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 June 30, 2020

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

1000 Tempur Way
Lexington, Kentucky 40511
(Address, including zip code, 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 o 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 o 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
x	o	o	☐	☐

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 August 3, 2020 was 51,566,272 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 include, without limitation, statements relating to the Company's expectations regarding sales and demand trends, performance generally for 2020 and subsequent periods, the potential vesting of the Company’s long-term aspirational plan, the expected impacts of COVID-19 and the Company's expectations for emerging from the market downturn. 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 in both the U.S. and internationally on our business segments and expectations regarding growth of the mattress industry; uncertainties arising from global events, natural disasters or pandemics; risks associated with the duration, scope and severity of COVID-19 and its effects on our business and operations, including the disruption or delay of production and delivery of materials and products in our supply chain; the impact of travel bans, work-from-home policies, or shelter-in-place orders; a temporary or prolonged shutdown of manufacturing facilities or retail stores and decreased retail traffic; the effects of strategic investments on our operations, including our efforts to expand our global market share; the ability to develop and successfully launch new products; the efficiency and effectiveness of our advertising campaigns and other marketing programs; the ability to increase sales productivity within existing retail accounts and to further penetrate the retail channel, including the timing of opening or expanding within large retail accounts and the timing and success of product launches, and the related expenses and life cycles of such products; the ability to continuously improve and expand our product line; the effects of consolidation of retailers on revenues and costs; competition in our industry; consumer acceptance of our products; general economic, financial and industry conditions, particularly conditions relating to liquidity, financial performance and related credit issues present in the retail sector; financial distress among our business partners, customers and competitors, and financial solvency and related problems experienced by other market participants, any of which may be amplified by the effects of COVID-19; risks associated with our acquisition of 80% ownership of Sherwood Acquisition Holdings, LLC, including the possibility that the expected benefits of the acquisition are not realized when expected or at all; our reliance on information technology and the associated risks involving potential security lapses and/or cyber-based attacks; the outcome of pending tax audits or other tax, regulatory or investigation proceedings and pending litigation; changes in foreign tax rates and changes in tax laws generally, including the ability to utilize tax loss carryforwards; market disruptions related to COVID-19 which may frustrate our ability to access financing on acceptable terms or at all; 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; changes in interest rates; effects of changes in foreign exchange rates on our reported earnings; changing commodity costs; expectations regarding our target leverage and our share repurchase program; sales fluctuations due to seasonality; the effect of future legislative or regulatory changes, including changes in international trade duties, tariffs and other aspects of international trade policy; our ability to protect our intellectual property; and disruptions to the implementation of our strategic priorities and business plan caused by changes in our executive management team.

Other potential risk factors include the risk factors discussed under the heading "Risk Factors" in Part I, ITEM 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 (the "2019 Annual Report"), and in Part II, ITEM 1A, Risk Factors, of this Report. In addition, there may be other factors that may cause our actual results to differ materially from the forward-looking statements.

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

When used in this Report, except as specifically noted otherwise, the term "Tempur Sealy International" refers to Tempur Sealy International, Inc. only, and the terms "Company," "we," "our," "ours" and "us" refer to Tempur Sealy International, Inc. and its consolidated subsidiaries. When used in this Report, the term "Tempur" may refer to Tempur-branded products and the term "Sealy" may refer to Sealy-branded products or to Sealy Corporation and its historical subsidiaries, in all cases as the context requires. In addition, when used in this Report, "2019 Credit Agreement" refers to the Company's senior credit facility entered into in 2019; "2023 Senior Notes" refers to the 5.625% senior notes due 2023 issued in 2015; and "2026 Senior Notes" refers to the 5.50% senior notes due 2026 issued in 2016.

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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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net sales	$ 665.2	$ 722.8	$ 1,487.6	$ 1,413.7
Cost of sales	399.3	409.4	864.6	818.5
Gross profit	265.9	313.4	623.0	595.2
Selling and marketing expenses	135.1	163.3	306.1	316.8
General, administrative and other expenses	82.4	72.7	163.0	143.4
Equity income in earnings of unconsolidated affiliates	(5.0)	(3.6)	(4.8)	(6.5)
Operating income	53.4	81.0	158.7	141.5
Other expense, net:				
Interest expense, net	20.6	22.5	40.9	44.9
Other expense (income), net	0.3	—	0.8	(7.8)
Total other expense, net	20.9	22.5	41.7	37.1
Income from continuing operations before income taxes	32.5	58.5	117.0	104.4
Income tax provision	(9.4)	(15.8)	(32.9)	(32.7)
Income from continuing operations	23.1	42.7	84.1	71.7
Income (loss) from discontinued operations, net of tax	0.1	(1.2)	(1.1)	(1.6)
Net income before non-controlling interests	23.2	41.5	83.0	70.1
Less: Net income (loss) attributable to non-controlling interests	0.2	(0.1)	0.3	0.1
Net income attributable to Tempur Sealy International, Inc.	$ 23.0	$ 41.6	$ 82.7	$ 70.0
Earnings per common share:				
Basic				
Earnings per share for continuing operations	$ 0.44	$ 0.78	$ 1.60	$ 1.31
Loss per share for discontinued operations	—	(0.02)	(0.02)	(0.03)
Earnings per share	$ 0.44	$ 0.76	$ 1.58	$ 1.28
Diluted				
Earnings per share for continuing operations	$ 0.44	$ 0.76	$ 1.58	$ 1.29
Loss per share for discontinued operations	—	(0.02)	(0.02)	(0.03)
Earnings per share	$ 0.44	$ 0.74	$ 1.56	$ 1.26
Weighted average common shares outstanding:				
Basic	51.6	54.7	52.5	54.7
Diluted	52.0	56.0	53.0	55.6

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income before non-controlling interests	$ 23.2	$ 41.5	$ 83.0	$ 70.1
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	10.7	3.0	(12.3)	7.0
Other comprehensive income (loss), net of tax	10.7	3.0	(12.3)	7.0
Comprehensive income	33.9	44.5	70.7	77.1
Less: Comprehensive income (loss) attributable to non-controlling interests	0.2	(0.1)	0.3	0.1
Comprehensive income attributable to Tempur Sealy International, Inc.	$ 33.7	$ 44.6	$ 70.4	$ 77.0

See accompanying Notes to Condensed Consolidated Financial Statements**.**

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

	June 30, 2020	December 31, 2019
ASSETS	*(Unaudited)*	
Current Assets:		
Cash and cash equivalents	$ 146.8	$ 64.9
Accounts receivable, net	341.8	372.0
Inventories	258.8	260.5
Prepaid expenses and other current assets	198.1	202.8
Total Current Assets	945.5	900.2
Property, plant and equipment, net	462.8	435.8
Goodwill	757.5	732.3
Other intangible assets, net	633.5	641.4
Operating lease right-of-use assets	281.6	245.4
Deferred income taxes	13.6	14.1
Other non-current assets	107.4	92.6
Total Assets	$ 3,201.9	$ 3,061.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 247.1	$ 251.7
Accrued expenses and other current liabilities	455.2	473.2
Current portion of long-term debt	256.4	37.4
Income taxes payable	43.0	11.0
Total Current Liabilities	1,001.7	773.3
Long-term debt, net	1,497.2	1,502.6
Long-term operating lease obligations	239.3	205.4
Deferred income taxes	93.0	102.1
Other non-current liabilities	121.0	118.0
Total Liabilities	2,952.2	2,701.4
Total Stockholders' Equity	249.7	360.4
Total Liabilities and Stockholders' Equity	$ 3,201.9	$ 3,061.8

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Three Months Ended June 30, 2020

	Tempur Sealy International, Inc. Stockholders' Equity								
	Common Stock		Treasury Stock						
	Shares Issued	At Par	Shares Issued	At Cost	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests in Subsidiaries	Total Stockholders' Equity
Balance as of March 31, 2020	99.2	$ 1.0	47.7	$ (2,026.5)	$ 578.7	$ 1,756.5	$ (110.7)	$ 9.4	$ 208.4
Net income						23.0			23.0
Net income attributable to non-controlling interests								0.2	0.2
Dividend paid to non-controlling interest in subsidiary								(0.1)	(0.1)
Foreign currency adjustments							10.7		10.7
Exercise of stock options			—	—	0.2				0.2
Issuances of PRSUs, RSUs, and DSUs			—	0.4	(0.4)				—
Treasury stock repurchased - PRSU/RSU/DSU releases			—	(0.2)					(0.2)
Amortization of unearned stock-based compensation					7.5				7.5
Balance, June 30, 2020	99.2	$ 1.0	47.7	$ (2,026.3)	$ 586.0	$ 1,779.5	$ (100.0)	$ 9.5	$ 249.7

Three Months Ended June 30, 2019

	Tempur Sealy International, Inc. Stockholders' Equity								
	Common Stock		Treasury Stock						
	Shares Issued	At Par	Shares Issued	At Cost	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interest in Subsidiaries	Total Stockholders' Equity
Balance as of March 31, 2019	99.2	$ 1.0	44.5	$ (1,736.7)	$ 537.1	$ 1,542.2	$ (91.3)	$ 1.2	$ 253.5
Net income						41.6			41.6
Net loss attributable to non-controlling interest								(0.1)	(0.1)
Foreign currency adjustments							3.0		3.0
Exercise of stock options			(0.1)	0.9	2.2				3.1
Issuances of PRSUs, RSUs, and DSUs			—	0.3	(0.3)				—
Treasury stock repurchased			—	(1.5)					(1.5)
Treasury stock repurchased - PRSU/RSU/DSU releases			—	(0.3)					(0.3)
Amortization of unearned stock-based compensation					6.6				6.6
Balance, June 30, 2019	99.2	$ 1.0	44.4	$ (1,737.3)	$ 545.6	$ 1,583.8	$ (88.3)	$ 1.1	$ 305.9

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Six Months Ended June 30, 2020

	Tempur Sealy International, Inc. Stockholders' Equity								
	Common Stock		Treasury Stock						
	Shares Issued	At Par	Shares Issued	At Cost	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests in Subsidiaries	Total Stockholders' Equity
Balance as of December 31, 2019	99.2	$ 1.0	45.4	$ (1,832.8)	$ 575.7	$ 1,703.3	$ (87.7)	$ 0.9	$ 360.4
Net income						82.7			82.7
Net income attributable to non-controlling interests								0.3	0.3
Adoption of accounting standard effective January 1, 2020, net of tax						(6.5)			(6.5)
Acquisition of non-controlling interest in subsidiary								8.4	8.4
Dividend paid to non-controlling interest in subsidiary								(0.1)	(0.1)
Foreign currency adjustments							(12.3)		(12.3)
Exercise of stock options			—	0.3	1.2				1.5
Issuances of PRSUs, RSUs, and DSUs			(0.4)	5.7	(5.7)				—
Treasury stock repurchased			2.6	(187.5)					(187.5)
Treasury stock repurchased - PRSU/RSU/DSU releases			0.1	(12.0)					(12.0)
Amortization of unearned stock-based compensation					14.8				14.8
Balance, June 30, 2020	99.2	$ 1.0	47.7	$ (2,026.3)	$ 586.0	$ 1,779.5	$ (100.0)	$ 9.5	$ 249.7

Six Months Ended June 30, 2019

	Tempur Sealy International, Inc. Stockholders' Equity								
	Common Stock		Treasury Stock						
	Shares Issued	At Par	Shares Issued	At Cost	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interest in Subsidiaries	Total Stockholders' Equity
Balance as of December 31, 2018	99.2	$ 1.0	44.7	$ (1,737.0)	$ 532.1	$ 1,513.8	$ (95.3)	$ 2.9	$ 217.5
Net income						70.0			70.0
Net income attributable to non-controlling interest								0.1	0.1
Repurchase of interest in subsidiary								(1.9)	(1.9)
Foreign currency adjustments							7.0		7.0
Exercise of stock options			(0.2)	1.7	3.8				5.5
Issuances of PRSUs, RSUs, and DSUs			(0.2)	3.5	(3.5)				—
Treasury stock repurchased			—	(2.3)					(2.3)
Treasury stock repurchased - PRSU/RSU/DSU releases			0.1	(3.2)					(3.2)
Amortization of unearned stock-based compensation					13.2				13.2
Balance, June 30, 2019	99.2	$ 1.0	44.4	$ (1,737.3)	$ 545.6	$ 1,583.8	$ (88.3)	$ 1.1	$ 305.9

See accompanying Notes to Condensed Consolidated Financial Statements.

TEMPUR SEALY INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in millions) (unaudited)

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS:		
Net income before non-controlling interests	$ 83.0	$ 70.1
Loss from discontinued operations, net of tax	1.1	1.6
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	47.5	43.5
Amortization of stock-based compensation	14.8	13.2
Amortization of deferred financing costs	1.7	1.2
Bad debt expense	26.5	4.6
Deferred income taxes	(6.6)	8.8
Dividends received from unconsolidated affiliates	1.5	2.3
Equity income in earnings of unconsolidated affiliates	(4.8)	(6.5)
Foreign currency adjustments and other	1.0	(6.3)
Changes in operating assets and liabilities, net of effect of business acquisitions	4.7	(86.6)
Net cash provided by operating activities from continuing operations	170.4	45.9
CASH FLOWS FROM INVESTING ACTIVITIES FROM CONTINUING OPERATIONS:		
Purchases of property, plant and equipment	(49.4)	(39.9)
Acquisitions, net of cash acquired	(37.9)	(17.1)
Other	0.1	10.3
Net cash used in investing activities from continuing operations	(87.2)	(46.7)
CASH FLOWS FROM FINANCING ACTIVITIES FROM CONTINUING OPERATIONS:		
Proceeds from borrowings under long-term debt obligations	1,073.9	509.2
Repayments of borrowings under long-term debt obligations	(866.9)	(509.8)
Proceeds from exercise of stock options	1.5	5.5
Treasury stock repurchased	(199.5)	(5.5)
Payments of deferred financing costs	(1.6)	(0.1)
Repayments of finance lease obligations and other	(6.0)	(3.3)
Net cash provided by (used in) financing activities from continuing operations	1.4	(4.0)
Net cash provided by (used in) continuing operations	84.6	(4.8)
CASH USED IN DISCONTINUED OPERATIONS		
Operating cash flows	(1.0)	(2.0)
Investing cash flows	—	—
Financing cash flows	—	—
Net cash used in discontinued operations	(1.0)	(2.0)
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1.7)	(0.7)
Increase (decrease) in cash and cash equivalents	81.9	(7.5)
CASH AND CASH EQUIVALENTS, beginning of period	64.9	45.8
CASH AND CASH EQUIVALENTS, end of period	146.8	38.3
LESS: CASH AND CASH EQUIVALENTS OF DISCONTINUED OPERATIONS	—	—
CASH AND CASH EQUIVALENTS OF CONTINUING OPERATIONS	$ 146.8	$ 38.3
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$ 41.1	$ 45.9
Income taxes, net of refunds	$ 7.2	$ 35.2

See accompanying Notes to Condensed Consolidated Financial Statements.

(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 develops, manufactures, markets and sells 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 a group of Asia-Pacific joint ventures to develop markets for Sealy® branded products in those regions. The Company's ownership interest in 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 carrying value in its equity method investments of $24.8 million and $22.5 million at June 30, 2020 and December 31, 2019, respectively, is recorded in other non-current assets within the accompanying Condensed Consolidated Balance Sheets. 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, 2019, included in the 2019 Annual Report filed with the Securities and Exchange Commission on February 21, 2020.

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.*

Goodwill. Effective January 1, 2020, the Company adopted Accounting Standards Update ("ASU") No. 2017-04, "Intangibles - Goodwill and Other (Topic 350)." The ASU simplifies the test for goodwill impairment, by eliminating Step 2 of the impairment test. Under ASU 2017-04, the goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill for the reporting unit. Adoption of this guidance did not have an impact on the Company's financial statements.

Credit Losses. Effective January 1, 2020, the Company adopted ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)," which requires entities to estimate expected lifetime credit losses on financial assets and provide expanded disclosures. The ASU replaces the incurred loss impairment methodology with one that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company adopted the new credit losses standard using the modified retrospective approach. The cumulative effect of adoption at January 1, 2020 was $6.5 million, net of tax. The Company's primary financial assets are its trade accounts receivable, which are short-term financings under industry standard credit and trade terms.

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

(in millions)	June 30, 2020	December 31, 2019
Finished goods	$ 136.4	$ 157.4
Work-in-process	10.6	10.8
Raw materials and supplies	111.8	92.3
	$ 258.8	$ 260.5

(d) *Accrued Sales Returns*. The Company allows product returns through certain sales channels and on certain products. Estimated sales returns are provided at the time of sale based on historical sales channel return rates. Estimated future obligations related to these products are provided by a reduction of sales in the period in which the revenue is recognized. The Company considers the impact of recoverable salvage value on sales returns by segment in determining its estimate of future sales returns. Accrued sales returns are included in accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheets.

The Company had the following activity for sales returns from December 31, 2019 to June 30, 2020:

(in millions)	
Balance as of December 31, 2019	$ 39.3
Amounts accrued	51.3
Returns charged to accrual	(49.3)
Balance as of June 30, 2020	$ 41.3

As of June 30, 2020 and December 31, 2019, $27.9 million and $26.2 million of accrued sales returns are included as a component of accrued expenses and other current liabilities and $13.4 million and $13.1 million of accrued sales returns are included in other non-current liabilities on the Company’s accompanying Condensed Consolidated Balance Sheets, respectively.

(e) *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, 2019 to June 30, 2020:

(in millions)	
Balance as of December 31, 2019	$ 41.6
Amounts accrued	9.4
Warranties charged to accrual	(10.6)
Balance as of June 30, 2020	$ 40.4

As of June 30, 2020 and December 31, 2019, $17.5 million and $19.4 million of accrued warranty expense is included as a component of accrued expenses and other current liabilities and $22.9 million and $22.2 million of accrued warranty expense is included in other non-current liabilities on the Company’s accompanying Condensed Consolidated Balance Sheets, respectively.

(f) *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 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. 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.

The Company had the following activity for its allowance for credit losses from December 31, 2019 to June 30, 2020:

(in millions)		
Balance as of December 31, 2019	$	71.9
ASU 2016-13 adoption impact		8.9
Amounts accrued		26.5
Write-offs charged against the allowance		(13.4)
Balance as of June 30, 2020	$	93.9

(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 and six months ended June 30, 2020:

	Three Months Ended June 30, 2020			Six Months Ended June 30, 2020		
(in millions)	North America	International	Consolidated	North America	International	Consolidated
Channel						
Wholesale	$ 494.6	$ 69.1	$ 563.7	$ 1,104.2	$ 181.9	$ 1,286.1
Direct	75.9	25.6	101.5	143.5	58.0	201.5
Net sales	$ 570.5	$ 94.7	$ 665.2	$ 1,247.7	$ 239.9	$ 1,487.6
	North America	**International**	**Consolidated**	**North America**	**International**	**Consolidated**
Product						
Bedding	$ 533.0	$ 73.6	$ 606.6	$ 1,173.3	$ 189.8	$ 1,363.1
Other	37.5	21.1	58.6	74.4	50.1	124.5
Net sales	$ 570.5	$ 94.7	$ 665.2	$ 1,247.7	$ 239.9	$ 1,487.6
	North America	**International**	**Consolidated**	**North America**	**International**	**Consolidated**
Geographical region						
United States	$ 542.0	$ —	$ 542.0	$ 1,174.5	$ —	$ 1,174.5
Canada	28.5	—	28.5	73.2	—	73.2
International	—	94.7	94.7	—	239.9	239.9
Net sales	$ 570.5	$ 94.7	$ 665.2	$ 1,247.7	$ 239.9	$ 1,487.6

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 and six months ended June 30, 2019:

	Three Months Ended June 30, 2019			Six Months Ended June 30, 2019		
(in millions)	North America	International	Consolidated	North America	International	Consolidated
Channel						
Wholesale	$ 528.5	$ 103.7	$ 632.2	$ 1,030.3	$ 217.8	$ 1,248.1
Direct	59.6	31.0	90.6	101.8	63.8	165.6
Net sales	$ 588.1	$ 134.7	$ 722.8	$ 1,132.1	$ 281.6	$ 1,413.7
	North America	International	Consolidated	North America	International	Consolidated
Product						
Bedding	$ 554.2	$ 108.4	$ 662.6	$ 1,068.6	$ 223.8	$ 1,292.4
Other	33.9	26.3	60.2	63.5	57.8	121.3
Net sales	$ 588.1	$ 134.7	$ 722.8	$ 1,132.1	$ 281.6	$ 1,413.7
	North America	International	Consolidated	North America	International	Consolidated
Geographical region						
United States	$ 533.7	$ —	$ 533.7	$ 1,030.9	$ —	$ 1,030.9
Canada	54.4	—	54.4	101.2	—	101.2
International	—	134.7	134.7	—	281.6	281.6
Net sales	$ 588.1	$ 134.7	$ 722.8	$ 1,132.1	$ 281.6	$ 1,413.7

(3) Acquisitions

Acquisition of Sherwood Bedding

On January 31, 2020, the Company acquired an 80% ownership interest in a newly formed limited liability company containing substantially all of the assets of the Sherwood Bedding business for a cash purchase price of approximately $39.1 million, which included $1.2 million of cash acquired.

The Company accounted for this transaction as a business combination. The preliminary allocation of the purchase price is based on estimated fair values of the assets acquired and liabilities assumed as of January 31, 2020, which included the following:

(in millions)	
Working capital (accounts receivable and inventory, net of accounts payable and accrued liabilities)	$ 5.8
Property and equipment	10.1
Goodwill	26.7
Customer relationships intangible assets	3.7
Operating lease right-of-use assets	19.9
Long-term operating lease liabilities	(19.9)
Non-controlling interest	(8.4)
Purchase price, net of cash acquired	$ 37.9

Goodwill is calculated as the excess of the purchase price over the net assets acquired and primarily represents the private label product growth opportunities and expected synergistic manufacturing benefits to be realized from the acquisition. The goodwill is deductible for income tax purposes and will be included within the North American reporting unit for goodwill impairment assessments.

Acquisition of Innovative Mattress Solutions, LLC ("iMS")

On January 11, 2019, iMS filed for bankruptcy and the Company provided debtor-in-possession financing in connection with the iMS Chapter 11 proceedings. On April 1, 2019, the Company acquired substantially all of the net assets of iMS in a transaction valued at approximately $24.0 million, including assumed liabilities of approximately $11.0 million as of March 31, 2019 (referred to as the "Sleep Outfitters Acquisition"). The acquisition of this regional bedding retailer furthers the Company’s North American retail strategy, which is focused on meeting customer demand through geographic representation and sales expertise.

The Company accounted for this transaction as a business combination. Total cash consideration was $13.2 million, which included $5.1 million of cash acquired. The final allocation of the purchase price is based on the fair values of the assets acquired and liabilities assumed as of April 1, 2019, which included the following:

(in millions)		
Working capital (accounts receivable and inventory, net of accounts payable and accrued liabilities)	$	(1.4)
Property and equipment		5.0
Goodwill		2.4
Other intangible assets		2.1
Operating lease right-of-use assets		28.5
Long-term operating lease liabilities		(28.5)
Purchase price, net of cash acquired	$	8.1

Goodwill is calculated as the excess of the purchase price over the net assets acquired and primarily represents the growth opportunities and expected retail synergistic benefits to be realized from the acquisition. The goodwill is deductible for income tax purposes and will be included within the North American reporting unit for goodwill impairment assessments.

(4) Goodwill

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

(in millions)	North America		International		Consolidated	
Balance as of December 31, 2019	$	576.6	$	155.7	$	732.3
Goodwill resulting from acquisitions		26.7		—		26.7
Foreign currency translation and other		(2.8)		1.3		(1.5)
Balance as of June 30, 2020	$	600.5	$	157.0	$	757.5

(5) Debt

Debt for the Company consists of the following:

	June 30, 2020		December 31, 2019		
(in millions, except percentages)	**Amount**	**Rate**	**Amount**	**Rate**	**Maturity Date**
2019 Credit Agreement:					
Term A Facility	$ 414.4	(1)	$ 425.0	(2)	October 16, 2024
364-Day Term Loan	200.0	(3)	—	(3)	May 12, 2021
Revolver	—	(1)	—	(2)	October 16, 2024
2026 Senior Notes	600.0	5.500%	600.0	5.500%	June 15, 2026
2023 Senior Notes	450.0	5.625%	450.0	5.625%	October 15, 2023
Securitized debt	—	(4)	—	(4)	April 6, 2021
Finance lease obligations (5)	71.2		64.1		Various
Other	25.2		7.9		Various
Total debt	1,760.8		1,547.0		
Less: Deferred financing costs	7.2		7.0		
Total debt, net	1,753.6		1,540.0		
Less: Current portion	256.4		37.4		
Total long-term debt, net	$ 1,497.2		$ 1,502.6		

(1) Interest at LIBOR plus applicable margin of 1.375% as of June 30, 2020.

(2) Interest at LIBOR plus applicable margin of 1.625% as of December 31, 2019.

(3) Interest at base rate plus applicable margin of 1.375% per annum or a eurocurrency rate (subject to a 1.0% floor) plus applicable margin of 2.375% per annum.

(4) Interest at one month LIBOR index plus 80 basis points.

(5) Finance lease obligations are a non-cash financing activity. Refer to Note 6, "Leases".

As of June 30, 2020, the Company was in compliance with all applicable debt covenants.

2019 Credit Agreement

On October 16, 2019, the Company entered into the 2019 Credit Agreement with a syndicate of banks. The 2019 Credit Agreement provides for a $425.0 million revolving credit facility, a $425.0 million term loan facility, and an incremental facility in an aggregate amount of up to $550.0 million plus the amount of certain prepayments plus an additional unlimited amount subject to compliance with a maximum consolidated secured leverage ratio test. The 2019 Credit Agreement has a $60.0 million sub-facility for the issuance of letters of credit. As of June 30, 2020, total availability under the revolving credit facility was $423.9 million after a $1.1 million reduction for outstanding letters of credit.

On May 13, 2020, the Company and certain of its subsidiaries entered into an amendment to the existing 2019 Credit Agreement. The amendment provided for a new 364-day $200.0 million term loan (the "364-Day Loan"). The Company used the proceeds of the 364-Day Loan to repay borrowings under the existing $425.0 million revolving credit facility and to pay fees and expenses in connection with the amendment. The 364-Day Loan bears interest, at the borrower’s option, at a base rate plus a margin of 1.375% per annum or a eurocurrency rate (subject to a 1.0% floor) plus a margin of 2.375% per annum. In addition, for so long as the 364-Day Loan remains outstanding, the Company is subject to certain additional restrictions under the covenants provided for in the Credit Agreement, including, but not limited to, the Company's ability to repurchase shares and make certain investments.

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 June 30, 2020, the Company had availability of $40.8 million under the Accounts Receivable Securitization.

Fair Value of Financial Instruments

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 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:

	Fair Value	
(in millions)	**June 30, 2020**	**December 31, 2019**
2023 Senior Notes	$ 457.5	$ 464.2
2026 Senior Notes	614.2	634.9

(6) Leases

The following table summarizes the classification of operating and finance lease assets and obligations in the Company's Condensed Consolidated Balance Sheet as of June 30, 2020 and December 31, 2019:

(in millions)		**June 30, 2020**	**December 31, 2019**
Assets			
Operating lease assets	Operating lease right-of-use assets	$ 281.6	$ 245.4
Finance lease assets	Property, plant and equipment, net	61.3	54.4
Total leased assets		$ 342.9	$ 299.8
Liabilities			
Short-term:			
Operating lease obligations	Accrued expenses and other current liabilities	$ 58.3	$ 50.8
Finance lease obligations	Current portion of long-term debt	9.9	8.2
Long-term:			
Operating lease obligations	Long-term operating lease obligations	239.3	205.4
Finance lease obligations	Long-term debt, net	61.3	55.9
Total lease obligations		$ 368.8	$ 320.3

The following table summarizes the classification of lease expense in the Company's Condensed Consolidated Statements of Income for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2020**	**2019**	**2020**	**2019**
Operating lease expense:				
Operating lease expense	$ 18.7	$ 15.9	$ 36.7	$ 30.1
Short-term lease expense	2.5	1.3	5.7	2.3
Variable lease expense	4.4	5.0	9.7	8.8
Finance lease expense:				
Amortization of right-of-use assets	2.2	2.3	4.4	4.2
Interest on lease obligations	1.1	1.2	2.3	2.4
Total lease expense	$ 28.9	$ 25.7	$ 58.8	$ 47.8

The following table sets forth the scheduled maturities of lease obligations as of June 30, 2020:

(in millions)	**Operating Leases**	**Finance Leases**	**Total**
Year Ended December 31,			
2020 (excluding the six months ended June 30, 2020)	$ 38.2	$ 6.9	$ 45.1
2021	66.8	14.1	80.9
2022	57.9	12.0	69.9
2023	45.5	9.8	55.3
2024	37.1	8.0	45.1
Thereafter	104.6	40.4	145.0
Total lease payments	350.1	91.2	441.3
Less: Interest	52.5	20.0	72.5
Present value of lease obligations	$ 297.6	$ 71.2	$ 368.8

The following table provides lease term and discount rate information related to operating and finance leases as of June 30, 2020:

	June 30, 2020
Weighted average remaining lease term (years):	
Operating leases	6.34
Finance leases	8.33
Weighted average discount rate:	
Operating leases	5.16 %
Finance leases	5.94 %

The following table provides supplemental information related to the Company's Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019:

	Six Months Ended	
(in millions)	**June 30, 2020**	**June 30, 2019**
Cash paid for amounts included in the measurement of lease obligations:		
Operating cash flows paid for operating leases	$ 33.1	$ 27.8
Operating cash flows paid for finance leases	$ 2.3	$ 2.4
Financing cash flows paid for finance leases	$ 4.6	$ 3.3
Right-of-use assets obtained in exchange for new operating lease obligations	$ 48.7	$ 55.0
Right-of-use assets obtained in exchange for new finance lease obligations	$ 11.7	$ —

(7) Stockholders' Equity

(a) *Treasury Stock.* As of June 30, 2020, the Company had approximately $131.3 million remaining under the existing share repurchase program initially authorized by the Board of Directors in 2016. In February 2020, the Board of Directors authorized an increase, of $194.2 million, to its existing share repurchase authorization of Tempur Sealy International's common stock to $300.0 million. The Company did not repurchase shares under the program during the three months ended June 30, 2020. The Company repurchased 24,170 shares under the program for approximately $1.5 million during the three months ended June 30, 2019. The Company repurchased 2.6 million shares and 39,901 shares under the program for approximately $187.5 million and $2.3 million during the six months ended June 30, 2020 and 2019, respectively.

In addition, the Company acquired an insignificant amount of shares upon the vesting of certain restricted stock units ("RSUs"), which were withheld to satisfy tax withholding obligations during each of the three and six months ended June 30, 2020 and 2019. 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 approximately $0.2 million and $0.3 million in treasury stock acquired during the three months ended June 30, 2020 and 2019, respectively. The Company acquired approximately $12.0 million and $3.2 million in treasury stock during the six months ended June 30, 2020 and 2019, respectively.

(b) *Shareholder Rights Agreement.* On March 27, 2020, the Board of Directors authorized and declared a dividend distribution of one right (a "Right") for each outstanding share of common stock of the Company to stockholders of record at the close of business on April 7, 2020 (the “Record Date”). Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, $0.01 par value per share (the “Preferred Shares”), of the Company at an exercise price of $273.00 per one one-thousandth of a Preferred Share, subject to adjustment (the “Exercise Price”). Generally, the Rights become exercisable in the event any person or group of affiliated or associated persons acquires beneficial ownership of 10% (20% in the case of a passive institutional investor) or more of the Company's common stock without the approval of the Board of Directors, and until such time are inseparable from and trade with the Company's common stock. The Rights have a de minimis fair value. The Rights were issued pursuant to the Rights Agreement dated as of March 27, 2020 (the "Rights Agreement"), between the Company and American Stock Transfer & Trust Company, LLC, as rights agent. The Rights expire at the close of business on March 26, 2021 or upon an earlier redemption or exchange as provided in the Rights Agreement.

(c) *AOCL*. AOCL consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2020**	**2019**	**2020**	**2019**
Foreign Currency Translation				
Balance at beginning of period	$ (105.2)	$ (87.7)	$ (82.2)	$ (91.7)
Other comprehensive loss:				
Foreign currency translation adjustments (1)	10.7	3.0	(12.3)	7.0
Balance at end of period	$ (94.5)	$ (84.7)	$ (94.5)	$ (84.7)
Pensions				
Balance at beginning of period	$ (5.5)	$ (3.6)	$ (5.5)	$ (3.6)
Other comprehensive loss:				
Net change from period revaluations	—	—	0.1	—
Tax expense (2)	—	—	(0.1)	—
Total other comprehensive income before reclassifications, net of tax	$ —	$ —	$ —	$ —
Net amount reclassified to earnings (1)	—	—	—	—
Tax benefit (2)	—	—	—	—
Total amount reclassified from accumulated other comprehensive loss, net of tax	$ —	$ —	$ —	$ —
Total other comprehensive loss	—	—	—	—
Balance at end of period	$ (5.5)	$ (3.6)	$ (5.5)	$ (3.6)

(1) In 2020 and 2019, there were no tax impacts related to foreign currency translation adjustments and no amounts were reclassified to earnings.

(2) These amounts were included in the income tax provision in the accompanying Condensed Consolidated Statements of Income.

(8) Other Items

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following:

(in millions)	June 30, 2020	December 31, 2019
Taxes	$ 138.6	$ 136.0
Wages and benefits	59.4	79.5
Operating lease obligations	58.3	50.8
Advertising	42.5	56.9
Sales returns	27.9	26.2
Warranty	17.5	19.4
Rebates	6.6	13.6
Other	104.4	90.8
	$ 455.2	$ 473.2

(9) Stock-Based Compensation

The Company's stock-based compensation expense for the three and six months ended June 30, 2020 and 2019 included performance restricted stock units ("PRSUs"), non-qualified stock options, restricted stock units ("RSUs") and deferred stock units ("DSUs"). A summary of the Company's stock-based compensation expense is presented in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2020	2019	2020	2019
PRSU expense	$ 0.9	$ 0.4	$ 1.2	$ 0.7
Option expense	1.2	1.2	2.4	2.4
RSU/DSU expense	5.4	5.0	11.2	10.1
Total stock-based compensation expense	$ 7.5	$ 6.6	$ 14.8	$ 13.2

The Company grants PRSUs to executive officers and certain members of management. During the first quarter of 2020, the Company granted PRSUs as a component of the long-term incentive plan. Actual payout under the PRSUs is dependent upon the achievement of certain financial goals.

During 2017, the Company granted executive officers and certain members of management PRSUs if the Company achieves a certain level of adjusted earnings before interest, tax, depreciation and amortization as defined in the Company's Credit Agreement ("Adjusted EBITDA per Credit Facility") during four consecutive fiscal quarters as described below (the "2019 Aspirational Plan PRSUs"). The 2019 Aspirational Plan PRSUs will vest based on the highest Adjusted EBITDA per Credit Facility in any four consecutive fiscal quarter period ending between (and including) March 31, 2018 and December 31, 2019 (the "First Designated Period"). At the end of the First Designated Period, the Adjusted EBITDA per Credit Facility targets were not met and one-half of the total 2019 Aspirational Plan PRSUs were forfeited.

The remaining one-half of the total 2019 Aspirational Plan PRSUs will vest based on the highest Adjusted EBITDA per Credit Facility in any four consecutive fiscal quarter period ending between (and including) March 31, 2020 and December 31, 2020 (the "Second Designated Period"). If the highest Adjusted EBITDA per Credit Facility in the Second Designated Period is $600.0 million then 66% of the remaining 2019 Aspirational Plan PRSUs will vest; if the Adjusted EBITDA per Credit Facility is $650.0 million or more 100% will vest; if Adjusted EBITDA per Credit Facility is between $600.0 million and $650.0 million then a pro rata portion will vest; and if Adjusted EBITDA per Credit Facility is below $600.0 million then all of the remaining 2019 Aspirational Plan PRSUs will be forfeited.

The Company did not record any stock-based compensation expense related to the 2019 Aspirational Plan PRSUs during the three and six months ended June 30, 2020, as it was not probable that the Company would achieve the specified performance target for the Second Designated Period. The Company will continue to evaluate the probability of achieving the performance condition in future periods and record the appropriate expense if necessary. Based on the price of the Company's common stock on the grant date, the total unrecognized compensation expense related to this award if the performance target is met for the Second Designated Period would range from $33.0 million to $49.5 million, which would be a non-cash expense over the remaining service period if achievement of the performance condition becomes probable.

(10) 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.

(11) Income Taxes

The Company's effective tax rate for the three months ended June 30, 2020 and 2019 was 28.9% and 27.0%, respectively. The Company's effective tax rate for the six months ended June 30, 2020 and 2019 was 28.1% and 31.3%, respectively. The Company's effective tax rate for the three and six months ended June 30, 2020 and 2019 differed from the U.S. federal statutory rate of 21.0% principally due to subpart F income (i.e., GILTI earned by the Company's foreign subsidiaries), certain foreign income tax rate differentials, state and local taxes, changes in the Company's uncertain tax positions, the excess tax deficiency (or benefit) related to stock-based compensation and certain other permanent items.

On March 27, 2020, the U.S. Government enacted the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") which includes modifications to the limitation on business interest expense and net operating loss provisions. The CARES Act is not expected to have a material impact on the Company's consolidated financial statements.

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 2001 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.

At June 30, 2020 and December 31, 2019, the Danish income tax liability recorded in the Company's balance sheet for the periods 2001 through June 30, 2020 and December 31, 2019, respectively, is DKK 1,121.1 million and DKK 1,110.6 million, respectively (approximately $169.1 million and $166.7 million using the applicable exchange rates at June 30, 2020 and December 31, 2019, respectively). The liability at June 30, 2020 and December 31, 2019 is included within the Company's Condensed Consolidated Balance Sheet (translated at the exchange rate on June 30, 2020 and December 31, 2019) as per below:

	June 30, 2020		December 31, 2019	
	DKK	USD	DKK	USD
Accrued expenses and other current liabilities	847.3	$ 127.8	847.3	$ 127.2
Other non-current liabilities	273.8	41.3	263.3	39.5
Total	1,121.1	$ 169.1	1,110.6	$ 166.7

During the three months ended March 31, 2020 the Company made a tax deposit with SKAT of DKK 134.0 million applicable to a tax assessment by SKAT for the years 2012 and 2013. The Company is contesting such assessment. At June 30, 2020 and December 31, 2019, respectively, the Company held on deposit with SKAT DKK 1,104.1 million and DKK 970.1 million (approximately $166.5 million and $145.6 million using the applicable exchange rates at June 30, 2020 and December 31, 2019, respectively). The deposit is for the satisfaction of the anticipated liability for both tax and interest once these matters are concluded.

The deposit at June 30, 2020 and December 31, 2019 is included within the Company’s Condensed Consolidated Balance Sheet (translated at the exchange rates on June 30, 2020 and December 31, 2019) as per below:

	June 30, 2020		December 31, 2019	
	DKK	USD	DKK	USD
Prepaid expenses and other current assets	847.3	$ 127.8	847.3	$ 127.2
Other non-current assets	256.8	38.7	122.8	18.4
Total	1,104.1	$ 166.5	970.1	$ 145.6

There were no significant changes in the Danish Tax Matter or other uncertain tax positions during the three or six months ended June 30, 2020.

(12) 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 June 30,		Six Months Ended June 30,	
(in millions, except per common share amounts)	2020	2019	2020	2019
Numerator:				
Income from continuing operations, net of income attributable to non-controlling interests	$ 22.9	$ 42.8	$ 83.8	$ 71.6
Denominator:				
Denominator for basic earnings per common share-weighted average shares	51.6	54.7	52.5	54.7
Effect of dilutive securities:				
Employee stock-based compensation	0.4	1.3	0.5	0.9
Denominator for diluted earnings per common share-adjusted weighted average shares	52.0	56.0	53.0	55.6
Basic earnings per common share for continuing operations	$ 0.44	$ 0.78	$ 1.60	$ 1.31
Diluted earnings per common share for continuing operations	$ 0.44	$ 0.76	$ 1.58	$ 1.29

The Company excluded 1.3 million and 1.1 million shares for the three months ended June 30, 2020 and 2019, respectively, 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 excluded 0.8 million and 1.1 million shares issuable upon exercise of outstanding stock options for the six months ended June 30, 2020 and 2019, respectively, 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. Holders of non-vested stock-based compensation awards do not have voting rights or rights to receive any dividends thereon.

(13) Business Segment Information

The Company operates in two segments: North America and International. Corporate operating expenses are not included in either of the segments and are presented separately as a reconciling item to consolidated results. These segments are strategic business units that are managed separately based on geography. The North America segment consists of Tempur and Sealy manufacturing and distribution subsidiaries, joint ventures and licensees located in the U.S. and Canada. The International segment consists of Tempur and Sealy manufacturing and distribution subsidiaries, joint ventures and licensees located in Europe, Asia-Pacific and Latin America. The Company evaluates segment performance based on net sales, gross profit and operating income.

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:

(in millions)	June 30, 2020	December 31, 2019
North America	$ 3,299.5	$ 3,142.9
International	603.2	615.3
Corporate	549.9	477.1
Inter-segment eliminations	(1,250.7)	(1,173.5)
Total assets	$ 3,201.9	$ 3,061.8

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

(in millions)	June 30, 2020	December 31, 2019
North America	$ 369.0	$ 328.9
International	51.2	51.8
Corporate	42.6	55.1
Total property, plant and equipment, net	$ 462.8	$ 435.8

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

(in millions)	June 30, 2020	December 31, 2019
North America	$ 237.0	$ 202.0
International	42.1	42.2
Corporate	2.5	1.2
Total operating lease right-of-use assets	$ 281.6	$ 245.4

The following table summarizes segment information for the three months ended June 30, 2020:

(in millions)	North America	International	Corporate	Eliminations	Consolidated
Net sales	$ 570.5	$ 94.7	$ —	$ —	$ 665.2
Inter-segment sales	$ 0.1	$ —	$ —	$ (0.1)	$ —
Inter-segment royalty expense (income)	0.7	(0.7)	—	—	—
Gross profit	216.2	49.7	—	—	265.9
Operating income (loss)	69.4	9.6	(25.6)	—	53.4
Income (loss) from continuing operations before income taxes	68.0	7.6	(43.1)	—	32.5
Depreciation and amortization (1)	$ 18.6	$ 3.4	$ 9.8	$ —	$ 31.8
Capital expenditures	18.1	3.1	2.0	—	23.2

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

The following table summarizes segment information for the three months ended June 30, 2019:

(in millions)	North America	International	Corporate	Eliminations	Consolidated
Net sales	$ 588.1	$ 134.7	$ —	$ —	$ 722.8
Inter-segment sales	$ 0.9	$ 0.1	$ —	$ (1.0)	$ —
Inter-segment royalty expense (income)	1.0	(1.0)	—	—	—
Gross profit	240.0	73.4	—	—	313.4
Operating income (loss)	80.1	27.4	(26.5)	—	81.0
Income (loss) from continuing operations before income taxes	78.6	23.2	(43.3)	—	58.5
Depreciation and amortization (1)	$ 15.6	$ 3.5	$ 9.5	$ —	$ 28.6
Capital expenditures	14.4	3.1	3.3	—	20.8

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

The following table summarizes segment information for the six months ended June 30, 2020:

(in millions)	North America	International	Corporate	Eliminations	Consolidated
Net sales	$ 1,247.7	$ 239.9	$ —	$ —	$ 1,487.6
Inter-segment sales	$ 0.9	$ 0.1	$ —	$ (1.0)	$ —
Inter-segment royalty expense (income)	2.1	(2.1)	—	—	—
Gross profit	493.4	129.6	—	—	623.0
Operating income (loss)	170.8	36.2	(48.3)	—	158.7
Income (loss) from continuing operations before income taxes	167.6	32.1	(82.7)	—	117.0
Depreciation and amortization (1)	$ 36.2	$ 6.7	$ 19.4	$ —	$ 62.3
Capital expenditures	39.4	5.5	4.5	—	49.4

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

The following table summarizes segment information for the six months ended June 30, 2019:

(in millions)	North America	International	Corporate	Eliminations	Consolidated
Net sales	$ 1,132.1	$ 281.6	$ —	$ —	$ 1,413.7
Inter-segment sales	$ 1.9	$ 0.4	$ —	$ (2.3)	$ —
Inter-segment royalty expense (income)	2.0	(2.0)	—	—	—
Gross profit	444.4	150.8	—	—	595.2
Operating income (loss)	144.4	52.6	(55.5)	—	141.5
Income (loss) from continuing operations before income taxes	141.0	53.0	(89.6)	—	104.4
Depreciation and amortization [(1)]	$ 30.6	$ 6.8	$ 19.3	$ —	$ 56.7
Capital expenditures	27.3	6.0	6.6	—	39.9

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

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

(in millions)	June 30, 2020	December 31, 2019
United States	$ 395.7	$ 366.4
Canada	15.9	17.5
Other International	51.2	51.9
Total property, plant and equipment, net	$ 462.8	$ 435.8
Total International	$ 67.1	$ 69.4

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

(in millions)	June 30, 2020	December 31, 2019
United States	$ 235.4	$ 198.3
Canada	4.1	4.9
Other International	42.1	42.2
Total operating lease right-of-use assets	$ 281.6	$ 245.4
Total International	$ 46.2	$ 47.1

The following table summarizes net sales by geographic region:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2020	2019	2020	2019
United States	$ 542.0	$ 533.7	$ 1,174.5	$ 1,030.9
Canada	28.5	54.4	73.2	101.2
Other International	94.7	134.7	239.9	281.6
Total net sales	$ 665.2	$ 722.8	$ 1,487.6	$ 1,413.7
Total International	$ 123.2	$ 189.1	$ 313.1	$ 382.8

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 2019 Annual Report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in ITEM 7 of Part II of the 2019 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, in the 2019 Annual Report and the section titled "Risk Factors" contained in ITEM 1A of Part I of the 2019 Annual Report and in ITEM 1A, Risk Factors, in this Report. 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 six months ended June 30, 2020, including the following topics:

- an overview of our business and strategy, including uncertainty relating to COVID-19;
- 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 the world's largest bedding manufacturer. We develop, manufacture and market bedding products, which we sell globally. Our product brand portfolio includes many highly recognized and iconic brands in the industry, including Tempur®, Tempur-Pedic®, Sealy® featuring Posturepedic® Technology, Stearns & Foster® and Comfort Revolution®. Our comprehensive suite of bedding products offers a variety of products to consumers across a broad range of channels and price points.

Our distribution model operates through an omni-channel strategy with two distribution 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, e-commerce and call centers.

Business Segments

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

Business Update

We continue to study and optimize our operations in response to the challenges from the COVID-19 crisis. We have taken and continue to take precautionary measures to mitigate health risks during the evolving situation resulting from COVID-19.

We experienced a major reduction in total net sales when COVID-19 began materially impacting our North America business segment in mid-March. In the second quarter, order trends reached their lowest point in early April when they had declined approximately 80% as compared to prior year. Order trends began to improve thereafter, with orders down approximately 55% for the full month of April as compared to the same period in 2019. During April and May, many stores of our third-party retailers within the Wholesale channel, as well as our company-owned stores within the Direct channel, were closed or operating under restricted conditions in the U.S. and around the world. We experienced significant and accelerating improvement in order trends in late May and throughout the remainder of the second quarter. This improvement was primarily due to the reopening of brick-and-mortar stores as restrictions were lifted, the acceleration of e-commerce business trends and a shift in consumer spending habits towards in-home products, including bedding products. We believe this may be a long-term shift in consumer spending habits, which could be favorable to our business.

This unexpected and rapid increase in demand for bedding products has challenged the entire bedding industry and supply chain, including our business. The broad-based increase in demand coupled with labor and supply chain constraints has created operational challenges in the production of Sealy bedding products in the U.S. These operational challenges have resulted in longer order to delivery times. Sealy orders in the U.S. have exceeded our manufacturing capacity in the second quarter and through July. The Tempur-Pedic manufacturing process has not been as impacted by the current supply chain constraints as it is less labor-dependent and has fewer components than the Sealy manufacturing process. We are in the process of increasing U.S. production capabilities across our entire portfolio of products to meet this heightened demand, but expect to continue experiencing capacity constraints on Sealy bedding products through the third quarter of 2020.

Additionally, the U.S. government has mandated that domestic suppliers of certain materials used in the production of bedding products be redirected towards the production of personal protective equipment. Our supply chain remains constrained with respect to these materials and we have taken certain steps, including pricing actions, to attempt to mitigate this impact.

We are targeting third quarter 2020 sales to increase approximately 25% from the same period last year. If favorable order trends were to continue, and if there are no significant changes in supply chain or manufacturing capacity, or other unfavorable impacts due to the global pandemic, it is possible that our third quarter or fourth quarter financial performance could trigger vesting of our long-term aspirational plan. This would result in a non-cash stock-based compensation charge in the range of $33.0 million to $49.5 million in the quarter that the performance metric is probable of acheivement.

During this time of uncertainty, keeping our employees safe and healthy is a top priority. We have implemented precautionary measures to protect our employees, including restricting travel and face-to-face meetings, allowing employees to work from home where possible and adopting all region-specific public health protocols applicable to our global operations. While providing a healthy and safe work environment is a top priority during these unprecedented times, our entire organization is also focused on our commitments to our customers, suppliers and shareholders. During the second quarter, we began offering our Clean Shop Promise™ protocol to third-party retailers and our company-owned stores, which is being broadly adopted to provide customers with a sense of comfort as they return to shopping in stores. During the second quarter, we also worked with various government and healthcare organizations to provide products and services in this time of crisis.

Our business has a highly variable cost structure that can flex with changes in sales. Given the sudden and significant change in volume early in the second quarter of 2020, actions were quickly implemented to mitigate the financial impact. We primarily reduced advertising spend, temporarily furloughed employees and decreased variable compensation. As order trends improved throughout the quarter, we immediately reversed these actions and began making investments to ensure we could service our customers. Additionally, as liquidity improved, we began reinvesting in the business at similar levels prior to the impact of COVID-19.

Given the market uncertainty of the crisis, we entered into a new $200 million 364-day term loan (the "364-Day Loan") on May 13, 2020 to increase overall available liquidity and strengthen the balance sheet. We had $611.5 million of liquidity as of June 30, 2020, including $146.8 million of cash on hand and $423.9 million available under our revolving senior secured credit facility.

We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, suppliers and stockholders. While we are unable to determine or predict the nature, duration or scope of the overall impact the COVID-19 pandemic will have on our business, results of operations, liquidity or capital resources, we believe that it is important to share where our company stands today, how our response to COVID-19 is progressing and how our operations and financial condition may change as the fight against COVID-19 progresses. For further information regarding the potential impacts of COVID-19 on the Company, please refer to "Risk Factors" in ITEM 1A of Part II of this Report.

Product Launches

In 2020, we are introducing the Tempur-Ergo Smart Base Collection with Sleeptracker technology and a new Sealy Posturepedic Plus line.

Acquisition of Sherwood Bedding

On January 31, 2020, we acquired an 80% ownership interest in a newly formed limited liability company containing substantially all of the assets of the Sherwood Bedding business for a cash purchase price of approximately $39.1 million. Sherwood Bedding is a major manufacturer in the U.S. private label and original equipment manufacturer bedding market, and this acquisition of a majority interest marks our entrance into the private label category. During the first quarter of 2020, we completed the integration of Sherwood Bedding into our portfolio of product brands. We expect to leverage our overall brand portfolio to gain additional distribution for Sherwood products.

Results of Operations

A summary of our results for the three months ended June 30, 2020 include:

- Total net sales decreased 8.0% to $665.2 million as compared to $722.8 million in the second quarter of 2019. On a constant currency basis, which is a non-GAAP financial measure, total net sales decreased 7.3%, with a decrease of 2.9% in the North America business segment and a decrease of 26.9% in the International business segment.
- Gross margin was 40.0% as compared to 43.4% in the second quarter of 2019. Adjusted gross margin, which is a non-GAAP financial measure, was 40.6% in the second quarter of 2020. There were no adjustments to gross margin in the second quarter of 2019.
- Operating income decreased 34.1% to $53.4 million as compared to $81.0 million in the second quarter of 2019. Adjusted operating income, which is a non-GAAP financial measure, decreased 16.5% to $70.0 million as compared to $83.8 million in the second quarter of 2019. Operating income and adjusted operating income, which is a non-GAAP financial measure, in the second quarter of 2020 included $7.9 million of costs associated with temporarily closed company-owned retail stores and sales force retention costs as a result of the novel coronavirus ("COVID-19 charges").
- Net income decreased 44.7% to $23.0 million as compared to $41.6 million in the second quarter of 2019. Adjusted net income, which is a non-GAAP financial measure, decreased 20.8% to $35.1 million as compared to $44.3 million in the second quarter of 2019.
- Earnings before interest, tax, depreciation and amortization ("EBITDA"), which is a non-GAAP financial measure, decreased 21.8% to $85.2 million as compared to $109.0 million in the second quarter of 2019. Adjusted EBITDA (including COVID-19 charges), which is a non-GAAP financial measure, decreased 10.0% to $101.7 million and adjusted EBITDA per credit facility, which is a non-GAAP financial measure, decreased 3.0% to $109.6 million as compared to $113.0 million in the second quarter of 2019.
- Adjusted EBITDA per credit facility, which is a non-GAAP financial measure, excluded $24.5 million of asset impairments, incremental operating costs due to the global pandemic, COVID-19 charges and other items in the second quarter of 2020.
- Earnings per diluted share ("EPS") decreased 40.5% to $0.44 as compared to $0.74 in the second quarter of 2019. Adjusted EPS, which is a non-GAAP financial measure, decreased 13.9% to $0.68 as compared to $0.79 in the second quarter of 2019. Adjusted EPS, which is a non-GAAP financial measure, included $0.11 of COVID-19 charges in the second quarter of 2020.
- For the trailing twelve months ended June 30, 2020, leverage based on the ratio of consolidated indebtedness less netted cash to adjusted EBITDA per credit facility, which is a non-GAAP financial measure, was 2.83 times as compared to 3.65 times in the corresponding prior year period.

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 or earnings or other historical financial information on a "constant currency basis," which is a non-GAAP financial measure. These references to constant currency basis do not include operational impacts that could result from fluctuations in foreign currency rates. To provide information on a constant currency basis, the applicable financial results are adjusted based on a simple mathematical model that translates current period results in local currency using the comparable prior 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 JUNE 30, 2020 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2019

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:

	Three Months Ended June 30,			
(in millions, except percentages and per share amounts)	2020		2019	
Net sales	$ 665.2	100.0 %	$ 722.8	100.0 %
Cost of sales	399.3	60.0	409.4	56.6
Gross profit	265.9	40.0	313.4	43.4
Selling and marketing expenses	135.1	20.3	163.3	22.6
General, administrative and other expenses	82.4	12.4	72.7	10.1
Equity income in earnings of unconsolidated affiliates	(5.0)	(0.7)	(3.6)	(0.5)
Operating income	53.4	8.0	81.0	11.2
Other expense, net:				
Interest expense, net	20.6	3.1	22.5	3.1
Other expense, net	0.3	—	—	—
Total other expense, net	20.9	3.1	22.5	3.1
Income from continuing operations before income taxes	32.5	4.9	58.5	8.1
Income tax provision	(9.4)	(1.4)	(15.8)	(2.2)
Income from continuing operations	23.1	3.5	42.7	5.9
Income (loss) from discontinued operations, net of tax	0.1	—	(1.2)	(0.2)
Net income before non-controlling interests	23.2	3.5	41.5	5.7
Less: Net income (loss) attributable to non-controlling interests	0.2	—	(0.1)	—
Net income attributable to Tempur Sealy International, Inc.	$ 23.0	3.5 %	$ 41.6	5.8 %
Earnings per common share:				
Basic				
Earnings per share for continuing operations	$ 0.44		$ 0.78	
Loss per share for discontinued operations	—		(0.02)	
Earnings per share	$ 0.44		$ 0.76	
Diluted				
Earnings per share for continuing operations	$ 0.44		$ 0.76	
Loss per share for discontinued operations	—		(0.02)	
Earnings per share	$ 0.44		$ 0.74	
Weighted average common shares outstanding:				
Basic	51.6		54.7	
Diluted	52.0		56.0	

NET SALES

(in millions)	Three Months Ended June 30, 2020 Consolidated	2019 Consolidated	2020 North America	2019 North America	2020 International	2019 International
Net sales by channel						
Wholesale	$ 563.7	$ 632.2	$ 494.6	$ 528.5	$ 69.1	$ 103.7
Direct	101.5	90.6	75.9	59.6	25.6	31.0
Total net sales	$ 665.2	$ 722.8	$ 570.5	$ 588.1	$ 94.7	$ 134.7

Net sales decreased 8.0%, and on a constant currency basis decreased 7.3%. The change in net sales was driven by the following:

- *North America* net sales decreased $17.6 million, or 3.0%. Net sales in the Wholesale channel decreased $33.9 million, or 6.4%, as a result of the global pandemic. Net sales in the Direct channel increased $16.3 million, or 27.3%, primarily driven by growth from our e-commerce business. This growth was partially offset by decreased sales in our company-owned stores, which were closed or operating under restricted conditions as a result of the global pandemic.

- *International* net sales decreased $40.0 million, or 29.7%. On a constant currency basis, International net sales decreased 26.9%, as a result of the global pandemic. Net sales in the Wholesale channel decreased 30.3% on a constant currency basis. Net sales in the Direct channel decreased 15.5% on a constant currency basis.

GROSS PROFIT

(in millions, except percentages)	Three Months Ended June 30, 2020 Gross Profit	2020 Gross Margin	2019 Gross Profit	2019 Gross Margin	Margin Change
North America	$ 216.2	37.9 %	$ 240.0	40.8 %	(2.9)%
International	49.7	52.5 %	73.4	54.5 %	(2.0)%
Consolidated gross margin	$ 265.9	40.0 %	$ 313.4	43.4 %	(3.4)%

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 Tempur and Sealy products. Our Sealy products have a significantly lower gross margin than our Tempur products. Our Sealy mattress products range from value to premium priced offerings, and gross margins are typically higher on premium products compared to value priced offerings. Our Tempur products are exclusively premium priced products. As sales of our Sealy products increase relative to sales of our Tempur 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 declined 340 basis points. The primary drivers of changes in gross margin by segment are discussed below:

- *North America* gross margin declined 290 basis points. The decline in gross margin was primarily driven by product mix of 280 basis points and brand mix of 110 basis points, partially offset by decreased floor model expenses of 100 basis points and lower commodity costs. We expect product and brand mix headwinds to gross margin to lessen in the third quarter of 2020 as sales of our premium products have improved since the second quarter of 2020. Additionally,
we incurred $4.0 million of incremental costs related to global pandemic relief efforts, sanitation supplies and services and other items, which contributed to the decline in gross margin.

- *International* gross margin declined 200 basis points. The decline in gross margin was primarily driven by fixed cost deleverage on lower unit volumes of 210 basis points and decreased royalties, partially offset by favorable country mix of 140 basis points. Additionally, we incurred $0.5 million of incremental costs related to global pandemic relief efforts, sanitation supplies and services and other items, which contributed to the decline in gross margin.

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, information technology, professional fees, depreciation and amortization of long-lived assets not used in the manufacturing process, expenses for administrative functions and research and development costs.

	Three Months Ended June 30,															
	2020		2019		2020		2019		2020		2019		2020		2019	
(in millions)	Consolidated				North America				International				Corporate			
Operating expenses:																
Advertising expenses	$	55.1	$	65.4	$	49.8	$	58.3	$	5.3	$	7.1	$	—	$	—
Other selling and marketing expenses		80.0		97.9		51.4		63.5		25.5		31.7		3.1		2.7
General, administrative and other expenses		82.4		72.7		45.6		38.1		14.3		10.8		22.5		23.8
Total operating expenses	$	217.5	$	236.0	$	146.8	$	159.9	$	45.1	$	49.6	$	25.6	$	26.5

Operating expenses decreased $18.5 million, or 7.8%, and were flat as a percentage of net sales. The primary drivers of changes in operating expenses by segment are explained below:

- *North America* operating expenses decreased $13.1 million, or 8.2%, and decreased 150 basis points as a percentage of net sales. The decrease in operating expenses was primarily driven by decreases in advertising and other selling and marketing investments as a result of cost reduction actions taken during the quarter. These decreases were offset by $7.0 million of asset impairment charges related to the write-off of certain sales and marketing assets driven by the current macro-economic environment and incremental bad debt expense primarily related to the bankruptcy of one department store in the U.S.

- *International* operating expenses decreased $4.5 million, or 9.1%, and increased 1,080 basis points as a percentage of net sales. The decrease in operating expenses was primarily driven by decreases in advertising and other selling and marketing investments, partially offset by increased bad debt expense. Additionally, we incurred $3.4 million of restructuring costs associated with headcount reductions driven by the current macro-economic environment and $0.3 million of incremental costs related to global pandemic relief efforts, sanitation supplies and services and other items.

- *Corporate* operating expenses decreased $0.9 million, or 3.4%.

Research and development expenses for the three months ended June 30, 2020 were $5.2 million compared to $5.9 million for the three months ended June 30, 2019, a decrease of $0.7 million, or 11.9%.

OPERATING INCOME

(in millions, except percentages)	Three Months Ended June 30, 2020 Operating Income	2020 Operating Margin	2019 Operating Income	2019 Operating Margin	Margin Change
North America	$ 69.4	12.2 %	$ 80.1	13.6 %	(1.4)%
International	9.6	10.1 %	27.4	20.3 %	(10.2)%
	79.0		107.5		
Corporate expenses	(25.6)		(26.5)		
Total operating income	$ 53.4	8.0 %	$ 81.0	11.2 %	(3.2)%

Operating income decreased $27.6 million and operating margin declined 320 basis points. The primary drivers of changes in operating income and operating margin by segment are discussed below:

- *North America* operating income decreased $10.7 million and operating margin declined 140 basis points. The decline in operating margin was primarily driven by the decline in gross margin of 290 basis points. Additionally, we recognized $7.0 million of asset impairment charges related to the write-off of certain sales and marketing assets driven by the current macro-economic environment and incurred $4.1 million of incremental costs related to global pandemic relief efforts, sanitation supplies and services and other items. These declines were partially offset by lower operating expenses as a result of cost actions in the quarter.

- *International* operating income decreased $17.8 million and operating margin declined 1,020 basis points. The decline in operating margin was primarily driven by fixed cost deleverage on operating expenses of 500 basis points, increased bad debt expense of 200 basis points and the decline in gross margin of 200 basis points. Additionally, we incurred $3.4 million of restructuring costs associated with headcount reductions driven by the current macro-economic environment and $0.8 million of incremental costs related to global pandemic relief efforts, sanitation supplies and services and other items. These declines were partially offset by the performance of the Asia joint venture.

- *Corporate* operating expenses decreased $0.9 million, which positively impacted our consolidated operating margin by 10 basis points.

INTEREST EXPENSE, NET

(in millions, except percentages)	Three Months Ended June 30, 2020	2019	% Change
Interest expense, net	$ 20.6	$ 22.5	(8.4)%

Interest expense, net, decreased $1.9 million, or 8.4%. The decrease in interest expense, net, was primarily driven by lower interest rates on our variable rate debt.

INCOME TAX PROVISION

(in millions, except percentages)	Three Months Ended June 30, 2020	2019	% Change
Income tax provision	$ 9.4	$ 15.8	(40.5)%
Effective tax rate	28.9 %	27.0 %	

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 $6.4 million however our effective tax rate increased, due to a decrease in income before income taxes. Our effective tax rate for the three months ended June 30, 2020 as compared to the same prior year period increased by 190 basis points. The effective tax rate as compared to the U.S. federal statutory tax rate for the three months ended June 30, 2020 included a net favorable impact of discrete items. The effective tax rate as compared to the U.S. federal statutory tax rate for the three months ended June 30, 2019 included the net favorable impact of discrete items primarily related to the impact of the likelihood of realization of certain deferred tax assets.

SIX MONTHS ENDED JUNE 30, 2020 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2019

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:

(in millions, except percentages and per share amounts)	Six Months Ended June 30, 2020		Six Months Ended June 30, 2019	
Net sales	$ 1,487.6	100.0 %	$ 1,413.7	100.0 %
Cost of sales	864.6	58.1	818.5	57.9
Gross profit	623.0	41.9	595.2	42.1
Selling and marketing expenses	306.1	20.6	316.8	22.4
General, administrative and other expenses	163.0	10.9	143.4	10.1
Equity income in earnings of unconsolidated affiliates	(4.8)	(0.3)	(6.5)	(0.5)
Operating income	158.7	10.7	141.5	10.0
Other expense, net:				
Interest expense, net	40.9	2.7	44.9	3.2
Other expense (income), net	0.8	0.1	(7.8)	(0.6)
Total other expense, net	41.7	2.8	37.1	2.6
Income from continuing operations before income taxes	117.0	7.9	104.4	7.4
Income tax provision	(32.9)	(2.2)	(32.7)	(2.3)
Income from continuing operations	84.1	5.7	71.7	5.1
Loss from discontinued operations, net of tax	(1.1)	(0.1)	(1.6)	(0.1)
Net income before non-controlling interests	83.0	5.6	70.1	5.0
Less: Net income attributable to non-controlling interests	0.3	—	0.1	—
Net income attributable to Tempur Sealy International, Inc.	$ 82.7	5.6 %	$ 70.0	5.0 %
Earnings per common share:				
Basic				
Earnings per share for continuing operations	$ 1.60		$ 1.31	
Loss per share for discontinued operations	(0.02)		(0.03)	
Earnings per share	$ 1.58		$ 1.28	
Diluted				
Earnings per share for continuing operations	$ 1.58		$ 1.29	
Loss per share for discontinued operations	(0.02)		(0.03)	
Earnings per share	$ 1.56		$ 1.26	
Weighted average common shares outstanding:				
Basic	52.5		54.7	
Diluted	53.0		55.6	

NET SALES

	Six Months Ended June 30,					
	2020	2019	2020	2019	2020	2019
(in millions)	Consolidated		North America		International	
Net sales by channel						
Wholesale	$ 1,286.1	$ 1,248.1	$ 1,104.2	$ 1,030.3	$ 181.9	$ 217.8
Direct	201.5	165.6	143.5	101.8	58.0	63.8
Total net sales	$ 1,487.6	$ 1,413.7	$ 1,247.7	$ 1,132.1	$ 239.9	$ 281.6

Net sales increased 5.2%, and on a constant currency basis increased 5.9%. The change in net sales was driven by the following:

- *North America* net sales increased $115.6 million, or 10.2%. Net sales in the Wholesale channel increased $73.9 million, or 7.2%. Despite the impact of the global pandemic, the increase was primarily driven by the expansion of our retail distribution network. Net sales in our Direct channel increased $41.7 million, or 41.0%, primarily driven by growth from our e-commerce business.

- *International* net sales decreased $41.7 million, or 14.8%. On a constant currency basis, International net sales decreased 11.8% as a result of the global pandemic. Net sales in the Wholesale channel decreased 13.2% on a constant currency basis. Net sales in the Direct channel decreased 6.9% on a constant currency basis.

GROSS PROFIT

	Six Months Ended June 30,				
	2020		2019		
(in millions, except percentages)	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Margin Change
North America	$ 493.4	39.5 %	$ 444.4	39.3 %	0.2 %
International	129.6	54.0 %	150.8	53.6 %	0.4 %
Consolidated gross margin	$ 623.0	41.9 %	$ 595.2	42.1 %	(0.2)%

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 declined 20 basis points. The primary drivers of changes in gross margin by segment are discussed below:

- *North America* gross margin improved 20 basis points. The improvement in gross margin was primarily driven by favorable impact from fixed cost leverage on higher unit volume of 110 basis points, decreased floor model expenses of 110 basis points and lower commodity costs of 90 basis points. These improvements were partially offset by unfavorable product mix of 270 basis points. Additionally, we incurred $4.0 million of incremental costs related to global pandemic relief efforts, sanitation supplies and services and other items, which partially offset the improvement in gross margin. We expect product and brand mix headwinds to gross margin to lessen in the third quarter of 2020 as sales of our premium products have improved since the second quarter of 2020.

- *International* gross margin improved 40 basis points. The improvement in gross margin was primarily driven by favorable country mix. Additionally, we incurred $0.5 million of incremental costs related to global pandemic relief efforts, sanitation supplies and services and other items, which partially offset the improvement in gross margin.

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, information technology, professional fees, depreciation and amortization of long-lived assets not used in the manufacturing process, expenses for administrative functions and research and development costs.

	Six Months Ended June 30,							
	2020	2019	2020	2019	2020	2019	2020	2019
(in millions)	Consolidated		North America		International		Corporate	
Operating expenses:								
Advertising expenses	$ 128.6	$ 128.0	$ 113.2	$ 108.8	$ 15.4	$ 19.2	$ —	$ —
Other selling and marketing expenses	177.5	188.8	115.0	120.1	56.4	63.2	6.1	5.5
General, administrative and other expenses	163.0	143.4	94.4	71.1	26.4	22.3	42.2	50.0
Total operating expenses	$ 469.1	$ 460.2	$ 322.6	$ 300.0	$ 98.2	$ 104.7	$ 48.3	$ 55.5

Operating expenses increased $8.9 million, or 1.9%, and decreased 110 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 $22.6 million, or 7.5%, and decreased 60 basis points as a percentage of net sales. The increase in operating expenses was primarily driven by $11.7 million of customer-related charges in connection with the bankruptcy of Art Van Furniture, LLC and affiliates to fully reserve trade receivables and other assets associated with this account, as well as incremental bad debt expense primarily related to the bankruptcy of one department store in the U.S. Additionally, we recognized $7.0 million of asset impairment charges related to the write-off of certain sales and marketing assets driven by the current macro-economic environment. These increases were offset by lower operating expenses as a result of cost actions in the quarter.

- *International* operating expenses decreased $6.5 million, or 6.2% and increased 370 basis points as a percentage of net sales. The decrease in operating expenses was primarily driven by decreases in advertising and other selling and marketing investments, partially offset by increased bad debt expense. Additionally, we incurred $3.4 million of restructuring costs associated with headcount reductions driven by the current macro-economic environment and $0.3 million of incremental costs related to global pandemic relief efforts, sanitation supplies and services and other items.

- *Corporate* operating expenses decreased $7.2 million, or 13.0%. In the first half of 2019, we recorded $4.1 million of professional fees related to the acquisition of Sleep Outfitters, which were not repeated in 2020.

Research and development expenses were $11.0 million for the six months ended June 30, 2020 as compared to $11.2 million for the six months ended June 30, 2019.

OPERATING INCOME

	Six Months Ended June 30,				
	2020		2019		
(in millions, except percentages)	Operating Income	Operating Margin	Operating Income	Operating Margin	Margin Change
North America	$ 170.8	13.7 %	$ 144.4	12.8 %	0.9 %
International	36.2	15.1 %	52.6	18.7 %	(3.6)%
	207.0		197.0		
Corporate expenses	(48.3)		(55.5)		
Total operating income	$ 158.7	10.7 %	$ 141.5	10.0 %	0.7 %

Operating income increased $17.2 million and operating margin improved 70 basis points. The primary drivers of changes in operating income and operating margin by segment are discussed below:

- *North America* operating income increased $26.4 million and operating margin improved 90 basis points. The improvement in operating margin was primarily driven by favorable operating expense leverage of 280 basis points and the improvement in gross margin of 20 basis points. These improvements were offset by $11.7 million of customer-related charges in connection with the bankruptcy of Art Van Furniture, LLC and affiliates to fully reserve trade receivables and other assets associated with this account. Additionally, we recorded $7.0 million of asset impairment charges related to the write-off of certain sales and marketing assets driven by the current macro-economic environment and incurred $4.1 million of incremental costs related to global pandemic relief efforts, sanitation supplies and services and other items.

- *International* operating income decreased $16.4 million and operating margin declined 360 basis points. The decline in operating margin was primarily driven by the fixed cost deleverage on operating expenses of 110 basis points and increased bad debt expense. Additionally, we incurred $3.4 million of restructuring costs associated with headcount reductions driven by the current macro-economic environment and $0.8 million of incremental costs related to global pandemic relief efforts, sanitation supplies and services and other items. These declines were partially offset by the improvement in gross margin of 40 basis points.

- *Corporate* operating expenses decreased $7.2 million, which positively impacted our consolidated operating margin by 50 basis points. In the first half of 2019, we recorded $4.1 million of professional fees related to the Sleep Outfitters Acquisition, which were not repeated in 2020.

INTEREST EXPENSE, NET

(in millions, except percentages)	Six Months Ended June 30, 2020	2019	% Change
Interest expense, net	$ 40.9	$ 44.9	(8.9) %

Interest expense, net, decreased $4.0 million, or 8.9%. The decrease in interest expense, net, was primarily driven by lower interest rates on our variable rate debt.

INCOME TAX PROVISION

(in millions, except percentages)	Six Months Ended June 30, 2020	2019	% Change
Income tax provision	$ 32.9	$ 32.7	0.6 %
Effective tax rate	28.1 %	31.3 %	

Our income tax provision increased $0.2 million due to an increase in income before income taxes. Our effective tax rate for the six months ended June 30, 2020 as compared to the same prior year period decreased 320 basis points. The effective tax rate as compared to the U.S. federal statutory rate for the six months ended June 30, 2020 included a net unfavorable impact of discrete items, primarily related to the impact of the likelihood of realization of certain deferred tax assets. The effective tax rate as compared to the U.S. federal statutory rate for the for the six months ended June 30, 2019 included a net unfavorable impact of discrete items primarily related to the sale of a certain interest in our Asia-Pacific joint venture and the impact of certain stock compensation.

Liquidity and Capital Resources

Liquidity

Our principal sources of funds are cash flows from operations, borrowings 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, share repurchases, capital expenditures and working capital needs. As of June 30, 2020, we had a working capital deficit of $56.2 million due to the 364-Day Loan of $200 million, which is classified as a current liability. It is our intent to repay that loan with current cash and funds generated from operations no later than its May 2021 maturity date. We maintain the financial flexibility to finance this loan on a long-term basis under our revolving senior secured credit facility if needed. Total availability under our revolving senior secured credit facility, which matures in 2024, was $423.9 million as of June 30, 2020.

At June 30, 2020, total cash and cash equivalents were $146.8 million, of which $122.6 million was held in the U.S. and $24.2 million was held by subsidiaries outside of the U.S. 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. The significant increase in our cash holdings since December 31, 2019 reflects our decision to maintain on-hand liquidity to provide greater flexibility in response to the continued impact of COVID-19.

Cash Provided by (Used in) Continuing Operations

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

	Six Months Ended June 30,	
(in millions)	2020	2019
Net cash provided by (used in) continuing operations:		
Operating activities	$ 170.4	$ 45.9
Investing activities	(87.2)	(46.7)
Financing activities	1.4	(4.0)

Cash provided by operating activities from continuing operations increased $124.5 million in the six months ended June 30, 2020, as compared to the same period in 2019. The increase in cash provided by operating activities was driven by strong operational performance in the period.

Cash used in investing activities from continuing operations increased $40.5 million in the six months ended June 30, 2020 as compared to the same period in 2019. The increase in cash used in investing activities was primarily due to cash used to acquire the Sherwood Bedding business and planned capital expenditures.

Cash provided by financing activities from continuing operations increased $5.4 million in the six months ended June 30, 2020 as compared to the same period in 2019. For the six months ended June 30, 2020, we had net borrowings of $207.0 million on our credit facilities, including $200 million in additional financing provided under the new 364-Day Loan, as compared to net repayments of $0.6 million in 2019. During the six months ended June 30, 2020 and 2019, respectively, we repurchased $187.5 million and $2.3 million of our common stock under our share repurchase program. In 2020, these repurchases were largely made in the first quarter prior to the impact of COVID-19 on our business. Additionally, we repurchased $12.0 million and $3.2 million of our common stock which was withheld to satisfy tax withholding obligations related to stock compensation during the six months ended June 30, 2020 and 2019, respectively.

Cash Used in Discontinued Operations

Net cash used in operating, investing and financing activities from discontinued operations for the periods ended June 30, 2020 and 2019 was not material.

Capital Expenditures

Capital expenditures totaled $49.4 million and $39.9 million for the six months ended June 30, 2020 and 2019, respectively. We currently expect our 2020 capital expenditures to be approximately $100 to $110 million, which includes investments in our U.S. enterprise resource planning projects and domestic manufacturing facility.

Indebtedness

Our total debt increased to $1,760.8 million as of June 30, 2020 from $1,547.0 million as of December 31, 2019. During the first quarter of 2020, we took initial actions to mitigate the impact of the material slowdown in business activity resulting from COVID-19 and to provide greater financial flexibility, which included a decision to borrow $300 million on our revolving senior secured credit facility. During the three months ended June 30, 2020, we entered into a new $200 million 364-Day Loan. We used the proceeds from this new facility and cash on-hand to repay amounts previously drawn on our revolving senior secured credit facility. Total availability under our revolving senior secured credit facility was $423.9 million as of June 30, 2020, which matures in 2024.

As of June 30, 2020, our ratio of consolidated indebtedness less netted cash to adjusted EBITDA, which is a non-GAAP financial measure, in accordance with our 2019 Credit Agreement was 2.83 times. Our leverage ratio as of June 30, 2020 was the lowest in our history. This ratio is within the terms of the financial covenants for the maximum consolidated total net leverage ratio as set forth in the 2019 Credit Agreement, which limits this ratio to 5.00 times. As of June 30, 2020, 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 364-Day Loan did not amend financial covenants under the 2019 Credit Agreement. Under the amendment we agreed to certain restrictive provisions, including limitations on our ability to repurchase shares and make certain investments for the duration of the 364-Day Loan. The 2019 Credit Agreement, 2023 Senior Notes and 2026 Senior Notes contain similar limitations which, subject to other 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 3.5 times. 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 3.5 times. The limit on restricted payments under the 2019 Credit Agreement, 2023 Senior Notes and 2026 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 2019 Credit Agreement. Both consolidated indebtedness and adjusted EBITDA as used in discussion of the 2019 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.

Debt Securities Guaranteed by Subsidiaries

The $450.0 million and $600.0 million aggregate principal amount of 2023 Senior Notes and 2026 Senior Notes (collectively the "Senior Notes"), respectively, are general unsecured senior obligations of Tempur Sealy International and are fully and unconditionally guaranteed on a senior unsecured basis, jointly and severally, by all of Tempur Sealy International’s 100% directly or indirectly owned domestic subsidiaries (together, the "Obligor Group"). The foreign subsidiaries represent the foreign operations of the Company and do not guarantee the Senior Notes.

The Senior Notes rank equally with or senior to all debt of Tempur Sealy International and the Obligor Group, but are effectively junior to all secured debt, including obligations under the 2019 Credit Agreement and the 364-Day Loan, to the extent of the value of the assets securing such debt. Subject to certain restrictions, Tempur Sealy International and the restricted subsidiaries under the applicable indenture may incur additional secured debt. Claims of creditors of non-guarantor subsidiaries, including trade creditors, and creditors holding debt and guarantees issued by those subsidiaries, and claims of preferred stockholders (if any) of those subsidiaries generally will have priority with respect to the assets and earnings of those subsidiaries over the claims of creditors of the holders of the Senior Notes. The Senior Notes and each guarantee are therefore effectively subordinated to creditors (including trade creditors) and preferred stockholders (if any) of non-guarantor subsidiaries.

Under the applicable indenture, each guarantee is limited to the maximum amount that would not render the subsidiary guarantor's obligations subject to avoidance under the applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of state law. By virtue of this limitation, a subsidiary guarantor's obligation under its guarantee could be significantly less than amounts payable with respect to the Senior Notes, or could be reduced to zero, depending upon the amount of other obligations of such guarantor.

A subsidiary guarantor will be released from its obligations under the applicable indenture governing the Senior Notes when: (a) the subsidiary guarantor is sold or sells all or substantially all of its assets; (b) the subsidiary is declared "unrestricted" under the applicable indenture; (c) the subsidiary’s guarantee of indebtedness under the 2019 Credit Agreement (as it may be amended, refinanced or replaced) is released (other than a discharge through repayment); (d) the requirements for legal or covenant defeasance or discharge of the applicable indenture have been satisfied; (e) the subsidiary is liquidated or dissolved in accordance with the applicable indenture; or (f) the occurrence of any covenant suspension. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions, including transactions with the Company’s wholly-owned subsidiary guarantors and non-guarantor subsidiaries. The Company has accounted for its investments in its subsidiaries under the equity method.

In March 2020, the SEC adopted final rules that amend the financial disclosure requirements for subsidiary issuers and guarantors of registered debt securities under Rule 3-10 of Regulation S-X, permitting registrants to disclose summarized financial information for such subsidiary issuers and guarantors. The rule is effective January 4, 2021; however, earlier compliance is permitted. We elected to early comply with this rule.

The summarized financial information for the Obligor Group follows.

(in millions)		Six Months Ended June 30, 2020 Obligor Group
Net sales to unrelated parties	$	1,180.6
Net sales to non-obligor subsidiaries	$	22.3
Gross profit	$	479.9
Income from continuing operations	$	59.7
Net income attributable to Tempur Sealy International, Inc.	$	59.3

(in millions)		Obligor Group June 30, 2020		Obligor Group December 31, 2019
ASSETS				
Receivables due from non-obligor subsidiaries	$	6.8	$	9.6
Other current assets		426.1		314.6
Total current assets		432.9		324.2
Loan receivable from non-obligor subsidiaries		271.1		310.1
Goodwill and other intangible assets, net		1,099.3		1,075.5
Other non-current assets		682.0		624.6
Total non-current assets		2,052.4		2,010.2
LIABILITIES				
Payables due to non-obligor subsidiaries		6.2		11.4
Other current liabilities		633.9		490.5
Total current liabilities		640.1		501.9
Loan payable to non-obligor subsidiaries		22.9		8.3
Other non-current liabilities		1,857.3		1,832.8
Total non-current liabilities	$	1,880.2	$	1,841.1

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 for a total repurchase price of not more than $800.0 million. During the six months ended June 30, 2020, we repurchased 2.6 million shares for approximately $187.5 million. As of June 30, 2020, we had approximately $131.3 million remaining under our existing share repurchase authorization. In February 2020, the Board of Directors authorized an increase, of $194.2 million, to our share repurchase authorization of Tempur Sealy International's common stock to $300.0 million. 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 ceased all share repurchase activity in March 2020. We will manage our share repurchase program based on current and expected cash flows, share price and alternative investment opportunities, though in connection with the 364-Day Loan, we agreed to certain limitations on our ability to repurchase shares and make investments while the 364-Day Loan is outstanding. For a complete description of 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 2019 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 June 30, 2020, we had $611.5 million of liquidity, including $146.8 million of cash on hand and $423.9 million available under our revolving senior secured credit facility. We also had availability of $40.8 million under our securitization facility. In addition, we expect to generate significant cash flow from operations in the full year of 2020. 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, and debt service obligations.

We continue to take actions intended to increase our cash position and preserve financial flexibility in light of current uncertainty in the global markets. In addition to actions taken in the first quarter, additional actions taken in the second quarter of 2020 include:

- Entered into a new $200 million 364-Day Loan to enhance liquidity. We used the proceeds from this new facility and cash on-hand to repay amounts previously drawn on our revolving senior secured credit facility. Total availability on our revolving senior secured credit facility, which matures in 2024, is $423.9 million as of June 30, 2020.
- Continued the suspension of our share repurchase program. Our 364-Day Loan contains a restriction on share repurchases while the loan is outstanding.

As of June 30, 2020, we had $1,760.8 million in total debt outstanding and consolidated indebtedness less netted cash, which is a non-GAAP financial measure, of $1,614.9 million. Leverage based on the ratio of consolidated indebtedness less netted cash to adjusted EBITDA per credit facility, which is a non-GAAP financial measure, was 2.83 times for the trailing twelve months ended June 30, 2020, the lowest in our history. We lowered our target leverage ratio for the second time in the last 12 months. Our new revised target range is 2.0 to 3.0 times. The reduction in our leverage target is not due to any market concerns; it is a strategic move to provide flexibility. As highlighted through the current environment, we have always seen our financial strength as a competitive advantage and part of our long-term strategy. Total cash interest payments related to our borrowings are expected to be approximately $80 to $85 million in 2020.

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. For information regarding the impact of COVID-19 on our business, including our liquidity and capital resources, please refer to "Risk Factors" in ITEM 1A of Part II of this Report.

Non-GAAP Financial Information

We provide information regarding adjusted net income, adjusted EPS, adjusted gross profit, adjusted gross margin, adjusted operating income (expense), adjusted operating margin, EBITDA, adjusted EBITDA (including COVID-19 charges), adjusted EBITDA per credit facility, 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), operating margin 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 continuing 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 June 30, 2020 and 2019:

	Three Months Ended	
(in millions, except per share amounts)	**June 30, 2020**	**June 30, 2019**
Net income	$ 23.0	$ 41.6
(Income) loss from discontinued operations, net of tax (1)	(0.1)	1.2
Incremental operating costs (2)	4.9	—
Asset impairments (3)	7.0	—
Restructuring costs (4)	3.4	—
Accounting standard adoption (5)	1.3	—
Acquisition-related costs and other (6)	—	2.8
Tax adjustments (7)	(4.4)	(1.3)
Adjusted net income	$ 35.1	$ 44.3
Adjusted earnings per share, diluted	$ 0.68	$ 0.79
Diluted shares outstanding	52.0	56.0

Adjusted net income included COVID-19 charges of $5.8 million, net of tax, and adjusted earnings per share of $0.11.

(1) Certain subsidiaries in the International business segment are accounted for as discontinued operations and have been designated as unrestricted subsidiaries in the 2019 Credit Agreement. Therefore, these subsidiaries are excluded from our adjusted financial measures for covenant compliance purposes.

(2) In the second quarter of 2020, we recorded $4.9 million of incremental operating costs associated with the global pandemic. Cost of sales included $4.5 million of costs for relief efforts, increased sanitation supplies and services and other items. Operating expenses included $0.4 million of charges related to increased sanitation supplies and services.

(3) In the second quarter of 2020, we recorded $7.0 million of asset impairment charges related to the write-off of certain sales and marketing assets driven by the current macro-economic environment.

(4) In the second quarter of 2020, we incurred $3.4 million of restructuring costs associated with International headcount reductions driven by the current macro-economic environment.

(5) We recorded $1.3 million of charges related to the adoption of ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)", in the second quarter of 2020. As permitted by the 2019 Credit Agreement, we elected to eliminate the effect of this accounting change within our covenant compliance calculation.

(6) In the second quarter of 2019, we recorded $2.8 million of acquisition-related and other costs in operating expenses, primarily related to post acquisition restructuring charges and professional fees for the acquisition of Sleep Outfitters.

(7) Adjusted income tax provision represents the tax effects associated with the aforementioned items and other discrete income tax events.

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

A reconciliation of gross profit and gross margin to adjusted gross profit and adjusted gross margin, respectively, and operating income (expense) and operating margin to adjusted operating income (expense) and adjusted operating margin, respectively, are 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 gross profit and operating income (expense) to the calculation of adjusted gross profit and adjusted operating income (expense) for the three months ended June 30, 2020.

	Three Months Ended June 30, 2020						
(in millions, except percentages)	**Consolidated**	**Margin**	**North America**	**Margin**	**International**	**Margin**	**Corporate**
Net sales	$ 665.2		$ 570.5		$ 94.7		$ —
Gross profit	$ 265.9	40.0 %	$ 216.2	37.9 %	$ 49.7	52.5 %	$ —
Adjustments:							
Incremental operating costs [1]	4.5		4.0		0.5		—
Adjusted gross profit	$ 270.4	40.6 %	$ 220.2	38.6 %	$ 50.2	53.0 %	$ —
Operating income (expense)	$ 53.4	8.0 %	$ 69.4	12.2 %	$ 9.6	10.1 %	$ (25.6)
Adjustments:							
Incremental operating costs [1]	4.9		4.1		0.8		—
Asset impairments [2]	7.0		7.0		—		—
Restructuring costs [3]	3.4		—		3.4		—
Accounting standard adoption [4]	1.3		1.3		—		—
Total adjustments	16.6		12.4		4.2		—
Adjusted operating income (expense)	$ 70.0	10.5 %	$ 81.8	14.3 %	$ 13.8	14.6 %	$ (25.6)

Operating income and adjusted operating income included $7.9 million of COVID-19 charges. The North America and International business segments included $6.0 million and $1.9 million of these charges, respectively.

The following table sets forth our reported gross profit and the reconciliation of our operating income (expense) and operating margin to the calculation of adjusted operating income (expense) and adjusted operating margin for the three months ended June 30, 2019. We had no adjustments to gross profit for the three months ended June 30, 2019.

	Three Months Ended June 30, 2019						
(in millions, except percentages)	**Consolidated**	**Margin**	**North America**	**Margin**	**International**	**Margin**	**Corporate**
Net sales	$ 722.8		$ 588.1		$ 134.7		$ —
Gross profit	$ 313.4	43.4 %	$ 240.0	40.8 %	$ 73.4	54.5 %	$ —
Operating income (expense)	$ 81.0	11.2 %	$ 80.1	13.6 %	$ 27.4	20.3 %	$ (26.5)
Adjustments:							
Acquisition-related costs and other [5]	2.8		1.7		—		1.1
Adjusted operating income (expense)	$ 83.8	11.6 %	$ 81.8	13.9 %	$ 27.4	20.3 %	$ (25.4)

(1) In the second quarter of 2020, we recorded $4.9 million of incremental operating costs associated with the global pandemic. Cost of sales included $4.5 million of costs for relief efforts, increased sanitation supplies and services and other items. Operating expenses included $0.4 million of charges related to increased sanitation supplies and services.

(2) In the second quarter of 2020, we recorded $7.0 million of asset impairment charges related to the write-off of certain sales and marketing assets driven by the current macro-economic environment.

(3) In the second quarter of 2020, we incurred $3.4 million of restructuring costs associated with International headcount reductions driven by the current macro-economic environment.

(4) We recorded $1.3 million of charges related to the adoption of ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)", in the second quarter of 2020. As permitted by the 2019 Credit Agreement, we elected to eliminate the effect of this accounting change within our covenant compliance calculation.

(5) In the second quarter of 2019, we recorded $2.8 million of acquisition-related and other costs in operating expenses, primarily related to post acquisition restructuring charges and professional fees for the acquisition of Sleep Outfitters.

EBITDA, Adjusted EBITDA (including COVID-19 charges), Adjusted EBITDA per Credit Facility and Consolidated Indebtedness Less Netted Cash

The following reconciliations are provided below:

- Net income to EBITDA, adjusted EBITDA (including COVID-19 charges) and adjusted EBITDA per credit facility
- Ratio of consolidated indebtedness less netted cash to adjusted EBITDA per credit facility
- 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 progress in reducing our leverage.

The 2019 Credit Agreement provides the definition of adjusted EBITDA (“adjusted EBITDA per credit facility”). In the second quarter of 2020, in determining adjusted EBITDA per credit facility, we made an adjustment for COVID-19 charges that was not made to adjusted EBITDA (including COVID-19 charges). Accordingly, we present adjusted EBITDA per credit facility to provide information regarding our compliance with requirements under the 2019 Credit Agreement.

The following table sets forth the reconciliation of our reported net income to the calculations of EBITDA and adjusted EBITDA (including COVID-19 charges) and adjusted EBITDA per credit facility for the three months ended June 30, 2020 and 2019:

	Three Months Ended	
(in millions)	**June 30, 2020**	**June 30, 2019**
Net income	$ 23.0	$ 41.6
Interest expense, net	20.6	22.5
Income taxes	9.4	15.8
Depreciation and amortization	32.2	29.1
EBITDA	$ 85.2	$ 109.0
Adjustments:		
(Income) loss from discontinued operations, net of tax (1)	(0.1)	1.2
Incremental operating costs (2)	4.9	—
Asset impairments (3)	7.0	—
Restructuring costs (4)	3.4	—
Accounting standard adoption (5)	1.3	—
Acquisition-related costs and other (6)	—	2.8
Adjusted EBITDA (including COVID-19 charges)	$ 101.7	$ 113.0
COVID-19 charges (7)	7.9	—
Adjusted EBITDA per credit facility	$ 109.6	113.0

(1) Certain subsidiaries in the International business segment are accounted for as discontinued operations and have been designated as unrestricted subsidiaries in the 2019 Credit Agreement. Therefore, these subsidiaries are excluded from our adjusted financial measures for covenant compliance purposes.

(2) In the second quarter of 2020, we recorded $4.9 million of incremental operating costs associated with the global pandemic. Cost of sales included $4.5 million of costs for relief efforts, increased sanitation supplies and services and other items. Operating expenses included $0.4 million of charges related to increased sanitation supplies and services.

(3) In the second quarter of 2020, we recorded $7.0 million of asset impairment charges related to the write-off of certain sales and marketing assets driven by the current macro-economic environment.

(4) In the second quarter of 2020, we incurred $3.4 million of restructuring costs associated with International headcount reductions driven by the current macro-economic environment.

(5) We recorded $1.3 million of charges related to the adoption of ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)", in the second quarter of 2020. As permitted by the 2019 Credit Agreement, we elected to eliminate the effect of this accounting change within our covenant compliance calculation.

(6) In the second quarter of 2019, we recorded $2.8 million of acquisition-related and other costs in operating expenses, primarily related to post acquisition restructuring charges and professional fees for the acquisition of Sleep Outfitters.

(7) Adjusted EBITDA per credit facility excluded $7.9 million of COVID-19 charges associated with temporarily closed company-owned retail stores and sales force retention costs.

The following table sets forth the reconciliation of our net income to the calculations of EBITDA and adjusted EBITDA per credit facility for the trailing twelve months ended June 30, 2020:

(in millions)	**Trailing Twelve Months Ended June 30, 2020**	
Net income	$	202.2
Interest expense, net		81.7
Income tax provision		74.9
Depreciation and amortization		124.0
EBITDA	$	482.8
Adjustments:		
Loss from discontinued operations, net of tax (1)		0.9
Customer-related charges (2)		41.5
Charitable stock donation (3)		8.9
COVID-19 charges (4)		7.9
Incremental operating costs (5)		7.2
Asset impairments (6)		7.0
Earnings from Sherwood prior to acquisition (7)		6.7
Restructuring costs (8)		3.4
Accounting standard adoption (9)		2.8
Credit facility amendment (10)		0.7
Adjusted EBITDA per credit facility	$	569.8
Consolidated indebtedness less netted cash	$	1,614.9
Ratio of consolidated indebtedness less netted cash to adjusted EBITDA per credit facility		2.83 times

(1) Certain subsidiaries in the International business segment are accounted for as discontinued operations and have been designated as unrestricted subsidiaries in the 2019 Credit Agreement. Therefore, these subsidiaries are excluded from our adjusted financial measures for covenant compliance purposes.

(2) In the first quarter of 2020, we recorded $11.7 million of customer-related charges in connection with the bankruptcy of Art Van Furniture, LLC and affiliates to fully reserve trade receivables and other assets associated with this account. In the fourth quarter of 2019, we recorded $29.8 million of customer-related charges in connection with the bankruptcy of Mattress PAL Holding, LLC ("Mattress PAL") and resulting significant liquidity issues of Mattress PAL's affiliates to fully reserve trade receivables and other assets associated with this account.

(3) In 2019, we recorded an $8.9 million charge related to the donation of common stock at fair market value to certain public charities.

(4) Adjusted EBITDA per credit facility excluded $7.9 million of COVID-19 charges associated with temporarily closed company-owned retail stores and sales force retention costs.

(5) In the second quarter of 2020, we recorded $4.9 million of incremental operating costs associated with the global pandemic. Cost of sales included $4.5 million of costs for relief efforts, increased sanitation supplies and services and other items. Operating expenses included $0.4 million of charges related to increased sanitation supplies and services. In the first quarter of 2020, we recorded $2.3 million of charges related to the global pandemic.

(6) In the second quarter of 2020, we recorded $7.0 million of asset impairment charges related to the write-off of certain sales and marketing assets driven by the current macro-economic environment.

(7) We completed the acquisition of Sherwood Bedding on January 31, 2020 and designated this subsidiary as restricted under the 2019 Credit Agreement. For covenant compliance purposes, we included $6.7 million of EBITDA from this subsidiary for the seven months prior to acquisition in our calculation of adjusted EBITDA per credit facility for the trailing twelve months ended June 30, 2020.

(8) In the second quarter of 2020, we incurred $3.4 million of restructuring costs associated with International headcount reductions driven by the current macro-economic environment.

(9) We recorded $1.3 million and $1.5 million of charges related to the adoption of ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)", in the second and first quarters of 2020, respectively. As permitted by the 2019 Credit Agreement, we elected to eliminate the effect of this accounting change within our covenant compliance calculation.

(10) In 2019, we recorded $0.7 million of professional fees in connection with the amendment of the 2019 Credit Agreement.

Under the 2019 Credit Agreement, the definition of adjusted EBITDA (which we refer to as "adjusted EBITDA per credit facility") contains certain restrictions that limit adjustments to net income when calculating adjusted EBITDA. For the trailing twelve months ended June 30, 2020, our adjustments to net income when calculating adjusted EBITDA did not exceed the allowable amount under the 2019 Credit Agreement.

The ratio of consolidated indebtedness less netted cash to adjusted EBITDA per credit facility is 2.83 times for the trailing twelve months ended June 30, 2020. The 2019 Credit Agreement requires us to maintain a ratio of consolidated indebtedness less netted cash to adjusted EBITDA of less than 5.00:1.00 times.

The following table sets forth the reconciliation of our reported total debt to the calculation of consolidated indebtedness less netted cash as of June 30, 2020. "Consolidated Indebtedness" and "Netted Cash" are terms used in the 2019 Credit Agreement for purposes of certain financial covenants.

(in millions)	June 30, 2020
Total debt, net	$ 1,753.6
Plus: Deferred financing costs (1)	7.2
Consolidated indebtedness	1,760.8
Less: Netted cash (2)	145.9
Consolidated indebtedness less netted cash	$ 1,614.9

(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 2019 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 2019 Annual Report. There have been no material changes to our critical accounting policies and estimates in 2020.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exposures

As a result of our global operations, our earnings are exposed to changes in foreign currency exchange rates. Many of our foreign businesses operate in functional currencies other than the U.S. dollar. As the U.S. dollar strengthens relative to the Euro or other foreign currencies where we have operations, there will be a negative impact on our operating results upon translation of those foreign operating results into the U.S. dollar. Foreign currency exchange rate changes negatively impacted our adjusted EBITDA, which is a non-GAAP financial measure, by 0.4% in the three and six months ended June 30, 2020.

We hedge a portion of our currency exchange exposure relating to foreign currency transactions with foreign exchange forward contracts. A sensitivity analysis indicates the potential loss in fair value on foreign exchange forward contracts outstanding at June 30, 2020, resulting from a hypothetical 10.0% adverse change in all foreign currency exchange rates against the U.S. dollar, is approximately $0.2 million. Such losses would be largely offset by gains from the revaluation or settlement of the underlying assets and liabilities that are being protected by the foreign exchange forward contracts.

Interest Rate Risk

As of June 30, 2020, we had variable-rate debt of approximately $639.6 million. Holding other variables constant, including levels of indebtedness, a one hundred basis point increase in interest rates on our variable-rate debt would cause an estimated reduction in income before income taxes of approximately $6.4 million. We continue to evaluate the interest rate environment and look for opportunities to improve our debt structure and minimize interest rate risk and expense.

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 Securities Exchange Act of 1934, as amended ("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 June 30, 2020, and 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 ("SEC") 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.

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 10, "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

The outbreak of COVID-19 has had, and may continue to have, a negative impact on the global economy and on our business, operations, or financial results.

The novel strain of coronavirus (COVID-19) first identified in Wuhan, China in December 2019 has now spread to nearly all regions around the world. The outbreak, and measures taken to contain or mitigate it, have had dramatic adverse consequences for the economy, including on demand, operations, supply chains, and financial markets. The nature and scope of the consequences to date are difficult to evaluate precisely, and their future course is impossible to predict with confidence.

The COVID-19 crisis has already had several significant effects on our business and our financial condition, including the impact of the pandemic on the economies and financial markets of the regions in which we operate. "Shelter in place” and other similar mandated or suggested isolation protocols have disrupted third-party retail stores in our Wholesale channel and company-owned stores in our Direct channel, via store closures or reduced operating hours in the U.S. and around the world, which has decreased retail traffic and which also, in turn, decreased sales of our products in March and April when COVID-19 began materially impacting our North America business segment.

At this time, most third-party retail stores and our company-owned stores have reopened. However, we cannot reasonably estimate the length of time these stores will remain open, or if they will be mandated to close again as the COVID-19 crisis continues to evolve. The inability to sell our products through the Wholesale channel and within company-owned stores within the Direct channel has had and may continue to have a material adverse effect on our revenues and results of operations. Our e-commerce operations remain open globally, as do the e-commerce operations for many of our third-party retailers. The COVID-19 pandemic is also shifting demand patterns to favor our lower-margin products, which is producing a reduction in our gross margins.

The effects of the COVID-19 crisis could be aggravated if the crisis continues, and we could also see additional impacts that might include the following:

- a potential global recession, a decline in consumer confidence and spending, or a further increase in unemployment or reduction in government stimulus payments could continue to result in consumers having less disposable income and, in turn, decreased sales of our products;
- the continued disruption to third-party retail stores and company-owned stores resulting from "shelter in place" and similar protocols, which, even though largely rolled back, could be reinstated as the pandemic continues to evolve;
- social distancing measures or changes in consumer spending behaviors due to COVID-19 may continue to impact retail demand after the resumption of more normalized operations and such actions could result in a loss of sales and profit;
- difficulty accessing debt and equity on attractive terms, or at all, and a severe disruption and instability in the global financial markets or deterioration in credit and financing conditions may affect our ability to access capital necessary to operate our business;
- the failure of our Wholesale channel customers to whom we extend credit to pay amounts owed to us on time, or at all, particularly if such customers are significantly impacted by COVID-19;
- the risk that the persistence or reoccurrence of COVID-19 could cause customers to avoid public places where our stores and those of our Wholesale partners are located;
- we have experienced and may continue to experience disruptions in our supply chain, as the outbreak has disrupted travel, affected consumer demand and spending habits and impacted manufacturing and distribution throughout the world; and
- we may be required to revise certain accounting estimates and judgments such as, but not limited to, those related to the valuation of long-lived assets and deferred tax assets, which could have a material adverse effect on our financial position and results of operations.

The rapid development and fluidity of the pandemic precludes any prediction as to the ultimate impact of COVID-19. The full extent of the impact and effects of COVID-19 on our business, operations, liquidity, financial condition and results of operations remain uncertain at this time but could be material.

The future impact of the COVID-19 crisis on our business, operations, or financial results is highly uncertain and will depend on numerous evolving factors that we cannot predict precisely, including, but not limited to:

- the duration, scope, and severity of the COVID-19 pandemic;
- the disruption or delay of production and delivery of materials and products in our supply chain;

- the impact of travel bans, work-from-home policies, or shelter-in-place orders;
- the temporary or prolonged shutdown of manufacturing facilities or retail stores and decreased retail traffic;
- staffing shortages;
- general economic, financial, and industry conditions, particularly conditions relating to liquidity, financial performance, and related credit issues in the retail sector, which may be amplified by the effects of COVID-19;
- the long-term effects of COVID-19 on the national and global economy, including on consumer confidence and spending, financial markets and the availability of credit for us, our suppliers and our customers; and
- our success in attempting to reduce operating costs and conserve cash, which could require further actions to improve our cash position, including but not limited to, implementing expanded employee furloughs and foregoing capital expenditures and other discretionary expenses.

Delaware law and our certificate of incorporation and by-laws contain anti-takeover provisions, and on March 27, 2020 our Board of Directors adopted a limited duration shareholder rights agreement, any of which could delay or discourage a merger, tender offer, or assumption of control of the Company not approved by our Board of Directors that some stockholders may consider favorable.

Provisions of Delaware law, our certificate of incorporation and by-laws and our limited duration shareholder rights agreement adopted on March 27, 2020 (with an ownership trigger of 10% (20% in the case of a passive institutional investor)) could hamper a third party's acquisition of us, or delay or discourage a third party from attempting to acquire control of us via a merger, tender offer, or assumption of control of the Company not approved by our Board of Directors. You may not have the opportunity to participate in these transactions. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include:

- our ability to issue preferred stock with rights senior to those of the common stock without any further vote or action by the holders of our common stock;
- the requirements that our stockholders provide advance notice when nominating our directors; and
- the inability of our stockholders to convene a stockholders' meeting without the chairperson of the Board of Directors, the president, or a majority of the Board of Directors first calling the meeting.

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 June 30, 2020:

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)*
April 1, 2020 - April 30, 2020	—	(1)	$—	—	$131.3
May 1, 2020 - May 31, 2020	1,945	(1)	$54.92	—	$131.3
June 1, 2020 - June 30, 2020	635	(1)	$71.87	—	$131.3
Total	2,580			—	

(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.

ITEM 6. EXHIBITS

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

10.1	Amendment No. 1 dated as of May 13, 2020, by and among Tempur Sealy International, Inc., as parent borrower, Tempur-Pedic Management, LLC, as additional borrower, the subsidiary guarantors party thereto, the several banks and other financial institutions party thereto, and JPMorgan Chase Bank, N.A., as administrative agent to the Amended and Restated Credit Agreement dated as of October 16, 2019 (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K as filed on May 14, 2020).(1)
10.2	Amendment No. 2 dated as of June 10, 2020, by and among Tempur Sealy International, Inc., as parent borrower, the several banks and other financial institutions party thereto, and JPMorgan Chase Bank, N.A., as administrative agent, to the Amended and Restated Credit Amendment Agreement dated as of October 16, 2019, as amended by Amendment No. 1 dated May 13, 2020.
22	List of Subsidiary Guarantors
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 June 30, 2020, 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 June 30, 2020, 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.

	TEMPUR SEALY INTERNATIONAL, INC.	
Date: August 6, 2020	By:	/s/ BHASKAR RAO
		Bhaskar Rao
		Executive Vice President and Chief Financial Officer

AMENDMENT NO. 2 dated as of June 10, 2020 (this "Amendment") by and among Tempur Sealy International, Inc., a Delaware corporation (the "Parent Borrower"), each Issuing Lender party hereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as Administrative Agent (in such capacity, the "Administrative Agent") to the Amended and Restated Credit Amendment dated as of October 16, 2019, as amended by Amendment No. 1 dated May 13, 2020 (and as further amended, supplemented or otherwise modified from time to time prior to the date hereof, the "Credit Agreement") among the Parent Borrower, Tempur-Pedic Management, LLC as Additional Borrower, the Lenders party thereto, JPMorgan, as Administrative Agent, Swingline Lender and Issuing Lender, and Bank of America, N.A., Fifth Third Bank and Wells Fargo Bank, N.A., as Issuing Lenders. Capitalized terms used herein and not otherwise defined herein have the meanings assigned to them in the Credit Agreement.

WHEREAS, pursuant to Section 10.1 of the Credit Agreement, the Credit Agreement may be amended to add additional currencies as L/C Foreign Currencies in accordance with the definition thereof with the consent of the Parent Borrower, the Administrative Agent and each of the Issuing Lenders;

WHEREAS, the undersigned Issuing Lenders are willing to accommodate such request, subject to satisfaction of the terms and conditions set forth herein;

Accordingly, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. *Amendments to Credit Agreement*. Subject to the satisfaction or waiver of the conditions set forth in Section 3 hereof, each of the parties hereto agrees that, effective on the Amendment No. 2 Effective Date (as defined below), the Credit Agreement shall be amended as set forth below:

(a) the definition of "L/C Foreign Currency" in Section 1.1 of the Credit Agreement is hereby amended and restated as follows:

"Canadian Dollars, Pounds Sterling, the Euro, Japanese Yen, New Zealand Dollars, Australian Dollars, Swiss Francs, Polish Zloty and any additional currencies determined after the Amendment and Restatement Effective Date by mutual agreement of the Parent Borrower, the Issuing Lenders and the Administrative Agent; provided each such currency is a lawful currency that is readily available, freely transferable and not restricted, able to be converted into Dollars and available in the London interbank deposit market."

(b) the following definitions are added to Section 1.1 of the Credit Agreement as follows:

""Australian Dollars" means the lawful currency of Australia."

""New Zealand Dollars" means the lawful currency of New Zealand."

""Polish Zloty" means the lawful currency of Poland."

""Swiss Francs" means the lawful currency of Switzerland."

Section 2. *Representations and Warranties*. To induce the Administrative Agent and the Issuing Lenders to enter into this Amendment, the Parent Borrower hereby represents and warrants to the Administrative Agent and each Issuing Lender that as of the Amendment No. 2 Effective Date:

(a) The execution, delivery and performance by the Parent Borrower of this Amendment are within the Parent Borrower's corporate powers and have been duly authorized by all necessary corporate action. As of the Amendment No. 2 Effective Date, this Amendment has been duly executed and delivered by the Parent Borrower and, assuming due execution and delivery by the other parties hereto, constitutes a legal, valid and binding obligation of the Parent Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(b) No Default or Event of Default has occurred and is continuing.

Section 3. *Amendment No. 2 Effective Date.* This Amendment shall become effective as of the first date (the "Amendment No. 2 Effective Date") on which each of the following conditions shall have been satisfied:

(a) Execution and Delivery of this Amendment. The Administrative Agent shall have received a counterpart signature page of this Amendment duly executed by the Parent Borrower, each of the Issuing Lenders and the Administrative Agent.

(b) Representations and Warranties; No Default. The representations and warranties set forth in Section 2 of this Amendment shall be true and correct on the Amendment No. 2 Effective Date.

Section 4. *Effects of Amendment No. 2*

(a) Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights and remedies of the Lenders or the Administrative Agent under the Credit Agreement or any other Loan Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants, Liens, guarantees or agreements contained in the Credit Agreement or any other provision of the Credit Agreement or of any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Except as expressly set forth herein, nothing herein shall be deemed to be a waiver, amendment, modification or other change of, any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document in similar or different circumstances.

(b) From and after the Amendment No. 2 Effective Date, each reference in the Credit Agreement to "this Amendment", "hereunder", "hereof", "herein", or words of like import, and each reference to the "Credit Agreement" in any other Loan Document shall be deemed a reference to the Credit Agreement as amended by this Amendment. This Amendment shall constitute a "Loan Document" for all purposes of the Credit Agreement and the other Loan Documents.

Section 5. *Governing Law*. THIS AMENDMENT AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS AMENDMENT (INCLUDING, WITHOUT LIMITATION, ANY CLAIMS SOUNDING IN CONTRACT LAW OR TORT LAW ARISING OUT OF THE SUBJECT MATTER HEREOF) SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

Section 6. *Costs and Expenses*. The Parent Borrower agrees to reimburse the Administrative Agent and each Issuing Lender for its actual and reasonable costs and expenses in connection with this Amendment to the extent required pursuant to Section 10.5 of the Credit Agreement.

Section 7. *Counterparts; Electronic Execution*. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Amendment by telecopy, emailed pdf. or any other electronic means that reproduces an image of the actual executed signature page shall be effective as delivery of a manually executed counterpart of this Amendment. The words “execution,” “signed,” “signature,” “delivery,” and words of like import in or relating to any document to be signed in connection with this Amendment and the transactions contemplated hereby shall be deemed to include “Electronic Signatures” (defined as an electronic sound, symbol, or process attached to, or associated with, a contract or other record adopted by a person with the intent to sign, authenticate or accept such contract or record), deliveries or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act; provided that nothing herein shall require the Administrative Agent to accept electronic signatures in any form or format without its prior written consent. Without limiting the generality of the foregoing, each party hereto hereby (i) agrees that, for all purposes, including without limitation, in connection with any workout, restructuring, enforcement of remedies, bankruptcy proceedings or litigation among the Administrative Agent, the Lenders and the Loan Parties, electronic images of this Amendment or any other Loan Documents (in each case, including with respect to any signature pages thereto) shall have the same legal effect, validity and enforceability as any paper original, and (ii) waives any argument, defense or right to contest the validity or enforceability of the Loan Documents based solely on the lack of paper original copies of any Loan Documents, including with respect to any signature pages thereto.

Section 8. *Headings*. Section headings herein are included herein for convenience of reference only and shall not constitute a part hereof for any other purpose or be given any substantive effect.

Section 9. *Incorporation by Reference*. The provisions of Sections 10.12 and 10.18 of the Credit Agreement are hereby incorporated by reference, mutatis mutandis.

Section 10. *Severability*. If any provision of this Amendment or any other Loan Document is held to be illegal, invalid or unenforceable, the legality, validity and enforceability of the remaining provisions of this Amendment and the other Loan Documents shall not be affected or impaired thereby. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

[Remainder of page intentionally blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

TEMPUR SEALY INTERNATIONAL, INC.,
as Parent Borrower

By: /s/ James Schockett

Name: James Schockett

Title: Vice President, Treasurer and Assistant Secretary

BURLINGTON MATTRESS CO. LLC, as a Subsidiary Guarantor

By: /s/ James Schockett

Name: James Schockett

Title: Treasurer and Assistant Secretary

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent, Existing Lender and 2020 Term Lender

By: /s/ Eric B. Bergeson
Name: Eric B. Bergeson
Title: Authorized Officer

BANK OF AMERICA, N.A., as Existing Lender and 2020 Term Lender

By: /s/ John M. Hall
Name: John M. Hall
Title: Senior Vice President

WELLS FARGO BANK, N.A.,
as Existing Lender and 2020 Term Lender

By: /s/ Mish Warrier
Name: Mish Warrier
Title: SVP

Fifth Third Bank, National Association,
as Existing Lender and 2020 Term Lender

By: /s/ Mary-Alicha Weldon
Name: Mary-Alicha Weldon
Title: Vice President

Exhibit 22

List of Subsidiary Guarantors

As of June 30, 2020, the subsidiaries of Tempur Sealy International, Inc. (the "Company") listed below have fully and unconditionally guaranteed the Company’s (i) 5.625% senior notes due 2023 and (ii) 5.500% senior notes due 2026, in each case issued only by the Company.

Guarantor	**State of Incorporation**
Tempur World, LLC	Delaware
Tempur Franchising US, LLC	Delaware
Tempur-Pedic Technologies, Inc.	Delaware
Tempur-Pedic North America, LLC	Delaware
Tempur Production USA, LLC	Virginia
Tempur Retail Stores, LLC	Delaware
Tempur Sealy International Distribution, LLC	Delaware
Sealy Mattress Company	Ohio
Sealy Mattress Corporation	Delaware
The Ohio Mattress Company Licensing and Components Group	Delaware
Sealy, Inc.	Ohio
Sealy Ecommerce, LLC f/k/a Cocoon International Sales, LLC	Delaware
Sealy Mattress Company of Puerto Rico	Ohio
Sealy Mattress Manufacturing Company, LLC	Delaware
Sealy Technology LLC	North Carolina
Sealy US Sales, LLC	Delaware
Burlington Mattress Co. LLC	Delaware
Comfort Revolution, LLC	Delaware
Sleep Outfitters USA, LLC	Delaware
Tempur Holding, LLC	Delaware
Tempur Sherwood, LLC	Delaware
Sherwood Southeast, LLC	Florida
Sherwood Southwest, LLC	Florida
Sherwood Midwest, LLC	Florida
Sherwood West, LLC	Delaware

Exhibit 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

I, Scott L. Thompson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 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: August 6, 2020	By:	/s/ SCOTT L. THOMPSON
		Scott L. Thompson
		Chairman, President and Chief Executive Officer

Exhibit 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

I, Bhaskar Rao, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 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: August 6, 2020	By:	/s/ BHASKAR RAO
		Bhaskar Rao
		Executive Vice President and Chief Financial Officer

Exhibit 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

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 June 30, 2020, 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: August 6, 2020	By:	/s/ SCOTT L. THOMPSON
		Scott L. Thompson
		Chairman, President and Chief Executive Officer
Date: August 6, 2020	By:	/s/ BHASKAR RAO
		Bhaskar Rao
		Executive Vice President and Chief Financial Officer