

(4) Interest at one month LIBOR index plus 70 basis points.

(5) New finance lease obligations are a non-cash financing activity.

As of September 30, 2023, the Company was in compliance with all applicable debt covenants.

2023 Credit Agreement

On October 10, 2023, the Company entered into the 2023 Credit Agreement with a syndicate of banks. The 2023 Credit Agreement replaced the Company's 2019 Credit Agreement. The 2023 Credit Agreement provides for a \$1.15 billion revolving credit facility, a \$500.0 million term loan facility, and an incremental facility in an aggregate amount of up to the greater of \$850.0 million and additional amounts subject to the conditions set forth in the 2023 Credit Agreement, plus the amount of certain prepayments, plus an additional unlimited amount subject to compliance with a maximum consolidated secured leverage ratio test. The 2023 Credit Agreement has a \$60.0 million sub-facility for the issuance of letters of credit.

Borrowings under the 2023 Credit Agreement will generally bear interest, at the election of Tempur Sealy International and the other subsidiary borrowers, at either (i) base rate plus the applicable margin, (ii) "Eurocurrency" rate plus the applicable margin, (iii) "RFR" rate plus the applicable margin or (iv) a "Term Benchmark" rate plus the applicable margin. The aforementioned rates are defined in the 2023 Credit Agreement, which was previously filed as an exhibit to the Company's Current Report on Form 8-K, which was filed on October 11, 2023. For the revolving credit facility and the term loan facility (a) the initial applicable margin for base rate advances was 0.625% per annum and the initial applicable margin for Eurocurrency rate, RFR rate and Term Benchmark advances was 1.625% per annum, and (b) following the delivery of financial statements for the fiscal quarter ending March 31, 2024 and for subsequent fiscal quarters, such applicable margins will be determined by a pricing grid based on the consolidated total net leverage ratio of the Company.

Obligations under the 2023 Credit Agreement are guaranteed by the Company's existing and future direct and indirect wholly-owned domestic subsidiaries, subject to certain exceptions and are secured by a security interest in substantially all of Tempur Sealy International's and the other subsidiary borrowers' domestic assets and the domestic assets of each subsidiary guarantor, whether owned as of the closing or thereafter acquired, including a pledge of 100.0% of the equity interests of each subsidiary owned by the Company or a subsidiary guarantor that is a domestic entity (subject to certain limited exceptions) and 65.0% of the voting equity interests of any direct first tier foreign entity owned by the Company or a subsidiary guarantor.

The 2023 Credit Agreement requires compliance with certain financial covenants providing for maintenance of a minimum consolidated interest coverage ratio, maintenance of a maximum consolidated total net leverage ratio, and maintenance of a maximum consolidated secured net leverage ratio. The consolidated total net leverage ratio is calculated using consolidated indebtedness less netted cash (as defined below). Consolidated indebtedness includes debt recorded on the Condensed Consolidated Balance Sheets as of the reporting date, plus letters of credit outstanding in excess of \$60.0 million and other short-term debt. The Company is allowed to subtract from consolidated indebtedness an amount equal to 100.0% of the domestic and foreign unrestricted cash ("netted cash"). As of September 30, 2023, netted cash was \$91.6 million.

The 2023 Credit Agreement contains certain customary negative covenants, which include limitations on liens, investments, indebtedness, dispositions, mergers and acquisitions, the making of restricted payments, changes in the nature of business, changes in fiscal year, transactions with affiliates, use of proceeds, prepayments of certain indebtedness, entry into burdensome agreements and changes to governing documents. The 2023 Credit Agreement also contains certain customary affirmative covenants and events of default, including upon a change of control.

The Company is required to pay a commitment fee on the unused portion of the revolving credit facility, which initially will be 0.25% per annum and following the delivery of financial statements for the fiscal quarter ending March 31, 2024 and for subsequent fiscal quarters, such fees will be determined by a pricing grid based on the consolidated total net leverage ratio of the Company. This unused commitment fee is payable quarterly in arrears and on the date of termination or expiration of the commitments under the revolving credit facility. The Company and the other borrowers also pay customary letter of credit issuance and other fees under the 2023 Credit Agreement.

The maturity date of the 2023 Credit Agreement is October 10, 2028. Amounts under the revolving credit facility may be borrowed, repaid and re-borrowed from time to time until the maturity date. The term loan facility is subject to quarterly amortization as set forth in the 2023 Credit Agreement. In addition, the term loan facility is subject to mandatory prepayment in connection with certain debt issuances, asset sales and casualty events, subject to certain reinvestment rights. Voluntary prepayments and commitment reductions under the 2023 Credit Agreement are permitted at any time without payment of any prepayment premiums.

2019 Credit Agreement

The Company used the proceeds from the 2023 Credit Agreement to refinance outstanding borrowings under the 2019 Credit Agreement and terminated the existing revolving credit commitments. The 2019 Credit Agreement, as amended, initially provided for a \$725.0 million revolving credit facility and a \$725.0 million term loan facility.

The Company had \$135.0 million in outstanding borrowings under its revolving credit facility as of September 30, 2023. Total remaining availability under the revolving credit facility was \$589.4 million after a \$0.6 million reduction for outstanding letters of credit as of September 30, 2023.

Securitized Debt

The Company and certain of its subsidiaries are party to a securitization transaction with respect to certain accounts receivable due to the Company and certain of its subsidiaries (as amended, the "Accounts Receivable Securitization"). As of September 30, 2023, total availability under the Accounts Receivable Securitization was \$28.4 million. On April 6, 2023, the Company and certain of its subsidiaries entered into a second amendment to the Accounts Receivable Securitization. The amendment, among other things, extended the maturity date of the Accounts Receivable Securitization to April 7, 2025. While subject to a \$200.0 million overall limit, the availability of revolving loans varies over the course of the year based on the seasonality of the Company's accounts receivable.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (unaudited) (continued)

(5) Stockholders' Equity

(a) *Treasury Stock*. As of September 30, 2023, the Company had approximately \$774.5 million remaining under its share repurchase authorization. The Company did not repurchase shares, under the program, during the three months ended September 30, 2023. The Company repurchased 1.0 million shares, under the program, for approximately \$25.0 million during the three months ended September 30, 2022. The Company repurchased 0.1 million and 17.6 million shares, under the program, for approximately \$5.0 million and \$591.2 million during the nine months ended September 30, 2023 and 2022, respectively.

In addition, the Company acquired shares upon the vesting of certain restricted stock units ("RSUs") and performance restricted stock units ("PRSUs"), which were withheld to satisfy tax withholding obligations during each of the three and nine months ended September 30, 2023 and 2022, respectively. The shares withheld were valued at the closing price of the stock on the New York Stock Exchange on the vesting date or first business day prior to vesting, resulting in \$0.1 million and \$0.2 million in treasury stock acquired during the three months ended September 30, 2023 and 2022, respectively. The Company acquired approximately \$31.0 million and \$46.0 million in treasury stock during the nine months ended September 30, 2023 and 2022, respectively.

(b) *Accumulated Other Comprehensive Loss ("AOCL")*. AOCL consisted of the following:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Foreign Currency Translation				
Balance at beginning of period	\$ (143.2)	\$ (170.5)	\$ (175.3)	\$ (95.2)
Other comprehensive loss:				
Foreign currency translation adjustments ⁽¹⁾	(31.5)	(64.8)	0.6	(140.1)
Balance at end of period	<u>\$ (174.7)</u>	<u>\$ (235.3)</u>	<u>\$ (174.7)</u>	<u>\$ (235.3)</u>
Pensions				
Balance at beginning of period	\$ (1.6)	\$ (4.0)	\$ (1.6)	\$ (4.0)
Other comprehensive loss:				
Net change from period revaluations	—	—	—	—
Balance at end of period	<u>\$ (1.6)</u>	<u>\$ (4.0)</u>	<u>\$ (1.6)</u>	<u>\$ (4.0)</u>

(1) In 2023 and 2022, there were no tax impacts related to foreign currency translation adjustments and no amounts were reclassified to earnings.

(6) Other Items

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following:

(in millions)	September 30, 2023	December 31, 2022
Wages and benefits	\$ 97.8	\$ 78.0
Advertising	66.5	64.9
Unearned revenue	64.1	48.5
Taxes	58.7	52.1
Other	215.8	189.2
	<u>\$ 502.9</u>	<u>\$ 432.7</u>

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (unaudited) (continued)

(7) Stock-Based Compensation

The Company's stock-based compensation expense for the three and nine months ended September 30, 2023 and 2022 included PRSUs, non-qualified stock options and RSUs. A summary of the Company's stock-based compensation expense is presented in the following table:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
PRSU expense	\$ 5.9	\$ 6.4	\$ 18.8	\$ 22.6
Option expense	0.5	0.5	1.6	0.5
RSU expense	5.3	5.4	15.5	16.0
Total stock-based compensation expense	\$ 11.7	\$ 12.3	\$ 35.9	\$ 39.1

The Company grants PRSUs to executive officers and certain members of management. Actual payout under the PRSUs is dependent upon the achievement of certain financial goals. During the first quarter of 2023, the Company granted PRSUs as a component of the long-term incentive plan ("2023 PRSUs"). The Company has recorded stock-based compensation expense related to the 2023 PRSUs during the three and nine months ended September 30, 2023, as it was probable that the Company would achieve the specified performance targets for the performance period.

(8) Commitments and Contingencies

The Company is involved in various legal and administrative proceedings incidental to the operations of its business. The Company believes that the outcome of all such pending proceedings in the aggregate will not have a material adverse effect on its business, financial condition, liquidity or operating results.

(9) Income Taxes

The Company's effective tax rates for the three months ended September 30, 2023 and 2022 were 24.4% and 23.5%, respectively. The Company's effective tax rates for the nine months ended September 30, 2023 and 2022 were 24.2% and 23.2%, respectively. The Company's effective tax rates for the three and nine months ended September 30, 2023 and 2022 differed from the U.S. federal statutory rate of 21.0% principally due to subpart F income (i.e., global intangible low-taxed income, or "GILTI," earned by the Company's foreign subsidiaries), foreign income tax rate differentials, state and local taxes, changes in the Company's uncertain tax positions, the excess tax benefit related to stock-based compensation and certain other permanent items.

The Company has been involved in a dispute with the Danish Tax Authority ("SKAT") regarding the royalty paid by a U.S. subsidiary of Tempur Sealy International to a Danish subsidiary (the "Danish Tax Matter") for tax years 2012 through current. The royalty is paid by the U.S. subsidiary for the right to utilize certain intangible assets owned by the Danish subsidiary in the U.S. production process. In November 2018, the Company entered into the Advanced Pricing Agreement program (the "APA Program") requesting SKAT and the U.S. Internal Revenue Service ("IRS") to directly negotiate a mutually acceptable agreement on the Danish Tax Matter.

During December 2022, pursuant to the negotiations described above with respect to the APA Program, SKAT and the IRS preliminarily concluded on a mutually acceptable framework ("Preliminary Framework") to resolve the Danish Tax Matter for the 2012 to 2022 tax years. On October 12, 2023, the two tax authorities formally signed, pursuant to the APA Program, the bilateral APA case and mutual agreement procedure (the "Mutual Agreement") cases between the U.S. and the Kingdom of Denmark. The terms of the Mutual Agreement reflect in all material respects those terms contained in the Preliminary Framework. It is anticipated that implementation of the terms of the Mutual Agreement (as reflected in the calculation of taxable income in both Denmark and the U.S. for the years covered in such agreement) will be materially and substantially consistent with those previously recorded in the Company's Consolidated Balance Sheets as of September 30, 2023 (pursuant to the Preliminary Framework which was preliminary as of that date) and will be completed in the next twelve months.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (unaudited) (continued)

The uncertain income tax liability for the Danish Tax Matter for the years 2012 through 2022 was approximately \$37.2 million and \$37.8 million at September 30, 2023 and December 31, 2022, respectively, and is reflected in the Company's Condensed Consolidated Balance Sheets in accrued expenses and other current liabilities. Conversely, the deferred tax asset for the U.S. correlative benefit associated with the accrual of the Danish Tax Matter for the 2012 to 2022 tax years was approximately \$21.6 million for both periods ended September 30, 2023 and December 31, 2022. Starting January 1, 2023, the Company adopted the terms of the Preliminary Framework for the calculation of the royalty as described above. As such, there is no uncertain income tax liability or deferred tax asset associated with the adoption of the terms of the Mutual Agreement.

As of September 30, 2023, the Company had made the following tax deposits related to assessments received by SKAT for the Danish Tax Matter for the years 2012 through 2016, which are reflected in the Company's Condensed Consolidated Balance Sheets in other current assets:

	USD
VAT deposits remaining with SKAT	\$ 1.4
Deposit payments	56.4
Total	\$ 57.8

(10) Earnings Per Common Share

The following table sets forth the components of the numerator and denominator for the computation of basic and diluted earnings per share for net income attributable to Tempur Sealy International:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<i>(in millions, except per common share amounts)</i>				
Numerator:				
Net income from continuing operations, net of income attributable to non-controlling interests	\$ 113.3	\$ 133.5	\$ 291.0	\$ 354.8
Denominator:				
Denominator for basic earnings per common share-weighted average shares	172.2	171.9	172.1	176.2
Effect of dilutive securities	5.4	5.1	4.9	5.3
Denominator for diluted earnings per common share-adjusted weighted average shares	177.6	177.0	177.0	181.5
Basic earnings per common share	\$ 0.66	\$ 0.78	\$ 1.69	\$ 2.01
Diluted earnings per common share	\$ 0.64	\$ 0.75	\$ 1.64	\$ 1.95

The Company excludes shares issuable upon exercise of outstanding stock options from the diluted earnings per common share computation because their exercise price was greater than the average market price of Tempur Sealy International's common stock or they were otherwise anti-dilutive.

The Company did not exclude any shares for the three months ended September 30, 2023 and excluded 1.5 million shares for the three months ended September 30, 2022. The Company excluded 0.2 million and 0.8 million shares for the nine months ended September 30, 2023 and September 30, 2022, respectively. Holders of non-vested stock-based compensation awards do not have voting rights but do participate in dividend equivalents distributed upon the award vesting.

(11) Business Segment Information

The Company operates in two segments: North America and International. These segments are strategic business units that are managed separately based on geography. The North America segment consists of manufacturing and distribution subsidiaries, joint ventures and licensees located in the U.S., Canada and Mexico. The International segment consists of manufacturing and distribution subsidiaries, joint ventures and licensees located in Europe, Asia-Pacific and Latin America (other than Mexico). The Company evaluates segment performance based on net sales, gross profit and operating income.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (unaudited) (continued)

The Company's North America and International segment assets include investments in subsidiaries that are appropriately eliminated in the Company's accompanying Condensed Consolidated Financial Statements. The remaining inter-segment eliminations are comprised of intercompany accounts receivable and payable.

The following table summarizes total assets by segment:

<i>(in millions)</i>	September 30, 2023	December 31, 2022
North America	\$ 5,476.1	\$ 5,161.7
International	1,336.4	1,181.5
Corporate	1,230.4	1,077.1
Inter-segment eliminations	(3,496.8)	(3,060.5)
Total assets	<u>\$ 4,546.1</u>	<u>\$ 4,359.8</u>

The following table summarizes property, plant and equipment, net, by segment:

<i>(in millions)</i>	September 30, 2023	December 31, 2022
North America	\$ 728.6	\$ 672.1
International	86.9	87.3
Corporate	33.9	31.7
Total property, plant and equipment, net	<u>\$ 849.4</u>	<u>\$ 791.1</u>

The following table summarizes operating lease right-of-use assets by segment:

<i>(in millions)</i>	September 30, 2023	December 31, 2022
North America	\$ 414.9	\$ 349.0
International	167.6	154.1
Corporate	3.0	3.7
Total operating lease right-of-use assets	<u>\$ 585.5</u>	<u>\$ 506.8</u>

The following table summarizes segment information for the three months ended September 30, 2023:

<i>(in millions)</i>	North America	International	Corporate	Eliminations	Consolidated
Net sales	\$ 1,023.7	\$ 253.4	\$ —	\$ —	\$ 1,277.1
Inter-segment sales	\$ 0.2	\$ 0.1	\$ —	\$ (0.3)	\$ —
Inter-segment royalty expense (income)	9.5	(9.5)	—	—	—
Gross profit	430.4	143.3	—	—	573.7
Operating income (loss)	195.5	40.0	(52.3)	—	183.2
Income (loss) before income taxes	192.5	41.2	(83.0)	—	150.7
Depreciation and amortization ⁽¹⁾	\$ 25.1	\$ 6.3	\$ 13.5	\$ —	\$ 44.9
Capital expenditures	28.8	7.7	4.1	—	40.6

(1) Depreciation and amortization includes stock-based compensation amortization expense.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (unaudited) (continued)

The following table summarizes segment information for the three months ended September 30, 2022:

<i>(in millions)</i>	North America	International	Corporate	Eliminations	Consolidated
Net sales	\$ 1,057.7	\$ 225.6	\$ —	\$ —	\$ 1,283.3
Inter-segment sales	\$ 0.5	\$ 0.2	\$ —	\$ (0.7)	\$ —
Inter-segment royalty expense (income)	3.4	(3.4)	—	—	—
Gross profit	420.7	120.4	—	—	541.1
Operating income (loss)	205.0	32.6	(36.6)	—	201.0
Income (loss) from continuing operations before income taxes	203.0	33.9	(61.8)	—	175.1
Depreciation and amortization ⁽¹⁾	\$ 24.5	\$ 5.8	\$ 14.0	\$ —	\$ 44.3
Capital expenditures	75.3	8.5	2.0	—	85.8

(1) Depreciation and amortization includes stock-based compensation amortization expense.

The following table summarizes segment information for the nine months ended September 30, 2023:

<i>(in millions)</i>	North America	International	Corporate	Eliminations	Consolidated
Net sales	\$ 2,960.1	\$ 794.8	\$ —	\$ —	\$ 3,754.9
Inter-segment sales	\$ 0.8	\$ 0.5	\$ —	\$ (1.3)	\$ —
Inter-segment royalty expense (income)	26.2	(26.2)	—	—	—
Gross profit	1,177.8	438.1	—	—	1,615.9
Operating income (loss)	505.6	118.1	(138.4)	—	485.3
Income (loss) before income taxes	499.1	116.9	(229.5)	—	386.5
Depreciation and amortization ⁽¹⁾	\$ 74.9	\$ 19.2	\$ 41.4	\$ —	\$ 135.5
Capital expenditures	126.9	19.2	7.2	—	153.3

(1) Depreciation and amortization includes stock-based compensation amortization expense.

The following table summarizes segment information for the nine months ended September 30, 2022:

<i>(in millions)</i>	North America	International	Corporate	Eliminations	Consolidated
Net sales	\$ 2,953.8	\$ 780.0	\$ —	\$ —	\$ 3,733.8
Inter-segment sales	\$ 1.4	\$ 0.9	\$ —	\$ (2.3)	\$ —
Inter-segment royalty expense (income)	12.8	(12.8)	—	—	—
Gross profit	1,138.9	421.5	—	—	1,560.4
Operating income (loss)	506.5	135.2	(108.2)	—	533.5
Income (loss) from continuing operations before income taxes	503.6	135.0	(175.0)	—	463.6
Depreciation and amortization ⁽¹⁾	\$ 70.7	\$ 17.7	\$ 44.1	\$ —	\$ 132.5
Capital expenditures	188.2	23.1	4.7	—	216.0

(1) Depreciation and amortization includes stock-based compensation amortization expense.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (unaudited) (continued)

The following table summarizes property, plant and equipment, net by geographic region:

<i>(in millions)</i>	September 30, 2023	December 31, 2022
United States	\$ 739.8	\$ 682.0
All other	109.6	109.1
Total property, plant and equipment, net	<u>\$ 849.4</u>	<u>\$ 791.1</u>

The following table summarizes operating lease right-of-use assets by geographic region:

<i>(in millions)</i>	September 30, 2023	December 31, 2022
United States	\$ 405.6	\$ 339.6
United Kingdom	135.7	122.9
All other	44.2	44.3
Total operating lease right-of-use assets	<u>\$ 585.5</u>	<u>\$ 506.8</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the 2022 Annual Report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in ITEM 7 of Part II of the 2022 Annual Report, and the accompanying Condensed Consolidated Financial Statements and notes thereto included in this Report. Unless otherwise noted, all of the financial information in this Report is consolidated financial information for the Company. The forward-looking statements in this discussion regarding the mattress and pillow industries, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are subject to numerous risks and uncertainties. See "Special Note Regarding Forward-Looking Statements" elsewhere in this Report and in the 2022 Annual Report, the section titled "Risk Factors" contained in ITEM 1A of Part I of the 2022 Annual Report and in the Quarterly Report on Form 10-Q in the section titled "Risk Factors" contained in ITEM 1A of Part II for the quarter ended June 30, 2023. Our actual results may differ materially from those contained in any forward-looking statements.

In this discussion and analysis, we discuss and explain the consolidated financial condition and results of operations for the three and nine months ended September 30, 2023, including the following topics:

- an overview of our business and strategy;
- results of operations, including our net sales and costs in the periods presented as well as changes between periods;
- expected sources of liquidity for future operations; and
- our use of certain non-GAAP financial measures.

Business Overview

General

We are committed to improving the sleep of more people, every night, all around the world. As a leading designer, manufacturer, distributor and retailer of bedding products, we know how crucial a good night of sleep is to overall health and wellness. Utilizing over a century of knowledge and industry-leading innovation, we deliver award-winning products that provide breakthrough sleep solutions to consumers in over 100 countries. Our highly recognized brands include Tempur-Pedic®, Sealy® and Stearns & Foster® and our non-branded offerings include private label and original equipment manufacturer ("OEM") products.

We operate in two segments: North America and International. These segments are strategic business units that are managed separately based on geography. Our North America segment consists of manufacturing and distribution subsidiaries, joint ventures and licensees located in the U.S., Canada and Mexico. Our International segment consists of manufacturing and distribution subsidiaries, joint ventures and licensees located in Europe, Asia-Pacific and Latin America (other than Mexico). Corporate operating expenses are not included in either of the segments and are presented separately as a reconciling item to consolidated results. We evaluate segment performance based on net sales, gross profit and operating income. For additional information refer to Note 11, "Business Segment Information," included in Part I, ITEM 1 of this Report.

Our distribution model operates through an omni-channel strategy. Our products are sold through third-party retailers, our more than 700 company-owned stores and our e-commerce platforms. We distribute through two channels in each operating business segment: Wholesale and Direct. Our Wholesale channel consists of third-party retailers, including third-party distribution, hospitality and healthcare. Our Direct channel includes company-owned stores, online and call centers.

General Business and Economic Conditions

We believe the bedding industry is structured for sustained growth, driven by product innovation, sleep technology advancements, consumer confidence, housing formations and population growth. The industry is no longer engaged in uneconomical retail store expansion, startups have shifted from uneconomical strategies to becoming profitable and legacy retailers and manufacturers have become skilled in producing profitable online sales.

Over the last decade, consumers have made the connection between a good night's sleep and overall health and wellness. As consumers make this connection they are willing to invest more in their bedding purchases, which positions us well for long-term growth. In the first nine months of 2023, global consumer spending continued to be unfavorably impacted by macroeconomic pressures, particularly from geopolitical events, inflation and rising interest rates.

Definitive Agreement with Mattress Firm.

On May 9, 2023, Tempur Sealy International and Mattress Firm entered into a definitive agreement and plan of merger (the "Merger Agreement") for a proposed business acquisition in which Tempur Sealy International, through a wholly-owned subsidiary, will acquire Mattress Firm in a transaction valued at approximately \$4.0 billion. The transaction is expected to be funded by approximately \$2.7 billion of cash consideration and the issuance of 34.2 million shares of common stock, resulting in a total stock consideration value of \$1.3 billion based on a closing share price of \$37.62 as of May 8, 2023.

We expect the transaction to close in the second half of 2024, subject to the satisfaction of customary closing conditions, including applicable regulatory approvals. Following the close of the transaction, Mattress Firm is expected to operate as a separate business unit.

Cybersecurity Event

On July 31, 2023, we disclosed a cybersecurity event identified on July 23, 2023 affecting certain of our data and IT systems. Upon discovery of the event, we activated our incident response and business continuity plans designed to contain the incident. This included proactively shutting down certain of our IT systems, resulting in the temporary interruption of our operations. Legal counsel, a cybersecurity forensic firm and other incident response professionals were engaged to advise on the matter. We also notified law enforcement authorities.

We incurred \$13.5 million of costs in connection with this event, primarily consisting of \$9.6 million of manufacturing and network disruption costs incurred to ensure business continuity and \$3.9 million primarily related to professional fees incurred for incident response, containment measures and stabilization of the Company's information systems. Following the forensic investigation, we concluded there was no material impact to our financial results in the third quarter of 2023. Our cybersecurity insurance policy provides coverage for certain losses not to exceed \$5.0 million over the annual term of the policy, and we have not yet submitted a claim for this incident.

Product Launches

In the second quarter of 2023, we completed the rollout of our North American Stearns & Foster® portfolio that began in 2022. The new line is designed to further distinguish our high-end traditional innerspring brand and includes superior technologies, clear product step-up stories and a new, contemporary look.

We also completed the launch of our new portfolio of Tempur-Pedic® Breeze mattresses and Tempur-Ergo® Smart Bases in the second quarter of 2023. The new lineup of Tempur-Pedic® Breeze products builds upon our successful legacy Breeze portfolio. The updated collection features incremental innovation and technologies that were designed to be a solution to the most common causes of poor sleep, including aches and pains, sleeping hot and snoring. The upgraded Tempur-Ergo® Smart Base assortment features improved ergonomic design with new, proprietary lumbar support, upgraded Sleeptracker-AI® technology and industry-leading relaxation modes, including Wave Form™ massage.

In our International segment, we launched an all-new line of Tempur® products in over 90 markets through our wholly-owned subsidiaries and third-party distributors in 2023. We expect this new line of products to broaden Tempur®'s price range, with the super-premium price point ceiling maintained and the floor expanded into the premium category to broaden our global addressable market.

Results of Operations

A summary of our results for the three months ended September 30, 2023 include:

- Total net sales decreased 0.5% to \$1,277.1 million as compared to \$1,283.3 million in the third quarter of 2022, with a decrease of 3.2% in the North America business segment and an increase of 12.3% in the International business segment. On a constant currency basis, which is a non-GAAP financial measure, total net sales decreased 1.7%, with a decrease of 3.5% in the North America business segment and an increase of 6.7% in the International business segment.
- Gross margin was 44.9% as compared to 42.2% in the third quarter of 2022. Adjusted gross margin, which is a non-GAAP financial measure, was 45.9% as compared to 42.5% in the third quarter of 2022.
- Operating income decreased 8.9% to \$183.2 million as compared to \$201.0 million in the third quarter of 2022. Adjusted operating income, which is a non-GAAP financial measure, increased 3.9% to \$214.7 million as compared to \$206.7 million in the third quarter of 2022.
- Net income decreased 14.6% to \$113.3 million as compared to \$132.7 million in the third quarter of 2022. Adjusted net income, which is a non-GAAP financial measure, decreased 0.7% to \$136.8 million as compared to \$137.8 million in the third quarter of 2022.
- Earnings per diluted share ("EPS") decreased 14.7% to \$0.64 as compared to \$0.75 in the third quarter of 2022. Adjusted EPS, which is a non-GAAP financial measure, decreased 1.3% to \$0.77 as compared to \$0.78 in the third quarter of 2022.

For a discussion and reconciliation of non-GAAP financial measures as discussed above to the corresponding GAAP financial results, refer to the non-GAAP financial information set forth below under the heading "Non-GAAP Financial Information."

We may refer to net sales, 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 corresponding 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. Constant currency information is not recognized under GAAP, and it is not intended as an alternative to GAAP measures. Refer to Part I, ITEM 3 of this Report for a discussion of our foreign currency exchange rate risk.

**THREE MONTHS ENDED SEPTEMBER 30, 2023 COMPARED TO THE
THREE MONTHS ENDED SEPTEMBER 30, 2022**

The following table sets forth the various components of our Condensed Consolidated Statements of Income and expresses each component as a percentage of net sales:

<i>(in millions, except percentages and per share amounts)</i>	Three Months Ended September 30,			
	2023		2022	
Net sales	\$ 1,277.1	100.0 %	\$ 1,283.3	100.0 %
Cost of sales	703.4	55.1	742.2	57.8
Gross profit	573.7	44.9	541.1	42.2
Selling and marketing expenses	272.9	21.4	248.3	19.3
General, administrative and other expenses	122.2	9.6	96.7	7.5
Equity income in earnings of unconsolidated affiliates	(4.6)	(0.4)	(4.9)	(0.4)
Operating income	183.2	14.3	201.0	15.7
Other expense, net:				
Interest expense, net	32.6	2.6	26.8	2.1
Other income, net	(0.1)	—	(0.9)	(0.1)
Total other expense, net	32.5	2.5	25.9	2.0
Income from continuing operations before income taxes	150.7	11.8	175.1	13.6
Income tax provision	(36.8)	(2.9)	(41.1)	(3.2)
Income from continuing operations	113.9	8.9	134.0	10.4
Loss from discontinued operations, net of tax	—	—	(0.8)	(0.1)
Net income before non-controlling interest	113.9	8.9	133.2	10.3
Less: Net income attributable to non-controlling interest	0.6	—	0.5	—
Net income attributable to Tempur Sealy International, Inc.	\$ 113.3	8.9 %	\$ 132.7	10.3 %
Earnings per common share:				
Basic				
Earnings per share for continuing operations	\$ 0.66		\$ 0.78	
Loss per share for discontinued operations	—		(0.01)	
Earnings per share	\$ 0.66		\$ 0.77	
Diluted				
Earnings per share for continuing operations	\$ 0.64		\$ 0.75	
Loss per share for discontinued operations	—		—	
Earnings per share	\$ 0.64		\$ 0.75	
Weighted average common shares outstanding:				
Basic	172.2		171.9	
Diluted	177.6		177.0	

NET SALES

(in millions)	Three Months Ended September 30,					
	2023		2022		2023	
	2023		2022		2023	
	Consolidated		North America		International	
Net sales by channel						
Wholesale	\$ 974.6	\$ 1,003.2	\$ 885.1	\$ 918.1	\$ 89.5	\$ 85.1
Direct	302.5	280.1	138.6	139.6	163.9	140.5
Total net sales	\$ 1,277.1	\$ 1,283.3	\$ 1,023.7	\$ 1,057.7	\$ 253.4	\$ 225.6

Net sales decreased 0.5%, and on a constant currency basis decreased 1.7%. The change in net sales was driven by the following:

- *North America* net sales decreased \$34.0 million, or 3.2%, primarily driven by continued macroeconomic pressures impacting U.S. consumer behavior. On a constant currency basis, North America net sales decreased 3.5%. Net sales in the Wholesale channel decreased \$33.0 million, or 3.6%. Net sales in the Direct channel decreased \$1.0 million, or 0.7%.
- *International* net sales increased \$27.8 million, or 12.3%, primarily driven by the success of new TEMPUR® product introductions and favorable foreign exchange. On a constant currency basis, International net sales increased 6.7%. Net sales in the Wholesale channel increased 1.2% on a constant currency basis. Net sales in the Direct channel increased 10.1% on a constant currency basis.

GROSS PROFIT

(in millions, except percentages)	Three Months Ended September 30,					
	2023		2022			
	2023		2022			
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Margin Change	
North America	\$ 430.4	42.0 %	\$ 420.7	39.8 %	2.2 %	
International	143.3	56.6 %	120.4	53.4 %	3.2 %	
Consolidated gross margin	\$ 573.7	44.9 %	\$ 541.1	42.2 %	2.7 %	

Costs associated with net sales are recorded in cost of sales and include the costs of producing, shipping, warehousing, receiving and inspecting goods during the period, as well as depreciation and amortization of long-lived assets used in the manufacturing process.

Our gross margin is primarily impacted by the relative amount of net sales contributed by our premium or value products. Our value products have a significantly lower gross margin than our premium products. If sales of our value priced products increase relative to sales of our premium priced products, our gross margins will be negatively impacted in both our North America and International segments.

Our gross margin is also impacted by fixed cost leverage based on manufacturing unit volumes; the cost of raw materials; operational efficiencies due to the utilization in our manufacturing facilities; product, brand, channel and country mix; foreign exchange fluctuations; volume incentives offered to certain retail accounts; participation in our retail cooperative advertising programs; and costs associated with new product introductions. Future changes in raw material prices could have a significant impact on our gross margin. Our margins are also impacted by the growth in our Wholesale channel as sales in our Wholesale channel are at wholesale prices, whereas sales in our Direct channel are at retail prices.

Gross margin improved 270 basis points. The primary drivers of changes in gross margin by segment are discussed below:

- *North America* gross margin improved 220 basis points. The improvement in gross margin was primarily driven by normalizing commodity costs of 310 basis points. These improvements were partially offset by expense deleverage, net of operational efficiencies. Additionally, in 2023, we incurred \$9.6 million of costs associated with the cybersecurity event identified on July 23, 2023, which partially offset the improvement in gross margin.
- *International* gross margin improved 320 basis points. The improvement in gross margin was primarily driven by normalizing commodity costs of 150 basis points, favorable mix of 120 basis points and expense leverage of 60 basis points.

OPERATING EXPENSES

Selling and marketing expenses include advertising and media production associated with the promotion of our brands, other marketing materials such as catalogs, brochures, videos, product samples, direct customer mailings and point of purchase materials and sales force compensation. We also include in selling and marketing expense certain new product development costs, including market research and new product testing.

General, administrative and other expenses include salaries and related expenses, IT, professional fees, depreciation and amortization of long-lived assets not used in the manufacturing process, expenses for administrative functions and research and development costs.

(in millions)	Three Months Ended September 30,							
	2023		2022		2023		2022	
	2023		2022		2023		2022	
	Consolidated		North America		International		Corporate	
Operating expenses:								
Advertising expenses	\$ 119.0	\$ 115.1	\$ 102.9	\$ 99.7	\$ 16.1	\$ 15.4	\$ —	\$ —
Other selling and marketing expenses	153.9	133.2	85.1	71.3	63.8	56.8	5.0	5.1
General, administrative and other expenses	122.2	96.7	46.9	44.7	28.0	20.5	47.3	31.5
Total operating expenses	\$ 395.1	\$ 345.0	\$ 234.9	\$ 215.7	\$ 107.9	\$ 92.7	\$ 52.3	\$ 36.6

Operating expenses increased \$50.1 million, or 14.5%, and increased 400 basis points as a percentage of net sales. The primary drivers of changes in operating expenses by segment are explained below:

- *North America* operating expenses increased \$19.2 million, or 8.9%, and increased 250 basis points as a percentage of net sales. The increase in operating expenses was primarily driven by investments in growth initiatives.
- *International* operating expenses increased \$15.2 million, or 16.4%, and increased 150 basis points as a percentage of net sales. The increase in operating expenses was primarily driven by investments in growth initiatives.
- *Corporate* operating expenses increased \$15.7 million, or 42.9%, primarily driven by \$15.7 million of transaction costs related to the pending acquisition of Mattress Firm.

Research and development expenses for the three months ended September 30, 2023 were \$8.2 million compared to \$6.6 million for the three months ended September 30, 2022, an increase of \$1.6 million or 24.2%.

OPERATING INCOME					
Three Months Ended September 30,					
(in millions, except percentages)	2023		2022		Margin Change
	Operating Income	Operating Margin	Operating Income	Operating Margin	
North America	\$ 195.5	19.1 %	\$ 205.0	19.4 %	(0.3)%
International	40.0	15.8 %	32.6	14.5 %	1.3 %
	235.5		237.6		
Corporate expenses	(52.3)		(36.6)		
Total operating income	\$ 183.2	14.3 %	\$ 201.0	15.7 %	(1.4)%

Operating income decreased \$17.8 million and operating margin declined 140 basis points. The primary drivers of changes in operating income and operating margin by segment are discussed below:

- *North America* operating income decreased \$9.5 million and operating margin declined 30 basis points. The decline in operating margin was primarily driven by operating expense deleverage of 250 basis points, offset by the improvement in gross margin of 220 basis points.
- *International* operating income increased \$7.4 million and operating margin improved 130 basis points. The improvement in operating margin was driven by the improvement in gross margin of 320 basis points, offset by operating expense deleverage of 150 basis points.
- *Corporate* operating expenses increased \$15.7 million, which negatively impacted our consolidated operating margin.

INTEREST EXPENSE, NET			
Three Months Ended September 30,			
(in millions, except percentages)	2023	2022	% Change
Interest expense, net	\$ 32.6	\$ 26.8	21.6 %

Interest expense, net, increased \$5.8 million, or 21.6%. The increase in interest expense, net, was primarily driven by higher interest rates on our variable rate debt.

INCOME TAX PROVISION			
Three Months Ended September 30,			
(in millions, except percentages)	2023	2022	% Change
Income tax provision	\$ 36.8	\$ 41.1	(10.5)%
Effective tax rate	24.4 %	23.5 %	

Our income tax provision includes income taxes associated with taxes currently payable and deferred taxes and includes the impact of net operating losses for certain of our foreign operations.

Our income tax provision decreased \$4.3 million due to a decrease in income before income taxes. Our effective tax rate for the three months ended September 30, 2023 as compared to the prior year increased by 90 basis points. The effective tax rates as compared to the U.S. federal statutory rates for the three months ended September 30, 2023 and 2022 included a net favorable impact of other discrete items.

**NINE MONTHS ENDED SEPTEMBER 30, 2023 COMPARED TO THE
NINE MONTHS ENDED SEPTEMBER 30, 2022**

The following table sets forth the various components of our Condensed Consolidated Statements of Income and expresses each component as a percentage of net sales:

<i>(in millions, except percentages and per share amounts)</i>	Nine Months Ended September 30,			
	2023		2022	
Net sales	\$ 3,754.9	100.0 %	\$ 3,733.8	100.0 %
Cost of sales	2,139.0	57.0	2,173.4	58.2
Gross profit	1,615.9	43.0	1,560.4	41.8
Selling and marketing expenses	799.8	21.3	744.7	19.9
General, administrative and other expenses	344.2	9.2	296.6	7.9
Equity income in earnings of unconsolidated affiliates	(13.4)	(0.4)	(14.4)	(0.4)
Operating income	485.3	12.9	533.5	14.3
Other expense, net:				
Interest expense, net	99.0	2.6	71.4	1.9
Other income, net	(0.2)	—	(1.5)	—
Total other expense, net	98.8	2.6	69.9	1.9
Income from continuing operations before income taxes	386.5	10.3	463.6	12.4
Income tax provision	(93.5)	(2.5)	(107.5)	(2.9)
Income from continuing operations	293.0	7.8	356.1	9.5
Loss from discontinued operations, net of tax	—	—	(0.8)	—
Net income before non-controlling interest	293.0	7.8	355.3	9.5
Less: Net income attributable to non-controlling interest	2.0	0.1	1.3	—
Net income attributable to Tempur Sealy International, Inc.	\$ 291.0	7.7 %	\$ 354.0	9.5 %
Earnings per common share:				
Basic				
Earnings per share for continuing operations	\$ 1.69		\$ 2.01	
Loss per share for discontinued operations	—		—	
Earnings per share	\$ 1.69		\$ 2.01	
Diluted				
Earnings per share for continuing operations	\$ 1.64		\$ 1.95	
Loss per share for discontinued operations	—		—	
Earnings per share	\$ 1.64		\$ 1.95	
Weighted average common shares outstanding:				
Basic	172.1		176.2	
Diluted	177.0		181.5	

NET SALES

(in millions)	Nine Months Ended September 30,					
	2023	2022	2023	2022	2023	2022
	Consolidated		North America		International	
Net sales by channel						
Wholesale	\$ 2,876.4	\$ 2,866.4	\$ 2,585.4	\$ 2,577.2	\$ 291.0	\$ 289.2
Direct	878.5	867.4	374.7	376.6	503.8	490.8
Total net sales	<u>\$ 3,754.9</u>	<u>\$ 3,733.8</u>	<u>\$ 2,960.1</u>	<u>\$ 2,953.8</u>	<u>\$ 794.8</u>	<u>\$ 780.0</u>

Net sales increased 0.6%, and on a constant currency basis increased 0.9%. The change in net sales was driven by the following:

- *North America* net sales increased \$6.3 million, or 0.2%, primarily driven by the success of new product launches for Tempur-Pedic® and Stearns & Foster®, partially offset by macroeconomic pressures impacting U.S. consumer behavior. Net sales in the Wholesale channel increased \$8.2 million, or 0.3%. Net sales in the Direct channel decreased \$1.9 million, or 0.5%.
- *International* net sales increased \$14.8 million, or 1.9%, primarily driven by the success of new TEMPUR® product introductions. On a constant currency basis, International net sales increased 3.8%. Net sales in the Wholesale channel increased 2.2% on a constant currency basis. Net sales in the Direct channel increased 4.8% on a constant currency basis.

GROSS PROFIT

(in millions, except percentages)	Nine Months Ended September 30,				
	2023		2022		
	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Margin Change
North America	\$ 1,177.8	39.8 %	\$ 1,138.9	38.6 %	1.2 %
International	438.1	55.1 %	421.5	54.0 %	1.1 %
Consolidated gross margin	<u>\$ 1,615.9</u>	<u>43.0 %</u>	<u>\$ 1,560.4</u>	<u>41.8 %</u>	<u>1.2 %</u>

Costs associated with net sales are recorded in cost of sales and include the costs of producing, shipping, warehousing, receiving and inspecting goods during the period, as well as depreciation and amortization of long-lived assets used in the manufacturing process.

Gross margin improved 120 basis points. The primary drivers of changes in gross margin by segment are discussed below:

- *North America* gross margin improved 120 basis points. The improvement in gross margin was primarily driven by normalizing commodity costs of 190 basis points and pricing actions of 150 basis points. These improvements were offset by product launch costs of 80 basis points, expense deleverage of 60 basis points and operational headwinds of 40 basis points. Additionally, in 2023, we incurred \$9.6 million of costs associated with the cybersecurity event identified on July 23, 2023, which partially offset the improvement in gross margin.
- *International* gross margin improved 110 basis points. The improvement in gross margin was driven by favorable mix of 170 basis points and pricing actions, offset by product launch costs of 80 basis points.

OPERATING EXPENSES

Selling and marketing expenses include advertising and media production associated with the promotion of our brands, other marketing materials such as catalogs, brochures, videos, product samples, direct customer mailings and point of purchase materials and sales force compensation. We also include in selling and marketing expense certain new product development costs, including market research and new product testing.

General, administrative and other expenses include salaries and related expenses, IT, professional fees, depreciation and amortization of long-lived assets not used in the manufacturing process, expenses for administrative functions and research and development costs.

(in millions)	Nine Months Ended September 30,							
	2023	2022	2023	2022	2023	2022	2023	2022
	Consolidated		North America		International		Corporate	
Operating expenses:								
Advertising expenses	\$ 349.7	\$ 337.4	\$ 291.6	\$ 285.3	\$ 58.1	\$ 52.1	\$ —	\$ —
Other selling and marketing expenses	450.1	407.3	242.6	212.5	192.1	179.7	15.4	15.1
General, administrative and other expenses	344.2	296.6	138.0	134.6	83.2	68.9	123.0	93.1
Total operating expenses	<u>\$ 1,144.0</u>	<u>\$ 1,041.3</u>	<u>\$ 672.2</u>	<u>\$ 632.4</u>	<u>\$ 333.4</u>	<u>\$ 300.7</u>	<u>\$ 138.4</u>	<u>\$ 108.2</u>

Operating expenses increased \$102.7 million, or 9.9%, and increased 260 basis points as a percentage of net sales. The primary drivers of changes in operating expenses by segment are explained below:

- *North America* operating expenses increased \$39.8 million, or 6.3%, and increased 130 basis points as a percentage of net sales. The increase in operating expenses was primarily driven by investments in growth initiatives.
- *International* operating expenses increased \$32.7 million, or 10.9%, and increased 330 basis points as a percentage of net sales. The increase in operating expenses was primarily driven by investments in growth initiatives and product launch costs.
- *Corporate* operating expenses increased \$30.2 million, or 27.9%. The increase in operating expenses was primarily driven by \$31.5 million of transaction costs related to the pending acquisition of Mattress Firm.

Research and development expenses were \$23.0 million for the nine months ended September 30, 2023 as compared to \$22.1 million for the nine months ended September 30, 2022, a increase of \$0.9 million, or 4.1%.

OPERATING INCOME					
(in millions, except percentages)	Nine Months Ended September 30,				
	2023		2022		Margin Change
	Operating Income	Operating Margin	Operating Income	Operating Margin	
North America	\$ 505.6	17.1 %	\$ 506.5	17.1 %	— %
International	118.1	14.9 %	135.2	17.3 %	(2.4)%
	623.7		641.7		
Corporate expenses	(138.4)		(108.2)		
Total operating income	<u>\$ 485.3</u>	12.9 %	<u>\$ 533.5</u>	14.3 %	(1.4)%

Operating income decreased \$48.2 million and operating margin declined 140 basis points. The primary drivers of changes in operating income and operating margin by segment are discussed below:

- *North America* operating income decreased \$0.9 million and operating margin was consistent with the prior year driven by operating expense deleverage of 130 basis points, offset by the improvement in gross margin of 120 basis points.
- *International* operating income decreased \$17.1 million and operating margin declined 240 basis points. The decline in operating margin was primarily driven by operating expense deleverage of 330 basis points, offset by the improvement in gross margin of 110 basis points.
- *Corporate* operating expenses increased \$30.2 million, which negatively impacted our consolidated operating margin.

INTEREST EXPENSE, NET

(in millions, except percentages)	Nine Months Ended September 30,		
	2023	2022	% Change
Interest expense, net	\$ 99.0	\$ 71.4	38.7 %

Interest expense, net, increased \$27.6 million, or 38.7%. The increase in interest expense, net, was primarily driven by higher interest rates on our variable rate debt.

INCOME TAX PROVISION

(in millions, except percentages)	Nine Months Ended September 30,		
	2023	2022	% Change
Income tax provision	\$ 93.5	\$ 107.5	(13.0)%
Effective tax rate	24.2 %	23.2 %	

Our income tax provision decreased \$14.0 million due to a decrease in income before income taxes. Our effective tax rate for the nine months ended September 30, 2023 as compared to the prior year increased 100 basis points. The effective tax rates as compared to the U.S. federal statutory rates for the nine months ended September 30, 2023 and 2022 included the net favorable impact of the deductibility of stock compensation in the U.S., which were offset by the unfavorable impact of other discrete items.

Liquidity and Capital Resources

Liquidity

Our principal sources of funds are cash flows from operations, supplemented with borrowings in the capital markets and made pursuant to our credit facilities and cash and cash equivalents on hand. Principal uses of funds consist of payments of principal and interest on our debt facilities, acquisitions, payments of dividends to our shareholders, capital expenditures and working capital needs.

As of September 30, 2023, we had net working capital of \$188.8 million, including cash and cash equivalents of \$91.6 million, as compared to a working capital of \$214.0 million, including cash and cash equivalents of \$69.4 million, as of December 31, 2022. The amount of cash and cash equivalents held by subsidiaries outside of the U.S. and not readily convertible into the U.S. Dollar or other major foreign currencies is not material to our overall liquidity or financial position.

Cash Provided by (Used in) Operations

The table below presents net cash provided by (used in) operating, investing and financing activities from operations for the periods indicated below:

(in millions)	Nine Months Ended September 30,	
	2023	2022
Net cash provided by (used in) operations:		
Operating activities	\$ 479.2	\$ 283.5
Investing activities	(152.8)	(224.8)
Financing activities	(303.2)	(234.1)

Cash provided by operating activities increased \$195.7 million in the nine months ended September 30, 2023 as compared to the same period in 2022. The increase in cash provided by operating activities was primarily driven by the reduction of inventory levels as compared to the prior year.

Cash used in investing activities decreased \$72.0 million in the nine months ended September 30, 2023 as compared to the same period in 2022. The decrease in cash used in investing activities was driven by decreased capital expenditures related to our manufacturing capacity expansion projects nearing completion in 2023.

Cash used in financing activities increased \$69.1 million in the nine months ended September 30, 2023 as compared to the same period in 2022. For the nine months ended September 30, 2023, we had net repayments of \$198.4 million on our credit facilities as compared to net borrowings of \$468.8 million in the same period in 2022, driven primarily by reduced repurchases of common stock. During the nine months ended September 30, 2023 and 2022, we repurchased \$36.0 million and \$637.2 million, respectively, of our common stock.

Cash Used in Discontinued Operations

Net cash used in operating, investing and financing activities from discontinued operations for the periods ended September 30, 2022 was not material.

Capital Expenditures

Capital expenditures totaled \$153.3 million and \$216.0 million for the nine months ended September 30, 2023 and 2022, respectively. We currently expect our 2023 capital expenditures to be approximately \$200 million, which includes investments to complete our manufacturing capacity expansion.

Indebtedness

Our total debt decreased to \$2,626.3 million as of September 30, 2023 from \$2,830.8 million as of December 31, 2022. Total availability under our revolving senior secured credit facility was \$589.4 million as of September 30, 2023. Refer to Note 4, "Debt" in the "Notes to Condensed Consolidated Financial Statements," under Part I, ITEM 1 for further discussion of our debt.

On October 10, 2023, we entered into the 2023 Credit Agreement, which provides for a \$1.15 billion revolving credit facility, a \$500.0 million term loan facility and an accordion feature for additional borrowings. Refer to Note 4, "Debt" in the "Notes to Condensed Consolidated Financial Statements," under Part I, ITEM 1 for further discussion of the accordion feature of the 2023 Credit Agreement. We used the proceeds under these facilities to refinance outstanding borrowings under the 2019 Credit Agreement and terminated the existing revolving credit commitments. As of October 10, 2023, the terms of the 2023 Credit Agreement replaced the terms of the 2019 Credit Agreement.

As of September 30, 2023, our ratio of consolidated indebtedness less netted cash to adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"), which is a non-GAAP financial measure, in accordance with our 2023 Credit Agreement was 2.89 times. This ratio is within the terms of the financial covenants for the maximum consolidated total net leverage ratio as set forth in the 2023 Credit Agreement, which limits this ratio to 5.00 times. As of September 30, 2023, we were in compliance with all of the financial covenants in our debt agreements, and we do not anticipate material issues under any debt agreements based on current facts and circumstances.

Our debt agreements contain certain covenants that limit restricted payments, including share repurchases and dividends. The 2023 Credit Agreement, 2029 Senior Notes and 2031 Senior Notes contain similar limitations which, subject to certain conditions, allow unlimited restricted payments at times when the ratio of consolidated indebtedness less netted cash to adjusted EBITDA, which is a non-GAAP financial measure, remains below 3.75 times in the case of the 2023 Credit Agreement and remains below 3.50 times in the cases of the 2029 Senior Notes and 2031 Senior Notes. In addition, these agreements permit limited restricted payments under certain conditions when the ratio of consolidated indebtedness less netted cash to adjusted EBITDA is above 3.75 times in the case of the 2023 Credit Agreement and above 3.50 times in the cases of the 2029 Senior Notes and 2031 Senior Notes. The limit on restricted payments under the 2023 Credit Agreement, 2029 Senior Notes and 2031 Senior Notes is in part determined by a basket that grows at 50% of adjusted net income each quarter, reduced by restricted payments that are not otherwise permitted.

For additional information, refer to "Non-GAAP Financial Information" below for the calculation of the ratio of consolidated indebtedness less netted cash to adjusted EBITDA calculated in accordance with the 2023 Credit Agreement. Both consolidated indebtedness and adjusted EBITDA as used in discussion of the 2023 Credit Agreement are non-GAAP financial measures and do not purport to be alternatives to net income as a measure of operating performance or total debt.

Share Repurchase Program

Our Board of Directors authorized a share repurchase program in 2016 pursuant to which we were authorized to repurchase shares of our common stock, and the Board of Directors has authorized increases to this authorization from time to time. During the nine months ended September 30, 2023, we repurchased 0.1 million shares under our share repurchase program for \$5.0 million. As of September 30, 2023, we had \$774.5 million remaining under our share repurchase authorization.

Share repurchases under this program may be made through open market transactions, negotiated purchases or otherwise, at times and in such amounts as management deems appropriate. These repurchases may be funded by operating cash flows and/or borrowings under our debt arrangements. The timing and actual number of shares repurchased will depend on a variety of factors including price, financing and regulatory requirements and other market conditions. The program is subject to certain limitations under our debt agreements. The program does not require the purchase of any minimum number of shares and may be suspended, modified or discontinued at any time without prior notice. Repurchases may be made under a Rule 10b5-1 plan, which would permit shares to be repurchased when we might otherwise be precluded from doing so under federal securities laws.

We will manage our share repurchase program based on current and expected cash flows, share price and alternative investment opportunities. As a result of the pending Mattress Firm acquisition, we have temporarily suspended our repurchase of shares in advance of closing the transaction. For further information on our share repurchase program, please refer to ITEM 5 under Part II, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities," in the 2022 Annual Report. Please also refer to "Issuer Purchases of Equity Securities" in ITEM 2(c) of Part II of this Report.

Future Liquidity Sources and Uses

As of September 30, 2023, we had \$681.0 million of liquidity, including \$91.6 million of cash on hand and \$589.4 million available under our 2019 Credit Agreement. In addition, we expect to generate cash flow from operations in the full year 2023. We believe that cash flow from operations, availability under our existing credit facilities and arrangements, current cash balances and the ability to obtain other financing, if necessary, will provide adequate cash funds for our foreseeable working capital needs, necessary capital expenditures, debt service obligations and dividend payments.

Our capital allocation strategy follows a balanced approach focused on supporting the business, returning shareholder value through strategic acquisition opportunities that enhance our global competitiveness, as well as quarterly dividends and opportunistic share repurchases.

The Board of Directors declared a dividend of \$0.11 per share for the fourth quarter of 2023. The dividend is payable on December 4, 2023 to shareholders of record as of November 16, 2023.

As of September 30, 2023, we had \$2,626.3 million in total debt outstanding and consolidated indebtedness less netted cash, which is a non-GAAP financial measure, of \$2,534.7 million. Leverage based on the ratio of consolidated indebtedness less netted cash to adjusted EBITDA, which is a non-GAAP financial measure, was 2.89 times for the trailing twelve months ended September 30, 2023.

Our debt service obligations could, under certain circumstances, have material consequences to our stockholders. Similarly, our cash requirements are subject to change as business conditions warrant and opportunities arise. The timing and size of any new business ventures or acquisitions that we may complete may also impact our cash requirements and debt service obligations.

Non-GAAP Financial Information

We provide information regarding adjusted net income, EBITDA, adjusted EBITDA, adjusted EPS, adjusted gross profit, adjusted gross margin, adjusted operating income (expense), adjusted operating margin, consolidated indebtedness and consolidated indebtedness less netted cash, which are not recognized terms under GAAP and do not purport to be alternatives to net income, earnings per share, gross profit, gross margin, operating income (expense) and operating margin as a measure of operating performance, or an alternative to total debt as a measure of liquidity. We believe these non-GAAP financial measures provide investors with performance measures that better reflect our underlying operations and trends, providing a perspective not immediately apparent from net income, gross profit, gross margin, operating income (expense) and operating margin. The adjustments we make to derive the non-GAAP financial measures include adjustments to exclude items that may cause short-term fluctuations in the nearest GAAP financial measure, but which we do not consider to be the fundamental attributes or primary drivers of our business.

We believe that exclusion of these items assists in providing a more complete understanding of our underlying results from operations and trends, and we use these measures along with the corresponding GAAP financial measures to manage our business, to evaluate our consolidated and business segment performance compared to prior periods and the marketplace, to establish operational goals and to provide continuity to investors for comparability purposes. Limitations associated with the use of these non-GAAP measures include that these measures do not present all of the amounts associated with our results as determined in accordance with GAAP. These non-GAAP financial measures should be considered supplemental in nature and should not be construed as more significant than comparable financial measures defined by GAAP. Because not all companies use identical calculations, these presentations may not be comparable to other similarly titled measures of other companies. For more information about these non-GAAP financial measures and a reconciliation to the nearest GAAP financial measure, please refer to the reconciliations on the following pages.

Adjusted Net Income and Adjusted EPS

A reconciliation of reported net income to adjusted net income and the calculation of adjusted EPS is provided below. We believe that the use of these non-GAAP financial measures provides investors with additional useful information with respect to the impact of various adjustments as described in the footnotes below.

The following table sets forth the reconciliation of our reported net income to adjusted net income and the calculation of adjusted EPS for the three months ended September 30, 2023 and 2022:

(in millions, except per share amounts)	Three Months Ended	
	September 30, 2023	September 30, 2022
Net income	\$ 113.3	\$ 132.7
Transaction costs ⁽¹⁾	15.7	—
Cybersecurity event ⁽²⁾	13.5	—
Operational start-up costs ⁽³⁾	2.3	1.8
ERP system transition ⁽⁴⁾	—	2.7
Restructuring costs ⁽⁵⁾	—	1.2
Loss from discontinued operations, net of tax ⁽⁶⁾	—	0.8
Adjusted income tax provision ⁽⁷⁾	(8.0)	(1.4)
Adjusted net income	\$ 136.8	\$ 137.8
Adjusted earnings per common share, diluted	\$ 0.77	\$ 0.78
Diluted shares outstanding	177.6	177.0

- (1) In the third quarter of 2023, we recorded \$15.7 million of transaction costs, primarily related to legal and professional fees associated with the pending acquisition of Mattress Firm.
- (2) In the third quarter of 2023, we recorded \$13.5 million of costs associated with the cybersecurity event identified on July 23, 2023. Cost of sales included \$9.6 million of manufacturing and network disruption costs incurred to ensure business continuity. Operating expenses included \$3.9 million, primarily related to professional fees incurred for incident response, containment measures and stabilization of our information systems.
- (3) In the third quarter of 2023, we recorded \$2.3 million of operational start-up costs related to the capacity expansion of our manufacturing and distribution facilities in the U.S., including personnel and facility related costs. In the third quarter of 2022, we incurred \$1.8 million of operational start-up costs. Cost of sales and operating expenses included personnel and facility related costs of \$1.7 million and \$0.1 million, respectively.
- (4) In the third quarter of 2022, we recorded \$2.7 million of charges related to the transition of our ERP system. Cost of sales included \$2.3 million of manufacturing facility ERP system transition costs, including labor, logistics, training and travel. Operating expenses included \$0.4 million, primarily related to professional fees.
- (5) In the third quarter of 2022, we recorded \$1.2 million of restructuring costs primarily associated with headcount reductions.
- (6) Certain subsidiaries in the International business segment were accounted for as discontinued operations and had been designated as unrestricted subsidiaries in the 2019 Credit Agreement. Therefore, these subsidiaries were excluded from our adjusted financial measures for covenant compliance purposes.
- (7) Adjusted income tax provision represents the tax effects associated with the aforementioned items.

Adjusted Gross Profit, Adjusted Gross Margin, Adjusted Operating Income (Expense) and Adjusted Operating Margin

The following table sets forth the reconciliation of our reported gross profit and operating income (expense) to the calculation of adjusted gross profit and adjusted operating income (expense) for the three months ended September 30, 2023.

(in millions, except percentages)	Three Months Ended September 30, 2023						
	Consolidated	Margin	North America	Margin	International	Margin	Corporate
Net sales	\$ 1,277.1		\$ 1,023.7		\$ 253.4		\$ —
Gross profit	\$ 573.7	44.9 %	\$ 430.4	42.0 %	\$ 143.3	56.6 %	\$ —
Adjustments:							
Cybersecurity event ⁽¹⁾	9.6		9.6		—		—
Operational start-up costs ⁽²⁾	2.3		2.3		—		—
Total adjustments	11.9		11.9		—		—
Adjusted gross profit	<u>\$ 585.6</u>	45.9 %	<u>\$ 442.3</u>	43.2 %	<u>\$ 143.3</u>	56.6 %	<u>\$ —</u>
Operating income (expense)	\$ 183.2	14.3 %	\$ 195.5	19.1 %	\$ 40.0	15.8 %	\$ (52.3)
Adjustments:							
Transaction costs ⁽³⁾	15.7		—		—		15.7
Cybersecurity event ⁽¹⁾	13.5		10.0		1.1		2.4
Operational start-up costs ⁽²⁾	2.3		2.3		—		—
Total adjustments	31.5		12.3		1.1		18.1
Adjusted operating income (expense)	<u>\$ 214.7</u>	16.8 %	<u>\$ 207.8</u>	20.3 %	<u>\$ 41.1</u>	16.2 %	<u>\$ (34.2)</u>

- (1) In the third quarter of 2023, we recorded \$13.5 million of costs associated with the cybersecurity event identified on July 23, 2023. Cost of sales included \$9.6 million of manufacturing and network disruption costs incurred to ensure business continuity. Operating expenses included \$3.9 million, primarily related to professional fees incurred for incident response, containment measures and stabilization of our information systems.
- (2) In the third quarter of 2023, we recorded \$2.3 million of operational start-up costs in cost of sales related to the capacity expansion of our manufacturing and distribution facilities in the U.S., including personnel and facility related costs.
- (3) In the third quarter of 2023, we recorded \$15.7 million of transaction costs, primarily related to legal and professional fees associated with the pending acquisition of Mattress Firm.

The following table sets forth our reported gross profit and operating income (expense) to the calculation of adjusted gross profit and adjusted operating income (expense) for the three months ended September 30, 2022.

(in millions, except percentages)	Three Months Ended September 30, 2022						
	Consolidated	Margin	North America	Margin	International	Margin	Corporate
Net sales	\$ 1,283.3		\$ 1,057.7		\$ 225.6		\$ —
Gross profit	\$ 541.1	42.2 %	\$ 420.7	39.8 %	\$ 120.4	53.4 %	\$ —
Adjustments:							
ERP system transition ⁽¹⁾	2.3		2.3		—		—
Operational start-up costs ⁽²⁾	1.7		1.7		—		—
Total adjustments	4.0		4.0		—		—
Adjusted gross profit	<u>\$ 545.1</u>	42.5 %	<u>\$ 424.7</u>	40.2 %	<u>\$ 120.4</u>	53.4 %	<u>\$ —</u>
Operating income (expense)	\$ 201.0	15.7 %	\$ 205.0	19.4 %	\$ 32.6	14.5 %	\$ (36.6)
Adjustments:							
ERP system transition ⁽¹⁾	2.7		2.7		—		—
Operational start-up costs ⁽²⁾	1.8		1.8		—		—
Restructuring costs ⁽³⁾	1.2		—		0.6		0.6
Total adjustments	5.7		4.5		0.6		0.6
Adjusted operating income (expense)	<u>\$ 206.7</u>	16.1 %	<u>\$ 209.5</u>	19.8 %	<u>\$ 33.2</u>	14.7 %	<u>\$ (36.0)</u>

- (1) In the third quarter of 2022, we recorded \$2.7 million of charges related to the transition of our ERP system. Cost of sales included \$2.3 million of manufacturing facility ERP system transition costs, including labor, logistics, training and travel. Operating expenses included \$0.4 million, primarily related to professional fees.
- (2) In the third quarter of 2022, we incurred \$1.8 million of operational start-up costs related to the capacity expansion of our manufacturing and distribution facilities in the U.S. Cost of sales and operating expenses included personnel and facility related costs of \$1.7 million and \$0.1 million, respectively.
- (3) In the third quarter of 2022, we recorded \$1.2 million of restructuring costs primarily associated with headcount reductions.

EBITDA, Adjusted EBITDA and Consolidated Indebtedness less Netted Cash

The following reconciliations are provided below:

- Net income to EBITDA and adjusted EBITDA
- Ratio of consolidated indebtedness less netted cash to adjusted EBITDA
- Total debt, net to consolidated indebtedness less netted cash

We believe that presenting these non-GAAP measures provides investors with useful information with respect to our operating performance, cash flow generation and comparisons from period to period, as well as general information about our leverage.

The 2023 Credit Agreement provides the definition of adjusted EBITDA. Accordingly, we present adjusted EBITDA to provide information regarding our compliance with requirements under the 2023 Credit Agreement.

The following table sets forth the reconciliation of our reported net income to the calculations of EBITDA and adjusted EBITDA for the three months ended September 30, 2023 and 2022:

(in millions)	Three Months Ended	
	September 30, 2023	September 30, 2022
Net income	\$ 113.3	\$ 132.7
Interest expense, net	32.6	26.8
Income taxes	36.8	41.1
Depreciation and amortization	45.5	44.8
EBITDA	\$ 228.2	\$ 245.4
Adjustments:		
Transaction costs ⁽¹⁾	15.7	—
Cybersecurity event ⁽²⁾	13.5	—
Operational start-up costs ⁽³⁾	2.3	1.8
ERP system transition ⁽⁴⁾	—	2.7
Restructuring costs ⁽⁵⁾	—	1.2
Loss from discontinued operations, net of tax ⁽⁶⁾	—	0.8
Adjusted EBITDA	\$ 259.7	\$ 251.9

- (1) In the third quarter of 2023, we recorded \$15.7 million of transaction costs, primarily related to legal and professional fees associated with the pending acquisition of Mattress Firm.
- (2) In the third quarter of 2023, we recorded \$13.5 million of costs associated with the cybersecurity event identified on July 23, 2023. Cost of sales included \$9.6 million of manufacturing and network disruption costs incurred to ensure business continuity. Operating expenses included \$3.9 million, primarily related to professional fees incurred for incident response, containment measures and stabilization of our information systems.
- (3) In the third quarter of 2023, we recorded \$2.3 million of operational start-up costs in cost of sales related to the capacity expansion of our manufacturing and distribution facilities in the U.S., including personnel and facility related costs. In the third quarter of 2022, we recorded \$1.8 million of operational start-up costs, primarily in cost of sales, related to the capacity expansion of our manufacturing and distribution facilities in the U.S.
- (4) In the third quarter of 2022, we recorded \$2.7 million of charges related to the transition of our ERP system. Cost of sales included \$2.3 million of manufacturing facility ERP system transition costs, including labor, logistics, training and travel. Operating expenses included \$0.4 million, primarily related to professional fees.
- (5) In the third quarter of 2022, we recorded \$1.2 million of restructuring costs primarily associated with headcount reductions.
- (6) Certain subsidiaries in the International business segment were accounted for as discontinued operations and had been designated as unrestricted subsidiaries in the 2019 Credit Agreement. Therefore, these subsidiaries were excluded from our adjusted financial measures for covenant compliance purposes.

The following table sets forth the reconciliation of our net income to the calculations of EBITDA and adjusted EBITDA for the trailing twelve months ended September 30, 2023:

(in millions)	Trailing Twelve Months Ended September 30, 2023
Net income	\$ 392.7
Interest expense, net	130.6
Income tax provision	105.0
Depreciation and amortization	185.0
EBITDA	\$ 813.3
Adjustments:	
Transaction costs ⁽¹⁾	31.5
Cybersecurity event ⁽²⁾	13.5
Operational start-up costs ⁽³⁾	8.0
ERP system transition ⁽⁴⁾	6.6
Restructuring costs ⁽⁵⁾	4.7
Adjusted EBITDA	\$ 877.6
Consolidated indebtedness less netted cash	\$ 2,534.7
Ratio of consolidated indebtedness less netted cash to adjusted EBITDA	2.89 times

- (1) In the trailing twelve months ended September 30, 2023, we recognized \$31.5 million of transaction costs associated with the pending acquisition of Mattress Firm.
- (2) In the trailing twelve months ended September 30, 2023, we recorded \$13.5 million of costs associated with the cybersecurity event identified on July 23, 2023. Cost of sales included \$9.6 million of manufacturing and network disruption costs incurred to ensure business continuity. Operating expenses included \$3.9 million, primarily related to professional fees incurred for incident response, containment measures and stabilization of our information systems.
- (3) In the trailing twelve months ended September 30, 2023, we recognized \$8.0 million of operational start-up costs in cost of sales for the capacity expansion of our manufacturing and distribution facilities in the U.S., which include personnel and facility related costs.
- (4) In the trailing twelve months ended September 30, 2023, we recognized \$6.6 million of charges related to the transition of our ERP system.
- (5) In the trailing twelve months ended September 30, 2023, we recognized \$4.7 million of restructuring costs primarily associated with headcount reductions related to organizational changes.

On October 10, 2023, our 2023 Credit Agreement replaced our 2019 Credit Agreement. Adjusted EBITDA contains certain restrictions that limit adjustments to net income when calculating adjusted EBITDA under both the 2019 Credit Agreement and the 2023 Credit Agreement. For the twelve months ended September 30, 2023, our adjustments to net income when calculating adjusted EBITDA did not exceed the allowable amount under either the 2019 Credit Agreement or the 2023 Credit Agreement.

The 2023 Credit Agreement requires compliance with certain financial covenants providing, among other things, for maintenance of a minimum consolidated interest coverage ratio, maintenance of a maximum consolidated total net leverage ratio, and maintenance of a maximum consolidated secured net leverage ratio. The consolidated total net leverage ratio is calculated using consolidated indebtedness less netted cash. Consolidated indebtedness includes debt recorded on the Condensed Consolidated Balance Sheets as of the reporting date, plus letters of credit outstanding in excess of \$60.0 million and short-term other debt. We are allowed to subtract from consolidated indebtedness an amount equal to 100.0% of the domestic and foreign unrestricted cash ("netted cash").

Under the 2023 Credit Agreement and the 2019 Credit Agreement, the ratio of adjusted EBITDA to consolidated indebtedness less netted cash was 2.89 times for the trailing twelve months ended September 30, 2023. The 2023 Credit Agreement requires us to maintain a ratio of consolidated indebtedness less netted cash to adjusted EBITDA of less than 5.00 times.

The following table sets forth the reconciliation of our reported total debt to the calculation of consolidated indebtedness less netted cash as of September 30, 2023. "Consolidated Indebtedness" and "Netted Cash" are terms used in the 2023 Credit Agreement for purposes of certain financial covenants.

(in millions)	September 30, 2023
Total debt, net	\$ 2,608.5
Plus: Deferred financing costs ⁽¹⁾	17.8
Consolidated indebtedness	2,626.3
Less: Netted cash ⁽²⁾	91.6
Consolidated indebtedness less netted cash	\$ 2,534.7

(1) We present deferred financing costs as a direct reduction from the carrying amount of the related debt in the Condensed Consolidated Balance Sheets. For purposes of determining total debt for financial covenant purposes, we have added these costs back to total debt, net as calculated per the Condensed Consolidated Balance Sheets.

(2) Netted cash includes cash and cash equivalents for domestic and foreign subsidiaries designated as restricted subsidiaries in the 2023 Credit Agreement.

Critical Accounting Policies and Estimates

For a discussion of our critical accounting policies and estimates, please refer to ITEM 7 under Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the 2022 Annual Report. There have been no material changes to our critical accounting policies and estimates in 2023.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risks are discussed in detail in ITEM 7A of Part II of our 2022 Annual Report. Management has reassessed the quantitative and qualitative market risk disclosures described in our 2022 Annual Report and determined there were no material changes to market risks for the nine months ended September 30, 2023.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this Report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2023, and were designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting:

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that was conducted during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding legal proceedings can be found in Note 8, "Commitments and Contingencies," of the "Notes to Condensed Consolidated Financial Statements," under Part I, ITEM 1, "Financial Statements" of this Report and is incorporated by reference herein.

ITEM 1A. RISK FACTORS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities

The following table sets forth purchases of our common stock for the three months ended September 30, 2023:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares (or approximate dollar value of shares) that may yet be purchased under the plans or programs (in millions)
July 1, 2023 - July 31, 2023	—	\$—	—	\$774.5
August 1, 2023 - August 31, 2023	2,579 ⁽¹⁾	\$45.89	—	\$774.5
September 1, 2023 - September 30, 2023	—	\$—	—	\$774.5
Total	2,579		—	

(1) Includes shares withheld upon the vesting of certain equity awards to satisfy tax withholding obligations. The shares withheld were valued at the closing price of the common stock on the New York Stock Exchange on the vesting date or prior business day.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(a) Not applicable.

(b) Not applicable.

(c) During the quarter ended September 30, 2023, none of our directors or executive officers adopted any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) (a "10b5-1 trading arrangement") or any "non-Rule 10b5-1 trading arrangement" (as those terms are defined Regulation S-K, Item 408).

ITEM 6. EXHIBITS

The following is an index of the exhibits included in this report:

2.1	Agreement and Plan of Merger, dated as of May 9, 2023, by and among Tempur Sealy International, Inc., Lima Holdings Corporation, Lima Deal Corporation LLC, Mattress Firm Group Inc., and Steenbok Newco 9 Limited, solely in its capacity as Stockholder Representative (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K as filed May 11, 2023). ⁽¹⁾
3.1	Amended and Restated Certificate of Incorporation of Tempur-Pedic International Inc. (filed as Exhibit 3.1 to Amendment No. 3 to the Registrant's registration statement on Form S-1/A (File No. 333-109798) as filed on December 12, 2003). ⁽¹⁾
3.2	Amendment to Certificate of Incorporation of Tempur-Pedic International Inc. (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K as filed on May 24, 2013). ⁽¹⁾
3.3	Second Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Tempur Sealy International, Inc. (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K as filed on May 10, 2021). ⁽¹⁾
3.4	Seventh Amended and Restated By-laws of Tempur Sealy International, Inc. (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K as filed on February 11, 2019). ⁽¹⁾
4.1	Indenture, dated as of March 25, 2021, among Tempur Sealy International, Inc., the Guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K as filed on March 25, 2021). ⁽¹⁾
4.2	Form of 4.00% Senior Notes due 2029 (included in Exhibit 4.1 to the Registrant's Current Report on Form 8-K as filed on March 25, 2021). ⁽¹⁾
4.3	Indenture, dated as of September 24, 2021 among Tempur Sealy International, Inc., the Guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee (filed as Exhibit 10.1 (but numbered 4.1) to the Registrant's Current Report on Form 8-K as filed on September 24, 2021). ⁽¹⁾
4.4	Form of 3.875% Senior Notes due 2031 (included in Exhibit 10.1 (but numbered 4.2) to the Registrant's Current Report on Form 8-K as filed on September 24, 2021). ⁽¹⁾
4.5	Description of Securities (filed as Exhibit 4.12 to the Registrant's Annual Report on Form 10-K as filed on February 22, 2022). ⁽¹⁾
10.1	Credit Agreement dated as of October 10, 2023 among Tempur Sealy International, Inc., as parent borrower, the Additional Borrowers from time to time parties thereto, the Several Lenders from time to time parties thereto, and Bank of America, N.A., as administrative agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K as filed on October 11, 2023). ⁽¹⁾
31.1	Certification of Chief Executive Officer, pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer, pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Tempur Sealy International, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) the Notes to Condensed Consolidated Financial Statements.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in Inline XBRL.
(1)	Incorporated by reference.
*	This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78r), or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 8, 2023

TEMPUR SEALY INTERNATIONAL, INC.

By: /s/ BHASKAR RAO

Bhaskar Rao

Executive Vice President and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Scott L. Thompson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 of Tempur Sealy International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2023

By: /s/ SCOTT L. THOMPSON

Scott L. Thompson
Chairman, President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bhaskar Rao, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 of Tempur Sealy International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2023

By: /s/ BHASKAR RAO

Bhaskar Rao
Executive Vice President and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Tempur Sealy International, Inc. (the “Company”), that, to his knowledge, the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2023, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company. This written statement is being furnished to the Securities and Exchange Commission as an exhibit to such Form 10-Q. A signed original of this statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 8, 2023

By: /s/ SCOTT L. THOMPSON
Scott L. Thompson
Chairman, President and Chief Executive Officer

Date: November 8, 2023

By: /s/ BHASKAR RAO
Bhaskar Rao
Executive Vice President and Chief Financial Officer